AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 14, 1998

REGISTRATION NO. 333-50031

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Post-Effective
Amendment
No. 1
to
FORM S-1-A
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

INTEGRATED ELECTRICAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	1731	76-0542208
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

515 POST OAK BOULEVARD
SUITE 450
HOUSTON, TEXAS 77027
(713) 860-1500
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

JOHN F. WOMBWELL
SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY
515 POST OAK BLVD., SUITE 450
HOUSTON, TEXAS 77027
(713) 860-1500
(Name, address, including zip code, and telephone
number, including area code, of agent for service)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ---------

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ---------

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ---------

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THIS REGISTRATION STATEMENT CONTAINS A COMBINED PROSPECTUS PURSUANT TO RULE 429 UNDER THE SECURITIES ACT, WHICH RELATES TO THE COMPANY'S EARLIER REGISTRATION STATEMENT NO. 333-45479.

EXPLANATORY NOTE

This Registration Statement contains two forms of prospectus: one (the "Acquisition Prospectus") to be used in connection with the acquisition of the assets or the securities of businesses by the Company and one (the "Selling Stockholder Prospectus") to be used by persons or entities who have received stock of the Company in exchange for the assets or the securities of a business and who wish to sell such stock. The Acquisition Prospectus and the Selling Stockholder Prospectus are identical except that they contain different front and back cover pages and different descriptions of the plan of distribution. The form of Acquisition Prospectus is included herein and is followed by those pages to be used in the Selling Stockholder Prospectus which differ from those used in the Acquisition Prospectus. Each of the pages for the Selling Stockholder Prospectus included herein is labeled "Alternate Page for Selling Stockholder Prospectus."

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION

PROSPECTUS

21,000,000 SHARES

INTEGRATED ELECTRICAL SERVICES, INC.

COMMON STOCK

This Prospectus covers 21,000,000 shares of Common Stock of Integrated Electrical Services, Inc. ("IES" or the "Company") which may be offered and issued from time to time by the Company in connection with its acquisition of the securities and assets of other businesses. It is expected that the terms of acquisitions involving the issuance and sale by the Company of Common Stock covered by this Prospectus will be determined by direct negotiations with the owners or controlling persons of the businesses whose securities or assets are acquired. The Company expects that the shares of Common Stock issued in exchange for securities or assets in business combination transactions will be valued at prices reasonably related to market prices of the Common Stock either at the time the terms of an acquisition are agreed upon or at or about the time of delivery of such shares of Common Stock.

The Common Stock trades on The New York Stock Exchange (the "NYSE") under the symbol "IEE." The last reported sale price of the Common Stock on the NYSE on September 11, 1998 was $13 7/8 per share.

All expenses of this offering will be paid by the Company. No underwriting discounts or commissions will be paid in connection with the issuance of Common Stock, although finders fees may be paid with respect to specific acquisitions. Any person receiving a finder's fee may be deemed to be an Underwriter within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS SEPTEMBER 14, 1998.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. See "Risk Factors" for information that should be carefully considered by prospective investors.

THE COMPANY

Integrated Electrical Services, Inc. ("IES" or the "Company"), a Delaware Corporation, was founded in June 1997 to create a leading national provider and consolidator of electrical contracting and maintenance services, focusing primarily on the commercial, industrial and residential markets. On January 30, 1998, concurrent with the closing of its initial public offering ("IPO" or "Offering") of common stock, IES acquired, in separate transactions 16 companies and related entities engaged in all facets of electrical contracting and maintenance services (collectively, the "Founding Companies" or the "Founding Company Acquisitions"). Subsequent to its IPO, and through September 11, 1998, the Company has acquired 19 additional electrical contracting and maintenance businesses (the "Post IPO Acquisitions"). Of these 19 Post IPO Acquisitions, 18 were accounted for using the purchase method of accounting (the "Post IPO Purchased Companies") and one was accounted for using the pooling-of-interests method of accounting (the "Pooled Company"). IES has acquired 35 electrical contracting and maintenance service companies (collectively the "Companies") with pro forma combined revenues of $705.0 million and $553.3 million for the year ended September 30, 1997, and the nine months ended June 30, 1998, respectively, making the Company one of the largest providers of electrical contracting and maintenance services in the United States. Of such 1997 pro forma revenues, approximately 80% was derived from commercial (approximately 46%) and industrial (approximately 34%) contracting, approximately 14% was derived from residential contracting and approximately 6% was derived from electrical maintenance work. Combined revenues of the Companies, which have been in business an average of 21 years, increased at an average compound annual growth rate of approximately 17% from fiscal 1995 through 1997.

The Company offers a broad range of electrical contracting services, including design and installation for both new and renovation projects in the commercial, industrial and residential markets. The Company also offers long-term and per call maintenance services, which generally provide recurring revenues that are relatively independent of levels of construction activity. Typically, the Companies specialize in either commercial and industrial or residential work, although a few of the Companies have both commercial and industrial and residential operations.

In certain markets the Company offers design-and-build expertise and specialized services, which typically require specific skills and equipment and provide higher margins than general electrical contracting and maintenance services. In a design-and-build project, the electrical contractor applies in-house electrical engineering expertise to design the most cost-effective electrical system for a given structure and purpose, taking into account local code requirements. Specialized services offered by the Company include installations of wiring or cabling for the following: data cabling for computer networks; fiber optic cable systems; telecommunications systems; energy management systems which control the amount of power used in facilities; fire alarm and security systems; cellular phone transmission sites; "smart houses" that integrate computer, energy management, security, safety, comfort and telecommunication systems; lightning protection systems; clean rooms for fabrication of microprocessors and similar devices; computer rooms; back-up electrical systems and uninterruptible power supplies; high voltage distribution and traffic signal systems.

INDUSTRY OVERVIEW

General. Virtually all construction and renovation in the United States generates demand for electrical contracting services. Depending upon the exact scope of work, electrical work generally accounts for approximately 8% to 12% of the total construction cost of the Company's commercial and industrial projects and 5% to 10% of the total construction cost of the Company's residential projects. In recent years, the Companies have experienced a growing demand for electrical contracting services per project due to increased electrical code requirements, demand for additional electrical capacity, including increased capacity for computer systems, additional data cabling requirements and the construction of smart houses with integrated systems.

The overall electrical contracting industry, including commercial, industrial and residential markets, was estimated by the U.S. Census to have generated annual revenues in excess of $40 billion in 1992, the most recent available U.S. Census data. These Census data indicate that the electrical contracting industry is highly fragmented with more than 54,000 companies, most of which are small, owner-operated businesses, performing various types of electrical work. The Company believes there are significant opportunities for a well-capitalized national company to provide comprehensive electrical contracting and maintenance services and that the fragmented nature of the electrical contracting industry will provide significant opportunities to consolidate commercial and industrial and residential electrical contracting and maintenance businesses.

Commercial and Industrial Market. Commercial and industrial consumers of electrical contracting and maintenance services include general contractors; developers; consulting engineers; architects; owners and managers of large retail establishments, office buildings, high-rise apartments and condominiums; theaters and restaurants; hotels and casinos; manufacturing and processing facilities; arenas and convention centers; hospitals; school districts; military and other government agencies; airports; prisons and car lots. The Company provides electrical contracting and maintenance services to the full range of commercial and industrial customers.

From fiscal 1995 through 1997, the Companies' revenues from electrical contracting for commercial and industrial customers have grown at an average compound annual rate of approximately 17% per year. The Company believes that growth in the commercial and industrial market reflects a number of factors, including (i) levels of construction and renovation activity; (ii) regulations imposed by electric codes, which establish minimum power and wiring requirements; (iii) safety codes mandating additional installation of smoke detectors and the use of ground fault circuit protection devices in more locations; (iv) revised national energy standards that dictate the use of more energy-efficient lighting fixtures and other equipment; (v) continuing demand to build out lease spaces in office buildings and to reconfigure space for new tenants; (vi) increases in use of electrical power, creating needs for increased capacity and outlets, as well as data cabling and fiber optics and (vii) requirements of building owners and developers to facilitate marketing their properties to tenants and buyers by installing electrical capacity in excess of minimum code requirements.

Residential Market. Contracting work for the residential market consists primarily of electrical installations in new single family and low-rise multifamily residence construction for customers such as large homebuilders and apartment developers. The Company also provides maintenance services to these customers as well as to individual property owners in some locations. The residential market is primarily dependent on the number of single family and multi-family home starts, which are in turn affected by interest rates, tax considerations and general economic conditions. Competitive factors particularly important in the residential market include a contractor's ability to build relationships with customers by providing services in diverse geographic markets as construction activity shifts to new locations. The Companies residential electrical contracting revenues have grown at an average compound annual rate of approximately 19% from fiscal 1995 through 1997.

STRATEGY

The Company believes that its size, geographical diversity of operations, industry relationships, expertise in specialized markets, number of licensed electricians and access to design technology give the Company significant competitive advantages in the electrical contracting and maintenance services industry. Through increased size, the Company believes it has greater ability to compete for larger jobs that require greater technical expertise, personnel availability and bonding capacity, to more effectively allocate and share resources in serving customers in each of its markets, and to attract, train and retain qualified electricians. The Company also believes that increased size provides increased efficiency in materials purchasing, computer system development, employee benefits, bonding, insurance and financing. The Company believes that the diversity of its operations diminishes the effects of regional and market downturns, offers opportunities to pursue growth in its existing markets and creates a base of expertise to expand into new markets and serve new customers.

The Company leverages its experienced management and extensive relationships within the electrical contracting industry to increase its revenues and reduce its cost infrastructure through internal growth as well as the acquisition of additional electrical contracting businesses. The Company's management includes a Chief Executive Officer and two Chief Operating Officers, each with 25 years or more of experience in the electrical contracting industry. The Company has extensive business relationships within the industry, in part through Companies that are members of the Independent Electrical Contractors Association ("IEC"). The IEC is the second largest electrical trade organization in the U.S. and has nearly 3,000 contracting firms as members. The Company's Chief Executive Officer is a past president of the IEC, and two founders are members of the executive committee of the IEC. The IEC sponsors forum groups, which are discussion groups of members of the IEC that foster the sharing of best business practices. The Companies are members of the IEC and other trade organizations, and the Company has implemented programs to share best practices among the Companies and future acquisitions.

The Company's goal is to become a leading national provider of electrical services by improving its operations, expanding its business and markets through internal growth and pursuing an aggressive acquisition strategy.

Operating Strategy. The Company believes there are significant opportunities to increase revenues and profitability of the Founding Companies and subsequently acquired businesses. The key elements of the Company's operating strategy are:

Share Information, Technical Capabilities and Best Practices. The Company believes it will be able to expand the services it offers in its local markets by leveraging the specialized technical and marketing strengths of individual Companies. The Company identifies and shares best practices that can be successfully implemented throughout its operations. The Company intends to use the computer-aided-design technology and expertise of certain of the Companies to bid for more design-and-build projects and to assist customers in value engineering and creating project documents. The Company believes that its increased size, capital and workforce will permit it to pursue projects that require greater design and performance capabilities and the ability to meet accelerated timetables.

Expand Scope of Maintenance and Specialized Services. The Company intends to further develop its long-term and per-call maintenance service operations, which generally realize higher gross margins and provide recurring revenues that are relatively independent of levels of construction activity. The Company also believes that certain specialized businesses currently offered by only a few of the Companies can be expanded throughout the Company and in some cases can provide higher margins. Through sharing of expertise and specialized licenses and the ability to demonstrate a safety record in specialized markets served by the Companies, the Company intends to expand its presence and profitability in markets where it previously relied on subcontractors.

Establish National Market Coverage. The Company believes that the growth of many of the Companies has been restricted due to the geographic limitations of existing operations and that the Company's broad geographic coverage will increase internal growth opportunities. The Company intends to leverage its geographic diversity to bid for additional business from existing customers that operate on a regional and national basis, such as developers, contractors, homebuilders and owners of national chains. The Company believes that significant demand exists from such companies to utilize the services of a single electrical contracting and maintenance service provider and that existing local and regional relationships can be expanded as the Company develops a nationwide network.

Operate on Decentralized Basis. The Company believes that, while maintaining strong operating and financial controls, a decentralized operating structure will retain the entrepreneurial spirit present in each of the Companies. The Company also is structured to allow it to capitalize on the considerable local and regional market knowledge and customer relationships possessed by each Company, as well as companies that may be acquired in the future. By maintaining a local and regional focus in each of its markets, the Company believes it will be able to build relationships with general contractors and other customers, address design preferences and code requirements, respond quickly to customer demands for higher-margin renovation and upgrade projects and adjust to local conditions.

Attract and Retain Quality Employees. The Company believes that the ability to attract and retain qualified electricians is a critical competitive factor and that the acquisitions of the Companies provides competitive advantages in this regard. The Company attracts and develops skilled employees by extending active recruiting and training programs, offering stock-based compensation for key employees, and offering expanded career paths and more stable income through the larger public company. The Company believes that this ability will allow it to increase efficiency and pursue additional customer relationships.

Achieve Operating Efficiencies. Certain administrative functions have been centralized. In addition, by combining overlapping operations of certain of the Companies, the Company expects to realize savings in overhead and other expenses. The Company uses its increased purchasing power to gain volume discounts in areas such as electrical materials, vehicles, advertising, bonding, employee benefits and insurance. The Company will seek to realize additional cost savings and other benefits by the sharing of purchasing, pricing, bidding and other business practices and the sharing of licenses. The Company intends to further develop and extend the use of computer systems to facilitate communication among the Companies. At some locations, the larger combined workforce provides additional staffing flexibility.

Acquisition Strategy. The Company believes that, due to the highly fragmented nature of the electrical contracting and maintenance services industry, it has significant opportunities to pursue its acquisition strategy. The Company focuses on acquiring companies with management philosophies based on an entrepreneurial attitude as well as a willingness to learn and share improved business practices through open communications. The Company believes that many electrical contracting and maintenance service businesses that lack the capital necessary to expand operations will become acquisition candidates. For these acquisition candidates, the Company provides (i) information on best practices, (ii) expertise to expand in specialized markets, (iii) the opportunity to focus on customers rather than administration, (iv) national name recognition, (v) increased liquidity and (vi) the opportunity for a continued role in management. The Companies participate in professional associations such as the IEC and Associated Builders and Contractors, and the Company intends to continue these relationships, in part to assist in identifying attractive acquisition candidates. Other key elements of the Company's acquisition strategy are:

Enter New Geographic Markets. The Company pursues acquisitions that are located in new geographic markets, are financially stable and have the customer base necessary to integrate with or complement its existing business. The Company also expects that increasing its geographic diversity will allow it to better serve an increasingly nationwide base of customers and further reduce the impact on the Company of local and regional economic cycles, as well as weather-related or seasonal variations in business.

Expand Within Existing Markets. Once the Company has entered a market, it seeks to acquire other well-established electrical contracting and maintenance businesses operating within that region, including "tuck-in" acquisitions of smaller companies. The Company believes that tuck-in acquisitions afford the opportunity to improve its overall cost structure through the integration of such acquisitions into existing operations as well as to increase revenues through access to additional specialized markets, such as heavy industrial markets. Despite the integration opportunities afforded by such tuck-in acquisitions, the Company maintains existing business names and identities to retain goodwill for marketing purposes.

SUMMARY PRO FORMA COMBINED FINANCIAL DATA
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

IES acquired the Founding Companies simultaneously with the consummation of the Offering. Pursuant to the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 97 ("SAB97"), Houston-Stafford Electric, Inc. and subsidiaries ("HSE") is considered for accounting purposes the entity which acquired the other Founding Companies and IES (the "Accounting Acquirer"). As such, IES's consolidated historical financial statements represent the financial position and results of operations of (i) HSE (as restated to include the financial position and results of operations of the Pooled Company), and (ii) the other Founding Companies and the Post IPO Purchased Companies beginning on their respective dates of acquisition. The following summary unaudited pro forma combined financial data present certain data for IES, as adjusted for (i) the effects of the acquisitions of the Founding Companies and the Post IPO Purchased Companies, (ii) the effects of certain other pro forma adjustments to the historical financial statements and (iii) the consummation of the Offering (including the underwriters exercise of the overallotment option) and the application of the net proceeds therefrom. Such pro forma data include the results of operations of IES and the other Founding Companies and the Post IPO Purchased Companies as if their acquisitions, the Offering and related transactions were closed on October 1, 1996 and are not necessarily indicative of the results that the Company would have obtained had these events actually occurred at that date or indicative of the Company's future results. During the periods presented below, the Companies were not under common control or management and, therefore, the data presented may not be comparable to or indicative of future performance. The unaudited pro forma combined income statement data are based on preliminary estimates, available information and certain assumptions that Company management deems appropriate. The unaudited pro forma combined financial data should be read in conjunction with the other financial information included elsewhere in this Prospectus. See "Selected Financial Data," the Unaudited Pro Forma Combined Financial Statements and notes thereto, and the historical financial statements of IES and for certain of the Acquired Companies and the notes thereto, all included elsewhere in this Prospectus.

	PRO FORMA	
	YEAR ENDED SEPTEMBER 30,1997	NINE MONTHS ENDED JUNE 30, 1998
	(UNAUDITED)	
INCOME STATEMENT DATA:		
Revenues	$ 705,034	$ 553,355
Cost of services (including depreciation)	562,171	442,475
Gross profit	142,863	110,880
Selling, general and administrative expenses(a)	72,901	56,856
Goodwill amortization(b)	7,154	5,449
Income from operations	62,808	48,575
Interest and other income (expense), net(c)	(4,902)	(3,695)
Income before income taxes	57,906	44,880
Provision for income taxes	24,401	18,874
Net income(d)	$ 33,505	$ 26,006
Net income per share:		
Basic	$ 1.09	.85
Diluted	$ 1.09	.84
Shares used in computing pro forma net income per share(e):		
Basic	30,756,875	30,756,875
Diluted	30,756,875	31,114,124

	AS OF JUNE 30, 1998	
	ACTUAL	PRO FORMA (F) (G)
	(UNAUDITED)	
BALANCE SHEET DATA:		
Working capital	$ 57,504	$ 80,908
Total assets	363,497	492,544
Long-term debt, net of current maturities	28,628	98,544
Total stockholders' equity	255,382	295,498

(a) The unaudited pro forma combined income statement data reflect certain reductions in salary, bonus and benefits of the owners of the Companies to which they have agreed prospectively, and the effect of revisions of certain lease agreements between the Companies and certain stockholders of the Companies. Additionally, excludes the $13.6 million non-recurring, non-cash compensation charge recognized by IES related to the issuance of Common Stock to management and the $17.0 million non-recurring, non-cash compensation charge recorded by HSE in connection with a note receivable and rights held by an officer of HSE which was exchanged for cash and shares of IES common stock in connection with the Founding Company Acquisitions. See "Certain Transactions."

(b) Reflects amortization of the goodwill recorded as a result of the acquisitions of the Founding Companies and the Post IPO Purchased Companies over a 40-year period and computed on the basis described in the notes to the Unaudited Pro Forma Combined Financial Statements.

(c) Reflects additional interest expense related to the debt discussed in (g) below, net of the reduction of interest expense attributable to $8.1 million of historical debt which was repaid with proceeds from the Offering or distributed prior to the acquisitions of the Founding Companies. Additionally, reflects elimination of interest income, and a $316,000 reduction in minority interest expense.

(d) Assumes all pretax income before non-deductible goodwill and other permanent items is subject to a 38% overall tax rate.

(e) Includes (i) 12,313,025 shares issued to the owners of the Founding Companies, (ii) 1,396,602 shares issued to the management of IES, (iii) 2,655,709 shares of Restricted Common Stock issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children, (iv) the 8,050,000 shares sold in the Offering (including the underwriters exercise of the overallotment option for 1,050,000 shares), and (v) 6,341,539 shares issued to the owners of the Post IPO Acquisitions. Also, the nine months ended June 30, 1998 includes 357,249 shares computed under the treasury stock method related to 3,110,550 options outstanding at September 11, 1998. See "Description of Capital Stock."

(f) Reflects the acquisitions of the eight post IPO Acquisitions which closed subsequent to June 30, 1998, as if they had occurred on June 30, 1998 as described in the notes to the Unaudited Pro Forma Combined Financial Statements. The unaudited pro forma combined balance sheet data are based upon preliminary estimates, available information and certain assumptions that management deems appropriate and should be read in conjunction with the other financial information and historical financial statements, and notes thereto, included elsewhere in this Prospectus.

(g) Reflects $4.2 million of previously undistributed earnings and nonoperating assets, net of liabilities distributed in connection with the acquisitions to the owners of the eight post IPO Acquisitions which closed subsequent to June 30, 1998. This amount was funded through transfers of cash and nonoperating assets. See "Certain Transactions." Also, includes approximately $63.6 million of debt incurred net of cash acquired to fund the cash portion of the consideration paid for the eight post IPO Acquisitions which closed subsequent to June 30, 1998.

RISK FACTORS

Prospective investors should carefully consider the following factors as well as the other information contained in this Prospectus. This Prospectus contains forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including the risk factors set forth below and elsewhere in this Prospectus.

ABSENCE OF COMBINED OPERATING HISTORY

Prior to January 30, 1998, the Founding Companies and prior to the date of acquisition the Post IPO Acquisitions operated as separate independent entities, and there can be no assurance that the Company will be able to integrate these businesses on an economic basis. In addition, there can be no assurance that the recently assembled management group will be able to oversee the combined entity and effectively implement the Company's operating or growth strategies. The pro forma combined financial results of the Companies cover periods during which the Companies and IES were not under common control or management and, therefore, may not be indicative of the Company's future financial or operating results. The success of the Company will depend on management's ability to integrate the Companies and other future acquisitions into one organization in a profitable manner. The inability of the Company to successfully integrate the Companies and to coordinate and integrate certain administrative, banking, insurance and accounting functions and computer systems would have a material adverse effect on the Company's financial condition and results of operations and would make it unlikely that the Company's acquisition program will be successful.

EXPOSURE TO DOWNTURNS IN COMMERCIAL CONSTRUCTION OR HOUSING STARTS

A substantial portion of the Company's business involves installation of electrical systems in newly constructed and renovated commercial buildings, plants and residences. The extent to which the Company is able to maintain or increase revenues from new installation services will depend on the levels of new construction starts from time to time in the geographic markets in which it operates and likely will reflect the cyclical nature of the construction industry. The level of new commercial installation services is affected by fluctuations in the level of new construction of commercial buildings in the markets in which the Company operates, due to local economic conditions, changes in interest rates and other related factors. The housing industry is similarly affected by changes in general and local economic conditions, such as employment and income levels, the availability and cost of financing for home buyers (including the continued deductibility of mortgage-linked interest expenses in determining federal income tax), consumer confidence and housing demand. Downturns in levels of commercial construction or housing starts would have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality and Quarterly Fluctuations."

RELIANCE ON ACQUISITIONS

One of the Company's principal growth strategies is to increase its revenues, geographic diversity and the scope of services offered and to diversify its business mix through the acquisition of electrical contracting companies. There can be no assurance that the Company will be able to acquire additional businesses or to integrate and manage such additional businesses successfully. Acquisitions may involve a number of risks, including: adverse short-term effects on the Company's reported operating results; diversion of management's attention; dependence on retention, hiring and training of key personnel; risks associated with unanticipated problems or legal liabilities and amortization of acquired intangible assets. Some or all of these risks could have a material adverse effect on the Company's financial condition or results of operations. In addition, to the extent that consolidation becomes more prevalent in the industry, the prices for attractive acquisition candidates may increase and the number of attractive acquisition candidates may decrease. The Company believes that the electrical contracting industry may experience consolidation on both a national and a regional level by other companies that have acquisition objectives similar to the Company's objectives. Other consolidators may have greater financial resources than the Company to finance acquisition and internal growth opportunities and might be willing to pay higher prices than the Company for the same acquisition opportunities. If such acquisitions can be made, there can be no assurance that the businesses acquired will achieve sales and profitability that justify the investment therein. See "Business -- Strategy."

MANAGEMENT OF GROWTH

The Company expects to grow internally and through acquisitions. Management expects to expend significant time and effort in evaluating, completing and integrating acquisitions and opening new facilities. There can be no assurance that the Company's systems, procedures and controls will be adequate to support the Company's operations as they expand. Any future growth also will impose significant added responsibilities on members of senior management, including the need to identify, recruit and integrate new senior level managers and executives. There can be no assurance that such additional management will be identified and retained by the Company. If the Company is unable to manage its growth efficiently and effectively, or is unable to attract and retain additional qualified management, there could be a material adverse effect on the Company's financial condition and results of operations. See "Business -- Strategy."

AVAILABILITY OF ELECTRICIANS

The Company's ability to provide high-quality electrical services on a timely basis is dependent upon an adequate supply of skilled electricians. Accordingly, the Company's ability to increase its productivity and profitability will be limited by its ability to employ, train and retain skilled electricians necessary to meet the Company's requirements. Many companies in the electrical contracting and maintenance service industry are currently experiencing shortages of qualified electricians, and there can be no assurance that the Company will be able to maintain an adequate skilled labor force necessary to operate efficiently, that the Company's labor expenses will not increase as a result of a shortage in the supply of skilled technicians or that the Company will not have to curtail its planned internal growth as a result of labor shortages. See "Business -- Company Operations -- Employee Screening, Training and Development."

COMPETITION

The electrical contracting industry is highly competitive and is served by small, owner-operated private companies, public companies and several large regional companies. Additionally, the Company could face competition in the future from other competitors entering the market, including public utilities. Certain of the Company's larger competitors offer a greater range of services, such as mechanical construction, plumbing and heating, ventilation and air conditioning services. In certain geographic regions, the Company may not be eligible to compete for certain contracts because its employees are not subject to collective bargaining arrangements. See "Business -- Industry Overview." Competition in the electrical contracting industry depends on a number of factors, including price. Certain of the Company's competitors may have lower overhead cost structures and may, therefore, be able to provide their services at lower rates than the Company. See "Business -- Competition."

ACQUISITION FINANCING

The Company intends to use its Common Stock for a portion of the consideration for future acquisitions. If the Common Stock does not maintain a sufficient valuation or potential acquisition candidates are unwilling to accept Common Stock as part of the consideration for the sale of their businesses, the Company may be required to utilize more of its cash resources, if available, in order to pursue its acquisition program. If the Company does not have sufficient cash resources, its growth could be limited unless it is able to obtain additional capital through future debt or equity financings.

The Company has a bank line of credit for $175 million for working capital, capital expenditures, other corporate purposes and acquisitions. The line of credit is subject to customary drawing conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

SEASONALITY; FLUCTUATION OF QUARTERLY OPERATING RESULTS

The electrical contracting service business can be subject to seasonal variations in operations and demand that affect the construction business, particularly in residential construction, which is affected by weather conditions. Quarterly results may also be materially affected by the timing of acquisitions, the timing and magnitude of acquisition assimilation costs and regional economic conditions. Accordingly, the Company's performance in any particular quarter may not be indicative of the results which can be expected for any other quarter or for the entire year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality and Quarterly Fluctuations."

CONTROL BY EXISTING MANAGEMENT AND STOCKHOLDERS

The Company's executive officers, directors and affiliates beneficially own approximately 31% of the total outstanding shares of Common Stock and Restricted Common Stock. These persons, if acting in concert, will be able to continue to exercise control over the Company's affairs, to elect the entire Board of Directors and to control the disposition of any matter submitted to a vote of stockholders. See "Principal Stockholders."

POSSIBLE VOLATILITY OF STOCK

The Common Stock is traded on the NYSE, but no assurance can be given that an active trading market for the Common Stock will continue. The market price of the Common Stock may be subject to significant fluctuations from time to time in response to numerous factors, including variations in the reported financial results of the Company and changing conditions in the economy in general or in the electrical contracting and maintenance service industry in particular. In addition, the stock markets experience significant price and volume volatility from time to time which may affect the market price of the Common Stock for reasons unrelated to the Company's performance.

DEPENDENCE ON KEY PERSONNEL

The Company's operations are dependent on the continued efforts of its executive officers and senior management of the Companies. Furthermore, the Company will be dependent on the senior management of companies that may be acquired in the future. Although the Company entered into an employment agreement with each of the Company's executive officers, there can be no assurance that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees could have an adverse effect on the Company's business, financial condition and results of operations. The Company does not maintain key man life insurance. See "Management."

SHARES ELIGIBLE FOR FUTURE SALE

As of September 11, 1998, 28,182,698 shares of Common Stock and 2,655,709 shares of Restricted Common Stock were issued and outstanding. Prior to and simultaneously with the closing of the Offering, the Company issued 13,709,627 shares of Common Stock and 2,655,709 shares of Restricted Common Stock. None of these 16,365,336 shares was issued in a transaction registered under the Securities Act, and, accordingly, such shares may not be sold except in transactions registered under the Securities Act or pursuant to an exemption from registration, including the exemptions contained in Rules 144 and 701 under the Securities Act. In addition, the owners of the Companies have agreed with the Company not to sell, contract to sell or otherwise dispose of 21,231,920 shares of Common Stock received as consideration in the acquisitions for a period of two years following receipt thereof without the Company's consent. When these shares become saleable, the market price of the Common Stock could be adversely affected by the sale of substantial amounts of the shares in the public market. Certain stockholders of the Company have certain piggy-back registration rights with respect to 16,365,336 shares of Common Stock, which may be exercised during the two-year period referred to above. The Company has outstanding options to purchase up to a total of approximately 3,110,550 shares of Common Stock issued pursuant to the Company's Option Stock Plans.

There can be no assurance that the resale or the availability for sale of the shares of Common Stock eligible for future sale will not have an adverse effect on the prevailing market price of the Common Stock.

CERTAIN ANTI-TAKEOVER PROVISIONS

The Company's Amended and Restated Certificate of Incorporation, Bylaws, employment agreements and employee benefit plans contain provisions which may have the effect of delaying, deferring or preventing a change in control of the Company. For example, the Company's Amended and Restated Certificate of Incorporation and Bylaws provide for, among other things, a classified Board of Directors, the prohibition of stockholder action by written consent and the affirmative vote of at least 66 2/3% of all outstanding shares of Common Stock to approve the removal of directors from office. The Company's Board of Directors has the authority to issue shares of preferred stock in one or more series and to fix the rights and preferences of the shares of any such series without stockholder approval. Any series of preferred stock is likely to be senior to the Common Stock with respect to dividends, liquidation rights and, possibly, voting. In addition, the Board of Directors may issue certain rights pursuant to the rights plan authorized by the Amended and Restated Certificate of Incorporation. The ability to issue preferred stock or rights could have the effect of discouraging unsolicited acquisition proposals. The Company's 1997 Stock Plan contains provisions that allow for, among other things, the acceleration of vesting or payment of awards granted under such plan in the event of a "change of control," as defined in such plan. In addition, the Company has entered into employment agreements with certain executive officers and key employees allowing for cash payments under certain circumstances following a change in control, which is generally defined to occur upon (i) the acquisition by any person of 20% or more of the total voting power of the outstanding securities of the Company, (ii) the first purchase pursuant to a tender or exchange offer for Common Stock, (iii) the approval of certain mergers, sale of substantially all the assets, or dissolution of the Company or (iv) a change in a majority of the members of the Company's Board of Directors.

THE COMPANY

IES was founded in June 1997 to create a leading national provider and consolidator of electrical contracting and maintenance services, focusing primarily on the commercial, industrial and residential markets. Since the closing of the Offering, IES has acquired 35 companies. The Companies, which have been in business for an average of 21 years, had pro forma combined year ended September 30, 1997, and the nine months ended June 30, 1998, revenues of approximately $705.0 million and $553.0 million, respectively.

Integrated Electrical Services, Inc. was incorporated in Delaware in June 1997. Its executive offices are located at 515 Post Oak Boulevard, Suite 450, Houston, Texas 77027, and its telephone number is (713) 860-1500.

USE OF PROCEEDS

This Prospectus relates to shares of Common Stock that may be offered and issued by the Company from time to time in connection with the acquisitions of the securities and assets of other businesses. Other than the securities and assets acquired, there will be no proceeds to the Company from these offerings.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock has traded on the NYSE since January 27, 1998, the effective date of the Company's initial public offering. Set forth below are the high and low trading prices for the common stock during the periods presented.

	HIGH	LOW
FISCAL YEAR ENDED SEPTEMBER 30, 1998:		
2nd Quarter (from January 30, 1998)	19 7/8	13
3rd Quarter	23 3/4	17 1/8
4th Quarter (through September 11, 1998) ...	22 15/16	13 1/8

At September 11, 1998, there were approximately 207 stockholders of record of the Company's Common Stock. On September 11, 1998, the last reported sale of the Common Stock on the NYSE was $13 7/8 per share.

DIVIDEND POLICY

The Company intends to retain all of its earnings, if any, to finance the expansion of its business and for general corporate purposes, including future acquisitions, and does not anticipate paying any cash dividends on its Common Stock for the foreseeable future. In addition, the Company's revolving credit facility includes, and any additional lines of credit established in the future may include, restrictions on the ability of the Company to pay dividends without the consent of the lender.

SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

IES acquired the Founding Companies simultaneously with the consummation of the Offering on January 30, 1998. Pursuant to the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 97 ("SAB97"), Houston-Stafford Electric, Inc. and subsidiaries ("HSE") is considered for accounting purposes the entity which acquired the other Founding Companies and IES (the "Accounting Acquirer"). As such, IES's consolidated historical financial statements represent the financial position and results of operations of (i) HSE as restated to include the financial position and results of operations of the Pooled Company, and (ii) the other Founding Companies and the Post IPO Purchased Companies beginning on their respective dates of acquisition. The following selected historical financial data for IES as of December 31, 1995 and 1996, and September 30, 1997, and for the years ended December 31, 1994, 1995 and 1996, and the year ended September 30, 1997, have been derived from the consolidated audited financial statements of IES included elsewhere in this Prospectus and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such data. The selected historical financial data as of June 30, 1998, and for the nine months ended June 30, 1997 and 1998, nine months ended September 30, 1997 and as of December 31, 1993 and for the year ended December 31, 1993, have been derived from the unaudited consolidated financial statements of IES, which have been prepared on the same basis as the audited financial statements and, in the opinion of Company management, reflect all adjustments consisting of normal recurring adjustments, necessary for a fair presentation of such data. The results of operations for the interim periods presented should not be regarded as indicative of the results that may be expected for a full year.

The summary unaudited pro forma combined financial data below present certain data including IES as adjusted for (i) the effects of the acquisitions of the Founding Companies and the Post IPO Purchased Companies, (ii) the effects of certain other pro forma adjustments to the historical financial statements and (iii) the consummation of the Offering and the application of the net proceeds therefrom. Such pro forma data include the results of operations of IES and the other Founding Companies and the Post IPO Purchased Companies as if their acquisitions, the Offering and related transactions were closed on October 1, 1996, and are not necessarily indicative of the results that the Company would have obtained had these events actually occurred at that date or indicative of the Company's future results. During the periods presented below, the Companies were not under common control or management and, therefore, the data presented may not be comparable to or indicative of post-combination results to be achieved by the Company. The unaudited pro forma combined income statement data are based on preliminary estimates, available information and certain assumptions that Company management deems appropriate. The unaudited pro forma combined financial data should be read in conjunction with the other financial information included elsewhere in this Prospectus. See the Unaudited Pro Forma Combined Financial Statements and the notes thereto, included elsewhere in this Prospectus.

	YEAR ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED JUNE 30,	
	1993	1994	1995	1996	1997	1997	1997	1998
	(UNAUDITED)				(UNAUDITED)		(UNAUDITED)	
HISTORICAL INCOME STATEMENT DATA (IES AND SUBSIDIARIES):								
Revenues	$ 49,220	$ 65,211	$ 73,345	$ 101,431	$ 92,379	$ 117,111	$ 79,847	$ 219,620
Cost of services	44,169	57,633	63,709	85,081	76,306	95,937	65,189	173,420
Gross profit	5,051	7,578	9,636	16,350	16,073	21,174	14,658	46,200
Selling, general and administrative expenses	4,373	6,786	7,905	10,228	10,222	14,261	10,170	29,467
Non-cash, non-recurring Compensation charge	--	--	--	--	--	--	--	17,036
Goodwill amortization	--	--	--	--	--	--	--	1,743
Income (loss) from operations	678	792	1,731	6,122	5,851	6,913	4,488	(2,046)
Interest and other income (expense), net	32	(80)	(182)	14	292	385	44	348
Income (loss) before income taxes	710	712	1,549	6,136	6,143	7,298	4,532	(1,698)
Provision for income taxes	228	287	563	2,471	2,408	2,923	1,847	6,443
Net income (loss)	$ 482	$ 425	$ 986	$ 3,665	$ 3,735	$ 4,375	$ 2,685	$ (8,141)
Net income (loss) per share (i):								
Basic	$ .11	$ .09	$ .22	$ .82	$ .83	$ .97	$ .60	$ (.49)
Diluted	$ .11	$ .09	$ .22	$ .82	$ .83	$ .97	$ .60	$ (.49)

	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED JUNE 30, 1998
		(UNAUDITED)
PRO FORMA COMBINED:		
Revenues	$ 705,034	$ 553,355
Cost of services (including depreciation)	562,171	442,475
Gross profit	142,863	110,880
Selling, general and administrative expenses(a)	72,901	56,856
Goodwill amortization(b)	7,154	5,449
Income from operations	62,808	48,575
Interest and other income (expense), net(c)	(4,902)	(3,695)
Income before income taxes	57,906	44,880
Provision for income taxes	24,401	18,874
Net income(d)	$ 33,505	$ 26,006
Net income per share:		
Basic	$ 1.09	$ .85
Diluted	$ 1.09	$ .84
Shares used in computing pro forma net income per share(e):		
Basic	30,756,875	30,756,875
Diluted	30,756,875	31,114,124

	HISTORICAL (h)						
	AS OF DECEMBER 31,				AS OF SEPTEMBER 30,	AS OF JUNE 30,	PRO FORMA AS OF JUNE 30,
	1993	1994	1995	1996	1997	1998	1998 (f) (g)
	(UNAUDITED)						(UNAUDITED)
BALANCE SHEET DATA:							
Working capital	$ 2,729	$ 3,095	$ 3,905	$ 6,351	$ 8,568	$ 57,504	$ 80,908
Total assets	11,337	13,594	14,882	23,712	35,795	363,497	492,544
Long-term debt, net of current maturities	852	1,429	812	1,406	1,275	28,628	98,544
Total stockholders' equity	$ 4,641	$ 4,431	$ 5,842	$ 8,706	$ 12,635	255,382	295,498

(a) The unaudited pro forma combined income statement data reflect certain reductions in salary, bonus and benefits of the owners of the Companies to which they have agreed prospectively, and the effect of revisions of certain lease agreements between the Companies and certain stockholders of the Companies. Additionally, excludes the $13.6 million non-recurring, non-cash compensation charge recognized by IES related to the issuance of Common Stock to management and the $17.0 million non-recurring, non-cash compensation charge recorded by HSE in connection with a note receivable and rights held by an officer of HSE which was exchanged for cash and shares of IES common stock in connection with the Founding Company Acquisitions. See "Certain Transactions."

(b) Reflects amortization of the goodwill to be recorded as a result of the acquisitions of the Founding Companies and the Post IPO Purchased Companies over a 40-year period and computed on the basis described in the notes to the Unaudited Pro Forma Combined Financial Statements.

(c) Reflects additional interest expense related to the debt discussed in (g) below, net of the reduction of interest expense attributable to $8.1 million of historical debt which was repaid with proceeds from the Offering or distributed prior to the acquisitions of the Founding Companies. Additionally, reflects elimination of interest income, and a $316,000 reduction in minority interest expense.

(d) Assumes all pretax income before non-deductible goodwill and other permanent items is subject to a 38% overall tax rate.

(e) Includes (i) 12,313,025 shares issued to the owners of the Founding Companies, (ii) 1,396,602 shares issued to the management of IES, (iii) 2,655,709 shares of Restricted Common Stock issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children, (iv) the 8,050,000 shares sold in the Offering (including the underwriters exercise of the overallotment option for 1,050,000 shares), and (v) 6,341,539 shares issued to the owners of the Post IPO Acquisitions. Also, the nine months ended June 30, 1998, includes 357,249 shares computed under the treasury stock method related to 3,110,550 options outstanding at September 11, 1998. See "Description of Capital Stock."

(f) Reflects the acquisitions of the 8 post IPO Acquisitions which closed subsequent to June 30, 1998, as if they had occurred on June 30, 1998 as described in the notes to the Unaudited Pro Forma Combined Financial Statements. The unaudited pro forma combined balance sheet data are based upon preliminary estimates, available information and certain assumptions that management deems appropriate and should be read in conjunction with the other financial information and historical financial statements, and notes thereto, included elsewhere in this Prospectus.

(g) Reflects $4.2 million of previously undistributed earnings and nonoperating assets, net of liabilities distributed in connection with the acquisitions to the owners of the 8 post IPO Acquisitions which closed subsequent to June 30, 1998. This amount was funded through transfers of cash and nonoperating assets. See "Certain Transactions." Also, includes approximately $63.6 million of debt incurred net of cash acquired to fund the cash portion of the consideration paid for the 8 post IPO Acquisitions which closed subsequent to June 30, 1998,

(h) Historical balance sheet data for IES and Subsidiaries represents the financial position of the accounting acquirer (HSE) as of periods ended prior to January 30, 1998 (as restated for the Pooled Company) and HSE and the Post IPO Purchased Companies beginning on their respective dates of acquisition.

(i) Historical shares used in determining historical earnings per share are based on (a) the shares issued to acquire HSE and the Pooled Company totaling 4,492,039 (basic and diluted) for periods ended prior to January 30, 1998, and (b) the shares in (a) plus the shares issued to acquire the other Founding Companies and the Post IPO Purchased Companies beginning on their respective dates of acquisition, along with the incremental shares for options outstanding determined using the treasury stock method as follows:

	BASIC	DILUTED
Weighted average shares outstanding	16,400,110	16,400,110
Common stock equivalents	--	357,249
	16,400,110	16,757,359

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion should be read in conjunction with the Founding Companies' Financial Statements, and related notes thereto, and "Selected Financial Data" appearing elsewhere in this Prospectus.

The Company's revenues are derived primarily from electrical construction and maintenance services provided to commercial, industrial and residential customers. Of the Company's pro forma combined year ended September 30, 1997 revenues of $705.0 million, approximately 80% was derived from commercial and industrial contracting, approximately 14% was derived from residential contracting and approximately 6% was derived from electrical maintenance work. Revenues from fixed-price construction and renovation contracts are generally accounted for on a percentage-of-completion basis, using the cost-to-cost method. The cost-to-cost method measures the percentage completion of a contract based on total costs incurred to date compared to total estimated costs at completion. Maintenance and other service revenues are recognized as the services are performed.

Cost of services consists primarily of salaries and benefits of employees, subcontracted services, materials, parts and supplies, depreciation, fuel and other vehicle expenses and equipment rentals. The Company's gross margin, which is gross profit expressed as a percentage of revenues, depends on the relative proportions of costs related to labor and materials. On jobs in which a higher percentage of the cost of services consists of labor costs, the Company typically achieves higher gross margins than on jobs where materials represent more of the cost of services. Materials costs can be calculated with relatively greater accuracy than labor costs, and the Company seeks to maintain higher margins on its labor-intensive projects to compensate for the potential variability of labor costs for these projects. Selling, general and administrative expenses consist primarily of compensation and related benefits for owners, administrative salaries and benefits, advertising, office rent and utilities, communications and professional fees. Certain owners and certain key employees of the Companies have agreed to reductions in their compensation and related benefits in connection with the Acquisitions. Such reductions in salaries, bonuses and benefits have been reflected as a pro forma adjustment in the Unaudited Pro Forma Combined Statement of Operations and are reflected in the terms of employment agreements with the Company.

The Company believes that it has realized savings from (i) consolidation of insurance and bonding programs; (ii) reduction in other general and administrative expenses, such as training and advertising; (iii) the Company's ability to borrow at lower interest rates than the Companies; (iv) consolidation of operations in certain locations and (v) greater volume discounts from suppliers of materials, parts and supplies. Offsetting these savings are costs related to the Company's corporate management, costs of being a public company and costs of integrating companies acquired in acquisitions.

As a result of the acquisitions of the Companies accounted for as purchases, the excess of the consideration paid over the fair value of the net assets acquired was recorded as goodwill on the Company's balance sheet and is being amortized as a non-cash charge to the income statement over a 40-year period.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED RESULTS OF OPERATIONS

The following table presents selected historical results of operations of IES and Subsidiaries. These historical income statements represent the results of operations of (i) the Accounting Acquirer (HSE), (as restated to include the financial position and results of operations of the Pooled Company) for periods ending prior to January 30, 1998 and (ii) HSE (as restated) and the results of operations of the Post IPO Purchased Companies beginning on their respective dates of acquisition.

	Years Ended December 31,				Nine Months Ended September 30,		Year Ended September 30,	
	1995		1996		1997		1997	
					(UNAUDITED)			
Revenues	$ 73,345	100%	$ 101,431	100%	$ 92,379	100%	$ 117,111	100%
Cost of Services	63,709	87	85,081	84	76,306	83	95,937	82
Gross profit	9,636	13	16,350	16	16,073	17	21,174	18
Selling, general and administrative expenses	7,905	11	10,228	10	10,222	11	14,261	12
Goodwill amortization	--	--	--	--	--	--	--	--
Non-cash, non-recurring compensation charge in connection with the founding company acquisitions	--	--	--	--	--	--	--	--
Income/(loss) from operations	$ 1,731	2%	$ 6,122	6%	$ 5,851	6%	$ 6,913	6%

	Nine Months Ended June 30,			
	1997		1998	
	(UNAUDITED)			
Revenues	$ 79,847	100%	$ 219,620	100%
Cost of Services	65,189	82	173,420	79
Gross profit	14,658	18	46,200	21
Selling, general and administrative expenses	10,170	13	29,467	13
Goodwill amortization	--	--	1,743	1
Non-cash, non-recurring compensation charge in connection with the founding company acquisitions	--	--	17,036	8
Income/(loss) from operations	$ 4,488	5%	$ (2,046)	(1)%

Integrated Electrical Services, Inc. and Subsidiaries Consolidated results for the nine months ended June 30, 1998 compared to the nine months ended June 30, 1997

Revenues increased $139.8 million, or 175%, from $79.8 million for the nine months ended June 30, 1997, to $219.6 million for the nine months ended June 30, 1998. The increase in revenues is principally due to the acquisition of the Founding Companies (excluding Houston-Stafford) on January 30, 1998, and the acquisition of the Post IPO Acquisitions during the three months ended June 30, 1998.

Gross profit increased $31.5 million, or 215%, from $14.7 million for the nine months ended June 30, 1997, to $46.2 million for the nine months ended June 30, 1998. The increase in gross profit was principally due to the Acquisitions of the Founding Companies (excluding Houston-Stafford) on January 30, 1998, and the acquisitions of the Post IPO Acquisitions during the three months ended June 30, 1998. As a percentage of revenues, gross profit increased from 18.4% in 1997 to 21.0% in 1998. This increase is attributed to Houston Stafford's lower markup on certain materials acquired under significant customer contracts and additional overtime in the prior year.

Selling, general and administrative expenses increased $19.3 million, or 189%, from $10.2 million for the nine months ended June 30, 1997, to $29.5 million for the nine months ended June 30, 1998. This increase in selling, general and administrative expenses was primarily attributable to the Acquisitions of the Founding Companies (excluding Houston-Stafford) on January 30, 1998, the acquisitions of the Post IPO Acquisitions during the three months ended June 30, 1998, a $5.6 million bonus paid to the owners of Houston-Stafford during the four months ended in January 1998, compared to a $1.5 million bonus during the four months ended in January 1997, and approximately $1.7 million of additional corporate costs incurred in 1998 associated with being a public company which did not exist in 1997. Excluding such bonuses and higher corporate costs, selling, general and administrative expenses as a percentage of revenues decreased from 10.7% in 1997 to 10.0% in 1998.

Operating income decreased $6.5 million, or 233%, from $4.5 million for the nine months ended June 30, 1997, to $(2.0) million for the nine months ended June 30, 1998. This decrease in operating income is primarily attributed to the Founding Company Acquisitions (excluding Houston-Stafford) on January 30, 1998, the acquisitions of the Post IPO Acquisitions during the three months ended June 30, 1998, the non-recurring owner bonuses in 1997, which was partially offset by higher corporate costs discussed above. As a percentage of revenues, operating income (excluding the owner bonuses and higher corporate costs noted above) increased from 7.7% in 1997 to 10.3% in 1998.

Integrated Electrical Services, Inc. and Subsidiaries Consolidated results for the year ended September 30, 1997 compared to the year ended December 31, 1996.

Revenues increased $15.7 million, or 15%, from $101.4 million for the year ended December 31, 1996 to $117.1 million for the year ended September 30, 1997 primarily as a result of increased demand and the consolidation of an electrical supply company, partially offset by the effects of unusually rainy weather in Texas.

Gross profit increased $4.8 million, or 30%, during the year ended September 30, 1997 to $21.2 million, and gross margin increased to 18% during the year ended September 30, 1997 from 16% during the year ended December 31, 1996 as a result of favorable pricing related to the increase in demand and higher discounts on certain long-term material purchase commitments.

Selling, general and administrative expenses increased 40% from $10.2 million to $14.3 million. The increase was primarily attributable to an increase in bonuses for certain key employees and to a lesser degree higher insurance costs.

Integrated Electrical Services, Inc. and Subsidiaries Consolidated results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $28.1 million, or 38%, from $73.3 million for the year ended December 31, 1995, to $101.4 million for the year ended December 31, 1996, primarily due to an overall increase in demand and new contracts under which Houston-Stafford is the sole or primary provider of electrical installation services for certain significant residential contractors.

Gross profit increased $6.8 million, or 71%, from $9.6 million for the year ended December 31, 1995 to $16.4 million for the year ended December 31, 1996. Gross margin increased from 14% to 18% over these periods. The increase in gross profit amounts and percentages is primarily attributable to favorable pricing related to the increase in demand and higher discounts on certain long-term material purchase commitments.

Selling, general and administrative expenses increased 29% from $7.9 million to $10.2 million. The increase was attributable to the addition of administrative infrastructure necessary to support Houston-Stafford's growth and the establishment of a new merit bonus system. Selling, general and administrative expenses as a percentage of revenues remained constant during 1996 when compared to 1995.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1998, the Company had cash of $13.3 million and, had borrowed $20.0 million under its Credit Facility, had $1.0 million of letters of credit outstanding and had available capacity under its Credit Facility of $49.0 million.

During the nine months ended June 30, 1998, the Company generated $7.9 million of net cash from operating activities. Net cash used in investing activities was $68.2 million, including $66.6 million used for the purchase of businesses. Net cash flows provided by financing activities was $69.5 million resulting primarily from $91.5 million of net proceeds from the IPO, $20.6 million from borrowings under the Company's Credit Facility, reduced by payments of debt assumed in connection with acquisitions and distributions to the Accounting Acquirer totaling $42.7 million.

On August 7, 1998, the Company increased its three-year revolving credit facility to $175.0 million (the "Credit Facility"). The Credit Facility is used for working capital, capital expenditures, other corporate purposes and acquisitions. The amounts borrowed under the Credit Facility bear interest at an annual rate equal to either (a) the London interbank offered rate ("LIBOR") plus 1.0% to 2.0%, as determined by the ratio of the Company's total funded debt to EBITDA (as defined), or (b) the higher of (i) the bank's prime rate and (ii) the Federal Funds rate plus 0.5%, plus up to an additional 0.5% as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.25% to 0.375%, as determined by the ratio of the Company's total funded debt to EBITDA, are due on any unused borrowing capacity under the Credit Facility. The Company's subsidiaries have guaranteed the repayment of all amounts due under the facility, and the facility is secured by the capital stock of the guarantors and the accounts receivable of the Company and the guarantors. The Credit Facility requires the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibits the payment of cash dividends on the Company's common stock, restricts the ability of the Company to incur other indebtedness and requires the Company to comply with certain financial covenants. Availability of the Credit Facility is subject to customary drawing conditions.

The Company anticipates that its cash flow from operations and proceeds from its Credit Facility will provide sufficient cash to enable the Company to meet its working capital needs, debt service requirements and planned capital expenditures for property and equipment through 1998.

Through September 14, 1998, the Company utilized a combination of existing cash, borrowings under its credit facility, and its common stock to acquire 35 companies with total 1997 revenues of approximately $ 705.0 million. The cash component of the consideration paid for these companies was funded with proceeds from the IPO, existing cash, and borrowings under the Credit Facility. As of September 14, 1998, $91.0 million was borrowed under the Credit Facility.

The Company intends to continue to pursue acquisition opportunities and may be in various stages of negotiation, due diligence and documentation of potential acquisitions at any time. The timing, size or success of any acquisition effort and the associated potential capital commitments cannot be predicted. The Company expects to fund future acquisitions primarily with working capital, cash flow from operations and borrowings, including any unborrowed portion of the Credit Facility, as well as issuances of additional equity. To the extent the Company funds a significant portion of the consideration for future acquisitions with cash, it may have to increase the amount of the Credit Facility or obtain other sources of financing, including the issuance of additional debt or equity. Capital expenditures for equipment and expansion of facilities are expected to be funded from cash flow from operations and supplemented as necessary by borrowings under the Credit Facility.

SEASONALITY AND QUARTERLY FLUCTUATIONS

The Company's results of operations from residential construction are seasonal, depending on weather trends, with typically higher revenues generated during the spring and summer and lower revenues during the fall and winter. The commercial and industrial aspect of the Company's business is less subject to seasonal trends, as this work is performed inside structures protected from the weather. The Company's service business is generally not affected by seasonality. In addition, the construction industry has historically been highly cyclical. The Company's 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 and acquisitions and the timing and magnitude of acquisition assimilation costs. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

INFLATION

Due to the relatively low levels of inflation experienced in fiscal 1995, 1996, and 1997, inflation did not have a significant effect on the results of the company in those fiscal years, or any of the Acquired Companies during similar periods.

RECENT ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," allows entities to choose between a new fair value based method of accounting for employee stock options or similar equity instruments and the current intrinsic, value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"). Entities electing to remain with the accounting in APB No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. The Company will provide pro forma disclosure of net income and earnings per share, as applicable, in the notes to future consolidated annual financial statements.

In June, 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" which establishes standards for the way public enterprises are to report information about operating segments in annual financial statements and requires the reporting of selected information about operating segments in interim financial reports issued to shareholders. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997, at which time the Company will adopt the provision. This statement is not anticipated to have a material impact on the Company's financial disclosures.

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, and evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the consolidated financial position or results of operations of the Company.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which establishes standards for the way public enterprises are to report information about operating segments in annual financial statements and requires the reporting of selected information about operating systems in interim financial reports issued to shareholders. SFAS No. 131 is effective for the Company for its year ended September 30, 1999, at which time the Company will adopt the provision. The Company is currently evaluating the impact on the Company's financial disclosures.

In February 1998, the FASB issued SFAS No. 132, "Employers Disclosures about Pensions and Other Retirement Benefits," which becomes effective for financial statements for the year ended September 30, 1999. SFAS No. 132 requires revised disclosures about pension and other postretirement benefit plans. The Company is currently assessing the impact of this statement on its annual financial statements.

On June 1, 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which becomes effective for the Company for its year ended September 30, 2000. SFAS No. 133 requires a company to recognize all derivative instruments (including certain derivative instruments embedded in other contracts) as assets or liabilities in its balance sheet and measure them at fair value. The statement requires that changes in t he derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company is evaluating SFAS No. 133 and the impact on existing accounting policies and financial reporting disclosures. However, the Company has not to date engaged in activities or entered into arrangements normally associated with derivative instruments.

YEAR 2000 DATE CONVERSION

The Company is in the process of identifying and evaluating potential issues for its information technology and third party relationships associated with the date change in the year 2000. The Company has not yet fully assessed any Year 2000 remedial costs, but is in the process of identifying and developing solutions to the Year 2000 issues. While the Company is not currently able to quantify the cost of corrective actions, it does not expect that these actions will materially exceed the cost of normal software upgrades and replacements expected to occur through the year 2000. While the Company believes all necessary work will be completed in a timely fashion, it cannot guarantee that the systems of other companies on which the Company relies will be converted within the same timeframe. The Company is attempting to obtain assurances from vendors, business partners, and others with which it conducts business that their systems will be Year 2000 compliant. If as a result of foregoing process the Company determines that a material business interruption may occur due to the Year 2000 issue, it will attempt to implement an appropriate contingency plan.

MILLS RESULTS OF OPERATIONS

Mills, headquartered in Dallas, Texas was founded in 1972 and operates primarily in the greater Dallas-Fort Worth area. Mills derives a significant portion of its revenues from higher margin design-and-build services and from data cabling and fire alarm systems.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,				YEAR ENDED SEPTEMBER 30,	
	1995		1996		1996		1997		1997	
			(IN THOUSANDS)		(UNAUDITED)					
Revenues	$35,250	100%	$65,439	100%	$43,684	100%	$52,644	100%	$74,399	100%
Cost of services	27,372	78	50,535	77	33,998	78	44,035	84	60,572	81
Gross profit	7,878	22	14,904	23	9,686	22	8,609	16	13,827	19
Selling, general and administrative expenses	4,741	13	7,643	12	3,837	9	4,972	9	8,778	12
Income (loss) from operations	$ 3,137	9%	$ 7,261	11%	$ 5,849	13%	$ 3,637	7%	$ 5,049	7%

Mills results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $9.0 million, or 14%, from $65.4 million for the year ended December 31, 1996, to $74.4 million for the year ended September 30, 1997, primarily due to the acquisition of Regional Electric in June 1996 (which represents approximately $13 million of 1997 and $5.2 million of 1996 revenues).

Gross profit decreased $1.1 million, or 7%, from $14.9 million for the year ended December 31, 1996 to $13.8 million for the year ended September 30, 1997. Gross margin decreased from 23% to 19% due to a decrease in demand for higher margin, complex industrial work offset by an increase in demand for lower margin commercial work, as well as a planned increase in the operating infrastructure at Regional Electric to support Mill's growth strategy in the Fort Worth market.

Selling, general and administrative expenses increased 15% from $7.6 million to $8.8 million. The increase was attributable to a full year of general and administrative expenses relating to the June 1996 acquisition of Regional Electric, and a $0.2 million severance payment to the former owner of Regional Electric.

Mills results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $8.9 million, or 21%, from $43.7 million for the nine months ended September 30, 1996 to $52.6 million for the nine months ended September 30, 1997, primarily as a result of the acquisition of Regional Electric, which specializes in commercial and industrial electrical contracting and fire alarm, data cabling and control system installation in the greater Fort Worth area.

Gross profit decreased $1.1 million, or 11%, during the first nine months of 1997 as compared to the nine months ended September 30, 1996. Gross margin decreased from 22% to 16% due to a decrease in demand for higher margin, complex industrial work offset by an increase in demand for lower margin commercial work, as well as a planned increase in the operating infrastructure at Regional Electric to support Mill's growth strategy in the Fort Worth market.

Selling, general and administrative expenses increased 30% from $3.8 million to $5.0 million. The increase was attributable to a full year of general and administrative expenses relating to the June 1996 acquisition of Regional Electric, and a $0.2 million severance payment to the former owner of Regional Electric.

Mills results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $30.1 million, or 86%, from $35.3 million for the year ended December 31, 1995 to $65.4 million for the year ended December 31, 1996, primarily due to the acquisition of Regional Electric in June 1996 (which represents approximately $5.2 million of 1996 revenues), an increase in demand for large and complex industrial construction contracts for manufacturing and distribution facilities in the greater Dallas area for which only a select group of electrical contractors have the resources and expertise to bid and a 30% increase in maintenance and service revenues resulting from Mills' focus on increasing its maintenance and service revenues.

Gross profit increased $7.0 million, or 89%, from $7.9 million for the year ended December 31, 1995 to $14.9 million for the year ended December 31, 1996. Gross margin increased to 23% from 22% during this period due to an increase in higher margin maintenance and service work.

Selling, general and administrative expenses increased 61% from $4.7 million to $7.6 million. The increase was attributable to increased business volume, including that related to the acquisition of operations of Regional Electric and increases in discretionary bonus and savings plan distributions.

MILLS LIQUIDITY AND CAPITAL RESOURCES

Mills used approximately $2.9 million of net cash for operating activities for the nine months ended September 30, 1997, primarily for working capital. Net cash used in investing activities was approximately $1.2 million, primarily for the purchase of tools and equipment. Net cash used in financing activities was $0.3 million, primarily for stockholder distributions and long-term debt. At September 30, 1997, Mills had a $2.0 million revolving line of credit available that expires June 1, 1999. At September 30, 1997, there were outstanding draws against this line of credit in the amount of $400,000, which are due and payable within one year.

Mills generated $2.7 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was approximately $1.5 million, primarily for additions to property and equipment. Net cash used in financing activities of $3.7 million primarily resulted from distributions to stockholders.

At September 30, 1997, Mills had working capital of $7.8 million and total debt obligations of $0.8 million that relate to the acquisition of Regional Electric and certain capital leases.

Mills generated $7.9 million in net cash from operating activities for the year ended December 31, 1996, as a result of increased profitability. Net cash used in investing activities was approximately $0.6 million, representing $0.9 million used for the purchase of property and equipment, partly offset by $0.3 million, net, in collection of loans. Net cash used in financing activities was $3.9 million for the year ended December 31, 1996, primarily for distribution of dividends to stockholders. At December 31, 1996, Mills had a $2.0 million revolving line of credit that was originally scheduled to expire June 1, 1997 and was extended to June 1, 1999. At December 31, 1996, there were no outstanding draws against this line of credit.

At December 31, 1996, Mills had working capital of $5.5 million and total debt obligations of $0.6 million.

BEXAR-CALHOUN RESULTS OF OPERATIONS

Bexar was founded in 1966 and operates primarily in the areas around the cities of San Antonio, New Braunfels and Laredo, Texas. Calhoun was founded in 1958 and operates in the counties around San Antonio.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,				YEAR ENDED SEPTEMBER 30,	
	1995		1996		1996		1997		1997	
	(IN THOUSANDS)				(UNAUDITED)					
Revenues	$27,730	100%	$33,023	100%	$24,994	100%	$24,136	100%	$32,165	100%
Cost of services	20,964	76	25,017	76	18,909	76	18,868	78	24,976	78
Gross profit	6,766	24	8,006	24	6,085	24	5,268	22	7,189	22
Selling, general and administrative expenses	3,637	13	3,686	11	2,713	11	2,793	12	3,766	12
Income (loss) from operations	$ 3,129	11%	$ 4,320	13%	$ 3,372	13%	$ 2,475	10%	$ 3,423	10%

Bexar-Calhoun results of operations for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues decreased $0.8 million, or 3%, from $33.0 million for the year ended December 31, 1996, to $32.2 million for the year ended September 30, 1997, primarily due to the completion in 1996 of an unusually large electrical construction contract for a state university in Laredo, Texas.

Gross profit decreased $0.8 million, or 10%, from $8.0 million for the year ended December 31, 1996, to $7.2 million for the year ended September 30, 1997. Gross margins decreased to 22% from 24% over these periods. The decrease in gross profit related to completion of the large state university contract in 1996 and gross margin declined due to a change in customer mix associated with a decrease in higher margin retail construction in San Antonio.

Selling, general and administrative expenses remained relatively constant in 1997 as compared to 1996.

Bexar-Calhoun results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues decreased $0.9 million, or 3%, from $25.0 million in 1996 to $24.1 million in 1997, primarily due to an increase in overall growth offset by the completion in 1996 of an unusually large electrical construction contract for a state university in Laredo, Texas.

Gross profit decreased $0.8 million, or 13%, from $6.1 million in 1996 to $5.3 million in 1997. Gross margin decreased from 24% in 1996 to 22% in 1997. The decrease in gross profit related to completion of the large state university contract in 1996 and gross margin declined due to a change in customer mix associated with a decrease in higher margin retail construction in San Antonio.

Selling, general and administrative expenses remained relatively constant from 1996 to 1997.

Bexar-Calhoun results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $5.3 million, or 19%, from $27.7 million in 1995 to $33.0 million in 1996, primarily due to reassignment of certain personnel to Laredo and New Braunfels, Texas. Bexar-Calhoun realized a $3.6 million increase in revenues in these two markets between 1995 and 1996, in part from an unusually large electrical construction contract for a university in Laredo, Texas.

Gross profit increased $1.2 million, or 18%, from $6.8 million in 1995 to $8.0 million in 1996. Gross margin remained stable over these periods. The increase in gross profit was attributable to higher revenues.

Selling, general and administrative expenses did not significantly change from 1995 to 1996. Selling, general and administrative expenses declined as a percentage of revenue from 13% in 1995 to 11% in 1996.

BEXAR-CALHOUN LIQUIDITY AND CAPITAL RESOURCES

Bexar-Calhoun generated $3.1 million of net cash from operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was approximately $0.9 million, primarily for additions to property and equipment and loans to stockholders. Net cash used in financing activities of $1.5 million resulted from stockholder distributions net of debt repayments.

Bexar-Calhoun generated $3.3 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was approximately $1.1 million, primarily for additions of property and equipment. Net cash used in financing activities of $1.9 million primarily resulted from stockholder distributions and repayments of debt.

At September 30, 1997, Bexar-Calhoun had working capital of $4.2 million and total debt of $0.9 million.

Bexar-Calhoun generated $2.7 million in net cash from operating activities for the year ended December 31, 1996, primarily from net income offset by growth in working capital. Net cash used in investing activities was approximately $0.6 million for additions to property and equipment net of stockholder loan repayments. Net cash used by financing activities was $2.8 million for the year ended December 31, 1996 primarily as a result of stockholder distributions net of debt repayments.

At September 30, 1996, Bexar-Calhoun had working capital of $4.2 million and total debt of $1.9 million.

POLLOCK RESULTS OF OPERATIONS

Pollock was founded in 1983 and is headquartered in Houston, Texas. Pollock has specialized expertise in design-and-build projects for commercial and industrial customers.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED OCTOBER 31,				ELEVEN MONTHS ENDED SEPTEMBER 30,				YEAR ENDED SEPTEMBER 30,	
	1995		1996		1996		1997		1997	
	(IN THOUSANDS)				(UNAUDITED)					
Revenues	$ 13,002	100%	$ 15,816	100%	$ 13,305	100%	$ 17,780	100%	$ 20,291	100%
Cost of services	10,602	82	13,534	86	11,646	88	14,782	83	16,670	82
Gross profit	2,400	18	2,282	14	1,659	12	2,998	17	3,621	18
Selling, general and administrative expenses	2,149	16	2,463	15	2,083	16	2,515	14	2,895	14
Income (loss) from operations	$ 251	2%	$ (181)	(1)%	$ (424)	(4)%	$ 483	3%	$ 726	4%

Pollock results for the year ended September 30, 1997 compared to the year ended October 31, 1996

Revenues increased $4.5 million, or 28%, from $15.8 million for the year ended October 31, 1996 to $20.3 million for the year ended September 30, 1997, primarily due to an increase in large commercial contracts, increased data cabling work, and higher revenues from service work.

Gross profit increased $1.4 million, or 59%, from $2.2 million for the year ended October 31, 1996 to $3.6 million for the year ended September 30, 1997. Gross margin increased to 18% from 14% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are primarily attributable to specific low margin or loss contracts in 1996 that did not recur in 1997.

Selling, general and administrative expenses increased 18% from $2.5 million to $2.9 million due to the addition of certain strategic management personnel. As a percent of revenues, selling, general and administrative expenses decreased in 1997 over 1996 by 1%.

Pollock results for the eleven months ended September 30, 1997 compared to eleven months ended September 30, 1996

Revenues increased $4.5 million, or 34%, from $13.3 million for the eleven months ended September 30, 1996 to $17.8 million for the eleven months ended September 30, 1997, primarily due to an increase in large commercial contracts, increased data cabling work and higher revenues for service and small project work.

Gross profit increased $1.3 million, or 81%, from $1.7 million for the eleven months ended September 30, 1996 to $3.0 million for the eleven months ended September 30, 1997. Gross margin increased to 17% from 12% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are primarily attributable to specific low margin or loss contracts in 1996 that did not recur in 1997.

Selling, general and administrative expenses increased 21% from $2.1 million to $2.5 million due to the addition of certain strategic management personnel. As a percentage of revenues, selling, general and administrative expenses actually decreased in 1997 over 1996 by 2%.

Pollock results for the year ended October 31, 1996 compared to the year ended October 31, 1995

Revenues increased $2.8 million, or 22%, from $13.0 million for the year ended October 31, 1995, to $15.8 million for the year ended October 31, 1996, primarily due to an increase in commercial construction and the addition of data cabling services.

Gross profit decreased $0.1 million, or 5%, from $2.4 million for the year ended October 31, 1995 to $2.3 million for the year ended October 31, 1996. Gross margin decreased to 14% from 18% over these periods. These decreases were due to specific low margin or loss contracts in 1996.

Selling, general and administrative expenses increased 15% from $2.1 million to $2.5 million. The increase was attributable to an increase in management staff necessary to support Pollock's growth strategy, including the addition of data cabling expertise.

POLLOCK LIQUIDITY AND CAPITAL RESOURCES

Pollock used $0.1 million of net cash for operating activities during the eleven months ended September 30, 1997. Net cash used in investing activities was approximately $0.1 million, primarily for increases in the leasing of capital assets. Net cash provided by financing activities of $0.3 million resulted from additional short-term line of credit borrowings.

Net cash from operating activities for the year ended September 30, 1997 was not material in amount. Net cash used in investing activities was approximately $0.2 million, primarily for increases in the leasing of capital assets. Net cash provided by financing activities of $0.5 million resulted from additional short-term line of credit borrowings.

At September 30, 1997, Pollock had working capital of $0.6 million and total debt of $1.8 million.

Pollock used $0.7 million in net cash from operating activities for the year ended October 31, 1996, primarily to fund working capital requirements. Net cash used in investing activities was approximately $0.2 million for additions to property and equipment. Net cash provided by financing activities was $0.7 million for the year ended October 31, 1996 primarily as a result of short-term line of credit borrowings.

At October 31, 1996, Pollock had working capital of $0.5 million and total debt of $1.5 million.

MUTH RESULTS OF OPERATIONS

Muth was founded in 1970 and has seven offices located in South Dakota, including its headquarters in Mitchell. Muth also from time to time operates in Wyoming, Montana, Nebraska and Minnesota.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,				YEAR ENDED SEPTEMBER 30,	
	1995		1996		1996		1997		1997	
	(IN THOUSANDS)				(UNAUDITED)					
Revenues	$16,012	100%	$16,830	100%	$12,517	100%	$14,466	100%	$18,779	100%
Cost of services	12,189	76	12,834	76	9,751	78	11,428	79	14,511	77
Gross profit	3,823	24	3,996	24	2,766	22	3,038	21	4,268	23
Selling, general and administrative expenses	2,923	18	2,957	18	2,147	17	2,264	16	3,074	16
Income (loss) from operations	$ 900	6%	$ 1,039	6%	$ 619	5%	$ 774	5%	$ 1,194	7%

Muth results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $2.0 million, or 12%, from $16.8 million for the fiscal period ended December 31, 1996 to $18.8 million for the fiscal year ended September 30, 1997, due to a significant increase in market demand that was offset by work delays caused by the harsh winter, which lasted from November 1996 through early April 1997.

Gross profit increased $0.3 million, or 7%, from $4.0 million for the fiscal period ended December 31, 1996 to $4.3 million for the fiscal year ended September 30, 1997. The increase in gross profit is attributable to increased market demand that was offset by work delays caused by the harsh winter, which lasted from November 1996 through early April 1997. Gross margin decreased to 23% from 24% over these periods.

Muth results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $2.0 million, or 16%, from $12.5 million for the nine months ended September 30, 1996 to $14.5 million for the nine months ended September 30, 1997, due to a significant increase in market demand that was offset by work delays caused by the harsh winter, which lasted from November 1996 through early April 1997.

Gross profit increased $0.2 million, or 10%, from $2.8 million for the nine months ended September 30, 1996 to $3.0 million for the nine months ended September 30, 1997. Gross margin decreased to 21% from 22% over these periods. The decreases in the gross margin are solely attributable to the harsh winter and related work delays in early 1997.

Selling, general and administrative expenses increased 5% from $2.1 million to $2.3 million. The increase was attributable to the increase in market demand and related infrastructure costs.

Muth results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $0.8 million, or 5%, from $16.0 million for the year ended December 31, 1995 to $16.8 million for the year ended December 31, 1996, due to increased market demands for electrical contracting services, slightly offset by delays caused by the harsh winter, which started in November 1996 and continued through early April 1997.

Gross profit increased $0.2 million, or 5%, from $3.8 million for the year ended December 31, 1995 to $4.0 million for the year ended December 31, 1996. There was no significant change in gross margin. The gross profit and gross margin increases in 1996 when compared to 1995 were attributable to increased margins on service work in 1996 and increased revenues.

Selling, general and administrative expenses remained constant over these periods.

MUTH LIQUIDITY AND CAPITAL RESOURCES

Muth generated $0.5 million of net cash from operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was approximately $0.2 million, primarily for additions to property and equipment. Net cash used in financing activities of $0.4 million primarily related to distributions to stockholders.

Muth generated $0.5 million of net cash from operating activities for the fiscal year ended September 30, 1997. Net cash used in investing activities was approximately $0.2 million, primarily for additions to property and equipment. Net cash used in financing activities of $0.3 million primarily relates to payments of short-term debt.

At September 30, 1997, Muth had working capital of $2.3 million and total debt of $0.5 million. Muth currently has no long-term debt. Cash requirements increased for the fiscal year ended September 30, 1997 as a result of a higher proportion of government contracts, which typically have payment periods of 45 to 60 days rather than the 20-day period typical for private contracts.

Muth generated $0.5 million in net cash from operating activities for the year ended December 31, 1996, primarily from earnings net of investments in working capital. Net cash used in investing activities was approximately $0.4 million for additions to property and equipment. Net cash used by financing activities was $0.1 million for the year ended December 31, 1996 primarily as a result of stockholder distributions in excess of borrowings.

At December 31, 1996, Muth had working capital of $1.9 million and total debt of $0.5 million.

DANIEL RESULTS OF OPERATIONS

Daniel Electrical Contractors, Inc. was founded in 1986, is headquartered in Miami, Florida, and operates primarily in South Florida. Daniel Electrical of Treasure Coast Inc. was founded in 1995 and is headquartered in Vero Beach, Florida. In addition to commercial and industrial contracting, Daniel services high-end residential construction and repairs on a time-and-material basis, from both its Miami and Vero Beach, Florida locations.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,				YEAR ENDED SEPTEMBER 30,	
	1995		1996		1996		1997		1997	
	(IN THOUSANDS)				(UNAUDITED)					
Revenues	$ 12,049	100%	$ 12,585	100%	$ 8,846	100%	$ 14,670	100%	$ 18,409	100%
Cost of services	11,725	97	9,713	77	6,675	75	10,480	71	13,518	73
Gross profit	324	3	2,872	23	2,171	25	4,190	29	4,891	27
Selling, general and administrative .... expenses	1,502	13	1,884	15	1,360	15	1,792	12	2,316	13
Income/(loss) from operations	$ (1,178)	(10)%	$ 988	8%	$ 811	10%	$ 2,398	17%	$ 2,575	14%

Daniel results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $5.8 million, or 46%, from $12.6 million for the year ended December 31, 1996 to $18.4 million for the year ended September 30, 1997, primarily due to increased contract revenues on several large high-rise condominium projects in South Florida during the year ended September 30, 1997.

Gross profit increased $2.0 million, or 70%, from $2.9 million for the year ended December 31, 1996 to $4.9 million for the year ended September 30, 1997. Gross margin increased from 23% to 27%, primarily due to increased labor efficiencies and an increase in higher margin high-rise residential contracts.

Selling, general and administrative expenses increased $0.4 million, or 23%, from $1.9 million for the year ended December 31, 1996 to $2.3 million for the year ended September 30, 1997, primarily due to increases in office salaries associated with increased revenues. As a percentage of revenues, selling, general and administrative expenses decreased from 15% to 13%.

Daniel results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $5.9 million, or 66%, from $8.8 million for the nine months ended September 30, 1996 to $14.7 million for the nine months ended September 30, 1997, primarily due to favorable pricing for negotiated contracts in process during the nine months ended September 30, 1997.

Gross profit increased $2.0 million, or 93%, from $2.2 million for the nine months ended September 30, 1996 to $4.2 million for the nine months ended September 30, 1997. Gross margin increased from 25% to 29%, primarily due to increased labor efficiencies and an increase in higher margin high-rise residential contracts.

Selling, general and administrative expenses increased $0.4 million, or 32%, from $1.4 million for the nine months ended September 30, 1996 to $1.8 million for the nine months ended September 30, 1997, primarily due to increases in office salaries associated with increased revenues. As a percentage of revenues, selling, general and administrative expenses decreased from 15% to 12%.

Daniel results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $0.6 million, or 4%, from $12.0 million for the year ended December 31, 1995 to $12.6 million for the year ended December 31, 1996, primarily due to increased revenues from negotiated contracts in process during the year ended December 31, 1996.

Gross profit increased $2.6 million, or 786%, from $0.3 million for the year ended December 31, 1995 to $2.9 million for the year ended December 31, 1996. Gross margin increased from 3% to 23%, as a result of cost overruns incurred in 1995 on certain projects and an increase in labor efficiencies and an increase in higher margin high-rise residential contracts.

Selling, general and administrative expenses increased $0.4 million, or 25%, from $1.5 million for the year ended December 31, 1995 to $1.9 million for the year ended December 31, 1996, as a result of the increase in revenues.

DANIEL LIQUIDITY AND CAPITAL RESOURCES

Daniel generated $1.8 million in net cash from operating activities for the nine months ended September 30, 1997, primarily due to an increase in accounts receivable and accounts payable, both of which represented offsets to net income generated during the period. Net cash used in investing activities was approximately $0.9 million, principally for capital expenditures. Net cash used in financing activities was approximately $0.3 million, principally for shareholder distributions net of long-term borrowings.

Daniel generated $2.0 million in net cash from operating activities for the year ended September 30, 1997, primarily due to an increase in accounts receivable and accounts payable, both of which represented offsets to net income generated during the period. Net cash used in investing activities was approximately $1.3 million, principally for capital expenditures. Net cash used in financing activities was approximately $0.4 million, principally for shareholder distributions net of long-term borrowings.

Working capital as of September 30, 1997 was $4.5 million, and total debt outstanding was $0.7 million, of which $0.6 million was owed to a shareholder.

Days sales outstanding in accounts receivable increased from 42 days as of December 31, 1996, to 68 days as of September 30, 1997. Such increase is attributable to an increase in sales during the second and third quarters of 1997.

Daniel generated $1.2 million in net cash from operating activities for the year ended December 31, 1996, primarily due to an increase in collections of deposits and billings on contracts in progress. Net cash used in investing activities was approximately $0.5 million, principally for capital expenditures and increases in mutual fund investments. Net cash used in financing activities was approximately $0.4 million, principally for debt repayments.

Working capital as of December 31, 1996 was $2.4 million, and total debt outstanding was $0.6 million, all of which was owed to a shareholder.

AMBER RESULTS OF OPERATIONS

Amber was founded in 1979 and operates from its base near Orlando, Florida. Amber's revenues in fiscal 1996 were primarily from commercial and industrial contracting.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31, 1995		YEARS ENDED DECEMBER 31, 1996		NINE MONTHS ENDED SEPTEMBER 30, 1996		NINE MONTHS ENDED SEPTEMBER 30, 1997		YEAR ENDED SEPTEMBER 30, 1997	
					(UNAUDITED)		(IN THOUSANDS)			
Revenues	$ 9,728	100%	$13,878	100%	$10,572	100%	$13,080	100%	$16,386	100%
Cost of services	8,635	89	12,215	88	8,710	82	9,910	76	13,415	82
Gross profit	1,093	11	1,663	12	1,862	18	3,170	24	2,971	18
Selling, general and administrative expenses	957	10	1,160	8	978	9	1,197	9	1,379	8
Income from operations	$ 136	1%	$ 503	4%	$ 884	8%	$ 1,973	15%	$ 1,592	10%

Amber results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $2.5 million, or 18%, from $13.9 million for the year ended December 31, 1996 to $16.4 million for the year ended September 30, 1997, primarily due to three large retail construction contracts in 1997.

Gross profit increased $1.3 million, or 79%, from $1.7 million for the year ended December 31, 1996 to $3.0 million for the year ended September 30, 1997. Gross margins increased to 18% from 12% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are attributable to an increase in the overall demand, as well as demand for higher margin retail construction contracts.

Selling, general and administrative expenses increased 19% from $1.2 million to $1.4 million. As a percentage of revenues, selling, general and administrative expenses remained relatively constant in 1997 as compared to 1996.

Amber results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $2.5 million, or 24%, from $10.6 million for the nine months ended September 30, 1996 to $13.1 million for the nine months ended September 30, 1997, primarily from three large retail construction contracts in 1997.

Gross profit increased $1.3 million, or 70%, from $1.9 million in 1996 to $3.2 million in 1997. Gross margin increased from 18% to 24% over these periods. The improvement in gross margin was attributable to an increase in the number of commercial contracts with higher gross margins recognized.

Selling, general and administrative expenses increased 22% from $1.0 million to $1.2 million for the nine months ended September 30, 1996 compared to the nine months ended September 30, 1997.

Amber results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $4.2 million, or 43%, from $9.7 million in 1995 to $13.9 million in 1996, primarily due to increased commercial construction of shopping malls and grocery stores in central Florida.

Gross profit increased $0.6 million, or 52%, from $1.1 million in 1995 to $1.7 million in 1996. Gross margin remained stable over these periods.

Selling, general and administrative expenses increased 21% from $1.0 million in 1995 to $1.2 million in 1996. The increase was attributable to increased management salaries associated with increased revenues.

AMBER LIQUIDITY AND CAPITAL RESOURCES

Amber generated $0.7 million of net cash from operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was approximately $0.3 million, primarily for additions to property and equipment. Net cash used in financing activities was not material in amount for the nine months ended September 30, 1997.

Amber generated $0.7 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was approximately $0.3 million, primarily for additions to property and equipment. Net cash provided by financing activities was not material for the year ended September 30, 1997.

At September 30, 1997, Amber had working capital of $1.8 million and total debt of $0.7 million.

Amber generated $0.7 million in net cash from operating activities for the year ended December 31, 1996, primarily for earnings and reductions in working capital. Net cash used in investing activities was approximately $0.2 million for additions of property and equipment. Net cash provided by financing activities was not material for the year ended December 31, 1996.

At December 31, 1996, Amber had working capital of $0.6 million and total debt of $0.7 million.

HAYMAKER RESULTS OF OPERATIONS

Haymaker was founded in 1981, is headquartered in Birmingham, Alabama, and operates in Alabama, northwest Florida and North Carolina. Haymaker's revenues in fiscal 1996 were primarily from commercial and industrial contracting services.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEAR ENDED DECEMBER 31, 1996		NINE MONTHS ENDED SEPTEMBER 30, 1996		NINE MONTHS ENDED SEPTEMBER 30, 1997		YEAR ENDED SEPTEMBER 30, 1997	
			(UNAUDITED)				(IN THOUSANDS)	
Revenues	$ 7,634	100%	$ 5,105	100%	$ 9,243	100%	$11,772	100%
Cost of services	6,412	84	4,419	87	7,927	86	9,920	84
Gross profit	1,222	16	686	13	1,316	14	1,852	16
Selling, general and administrative expenses	680	9	364	7	824	9	1,140	10
Income from operations	$ 542	7%	$ 322	6%	$ 492	5%	$ 712	6%

Haymaker results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $4.2 million, or 54%, from $7.6 million for the year ended December 31, 1996 to $11.8 million for the year ended September 30, 1997, primarily due to a large hospital contract and an overall increase in construction activity in Birmingham, Alabama.

Gross profit increased $0.7 million, or 52%, from $1.2 million for the year ended December 31, 1996 to $1.9 million for the year ended September 30, 1997. Gross margins remained constant at 16%. The gross profit increase in 1997 when compared to 1996 was attributable to higher demand.

Selling, general and administrative expenses increased 68% from $0.7 million to $1.1 million due to higher bonus distributions under Haymaker's incentive compensation plan. As a percentage of revenues, selling, general and administrative expenses increased in 1997 as compared to 1996 by 1%.

Haymaker results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $4.1 million, or 81%, from $5.1 million for the nine months ended September 30, 1996, to $9.2 million for the nine months ended September 30, 1997, primarily due to a large hospital contract and an overall increase in construction activity in Birmingham, Alabama.

Gross profit increased $0.6 million, or 92%, from $0.7 million for the nine months ended September 30, 1996 to $1.3 million for the same period in 1997. Gross margin increased to 14% in 1997 from 13% in 1996 over these periods. The increase in gross profit and gross margin was attributable to higher demand and lower than expected costs and certain fixed price contracts.

Selling, general and administrative expenses increased 126% from $0.4 million for the nine months ended September 30, 1996, to $0.8 million for the nine months ended September 30, 1997. The increase was attributable to higher bonus distributions under Haymaker's incentive compensation plan.

HAYMAKER LIQUIDITY AND CAPITAL RESOURCES

Haymaker generated $0.4 million of net cash from operating activities for the nine months ended September 30, 1997. Net cash used in financing activities of $0.1 million resulted from repayments of short-term borrowings.

Haymaker generated $0.7 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was not material in amount. Net cash used by financing activities of $0.5 million resulted from distributions to owners of equity interests in consolidated entities.

At September 30, 1997, Haymaker had working capital of $1.6 million and no debt.

Haymaker used $0.1 million in net cash from operating activities for the year ended December 31, 1996. Net cash used by financing activities was $0.4 million for the year ended December 31, 1996 primarily as a result of distributions to owners of equity interests in consolidated entities.

At December 31, 1996 Haymaker had working capital of $1.3 million and no debt.

SUMMIT RESULTS OF OPERATIONS

Summit was founded in 1987 and is located in Houston, Texas. Summit's revenues in its fiscal year ended March 31, 1997 were primarily from commercial and industrial contracting. Summit has specialized expertise in data cable design and installation and lighting design.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEAR ENDED MARCH 31, 1997		SIX MONTHS ENDED SEPTEMBER 30, 1996		SIX MONTHS ENDED SEPTEMBER 30, 1997		YEAR ENDED SEPTEMBER 30, 1997	
			(UNAUDITED)				(IN THOUSANDS)	
Revenues	$10,565	100%	$ 5,735	100%	$ 6,165	100%	$10,995	100%
Cost of services	9,157	87	4,946	86	5,243	85	9,454	86
Gross profit	1,408	13	789	14	922	15	1,541	14
Selling, general and administrative expenses	1,340	12	699	12	822	13	1,463	13
Income (loss) from operations	$ 68	1%	$ 90	2%	$ 100	2%	$ 78	1%

Summit results for the year ended September 30, 1997 compared to the year ended March 31, 1997

Revenues increased $0.4 million, or 4%, from $10.6 million for the year ended March 31, 1997, to $11.0 million for the year ended September 30, 1997, primarily due to an increase in larger commercial contracts.

Gross profit increased $0.1 million, or 9%, from $1.4 million for the year ended March 31, 1997, to $1.5 million for the year ended September 30, 1997. Gross margins increased to 14% from 13% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are primarily attributable to the increase in larger commercial contracts.

Selling, general and administrative expenses increased 9% from $1.3 million to $1.5 million due to increases in management bonuses, higher insurance and business promotional expenses. As a percentage of revenues, selling, general and administrative expenses remained constant.

Summit results for the six months ended September 30, 1997 compared to six months ended September 30, 1996

Revenues increased $0.5 million, or 7%, from $5.7 million for the six months ended September 30, 1996 to $6.2 million for the six months ended September 30, 1997, primarily due to the addition of large contracts with short construction periods.

Gross profit increased $0.1 million, or 17%, from $0.8 million for the six months ended September 30, 1996 to $0.9 million for the six months ended September 30, 1997. Gross margin increased from 14% to 15% from 1996 to 1997. The increase in gross profit was primarily attributable to high profitability on certain jobs with tight deadlines, partially offset by the write-off of a receivable from a contractor which went bankrupt.

Selling, general and administrative expenses increased 18% from $0.7 million to $0.8 million. The increase was attributable to management bonuses, higher insurance and business promotional expenses.

SUMMIT LIQUIDITY AND CAPITAL RESOURCES

Summit generated $0.1 million of net cash from operating activities for the six months ended September 30, 1997. Net cash provided by investing activities and net cash provided by financing activities were not material in amount for the six months ended September 30, 1997.

Summit generated near break-even levels of net cash from operating activities for the year ended September 30, 1997. Summit used $0.2 million of net cash from investing activities for the year ended September 30, 1997 primarily for the purchase of service trucks. Net cash provided by financing activities of $0.2 million resulted from borrowings of long- term debt.

At September 30, 1997, Summit had working capital of $0.6 million and total debt of $0.9 million.

Summit generated near break-even levels of net cash from operating activities for the year ended March 31, 1997. Net cash used in investing activities was approximately $0.2 million primarily for the purchase of service trucks. Net cash provided by financing activities was $0.2 million for the year ended March 31, 1997 primarily as a result of long-term borrowings.

At March 31, 1997 Summit had working capital of $0.6 million and total debt of $0.9 million.

THURMAN & O'CONNELL RESULTS OF OPERATIONS

Thurman & O'Connell was founded in 1988. It is headquartered in Louisville, Kentucky, and operates primarily in Louisville and the surrounding areas. Thurman & O'Connell's revenues in 1996 and 1997 were primarily from commercial and industrial contracting, with an emphasis on institutional and commercial properties.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,				YEAR ENDED SEPTEMBER 30,	
	1995		1996		1996		1997		1997	
					(UNAUDITED)				(IN THOUSANDS)	
Revenues	$4,729	100%	$4,551	100%	$3,741	100%	$3,239	100%	$4,049	100%
Cost of services	3,309	70	3,059	67	2,531	68	1,653	51	2,181	54
Gross profit	1,420	30	1,492	33	1,210	32	1,586	49	1,868	46
Selling, general and administrative expenses	512	11	503	11	397	10	397	12	503	12
Income from operations	$ 908	19%	$ 989	22%	$ 813	22%	$1,189	37%	$1,365	34%

Thurman & O'Connell results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues decreased $0.6 million, or 11%, from $4.6 million for the year ended December 31, 1996, to $4.0 million for the year ended September 30 1997, primarily due to the completion of a large multi-year hospital project in 1996.

Gross profit increased $0.4 million, or 25%, from $1.5 million for the year ended December 31, 1996, to $1.9 million for the year ended September 30, 1997. Gross margin increased to 46% from 33% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are attributable to favorable pricing on certain overbudget projects for which Thurman & O'Connell shared in the cost savings it provided to its customers.

Selling, general and administrative expenses did not change significantly between the year ended September 30, 1997 and the year ended December 31, 1996.

Thurman & O'Connell results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues decreased $0.5 million, or 13%, from $3.7 million in the nine months ended September 30, 1996 to $3.2 million in the nine months ended September 30, 1997, primarily due to the completion of a large multi-year hospital project in 1996.

Gross profit increased $0.4 million, or 31%, from $1.2 million in the nine months ended September 30, 1996 to $1.6 million in the nine months ended September 30, 1997, primarily due to favorable pricing on certain overbudget projects for which Thurman & O'Connell shares in the cost savings provided to its customers. Gross margin increased from 32% in the nine months ended September 30, 1996 to 49% in the nine months ended September 30, 1997 due to a large multi-year lower profit margin hospital project that was completed in 1996.

Selling, general and administrative expenses did not change significantly between the nine months ended September 30, 1997 and the nine months ended September 30, 1996.

Thurman & O'Connell results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues decreased $0.1 million, or 4%, from $4.7 million in 1995 to $4.6 million in 1996, primarily due to the completion of a large multi-year hospital project in 1996.

Gross profit increased $0.1 million, or 5%, from $1.4 million in 1995 to $1.5 million in 1996. Gross margin increased 3% from 30% in 1995 to 33% in 1996.

Selling, general and administrative expenses remained relatively constant between 1995 and 1996.

THURMAN & O'CONNELL LIQUIDITY AND CAPITAL RESOURCES

Thurman & O'Connell generated $0.9 million of net cash for operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was not material in amount. Net cash used by financing activities of $1.2 million primarily resulted from distributions to stockholders.

Thurman & O'Connell generated $0.9 million of net cash from operating activities for the year ended September 30, 1997. Net cash provided and used in investing activities was not material in amount. Net cash used in financing activities was $1.2 million, primarily for distributions to stockholders.

At September 30, 1997, Thurman & O'Connell had working capital of $1.5 million and total debt of $0.1 million.

Thurman & O'Connell generated $1.3 million in net cash from operating activities for the year ended December 31, 1996, primarily from earnings net of investments in working capital. Net cash used by financing activities was $0.6 million for the year ended December 31, 1996 primarily as a result of distributions to stockholders and payments on debt.

At December 31, 1996 Thurman & O'Connell had working capital of $1.3 million and total debt of $0.1 million.

BUSINESS

IES was founded in June 1997 to create a leading national provider and consolidator of electrical contracting and maintenance services, focusing primarily on the commercial, industrial and residential markets. On January 30, 1998, concurrent with the closing of the Offering, IES acquired, in separate transactions 16 Founding Companies engaged in all facets of electrical contracting and maintenance services. Subsequent to its IPO, and through September 11, 1998, the Company has acquired 19 additional electrical contracting and maintenance businesses. Of these 19 Post IPO Acquisitions, 18 were accounted for using the purchase method of accounting and one was accounted for using the pooling of interests method of accounting. IES has acquired 35 electrical contracting and maintenance service companies with pro forma combined revenues of $705.0 million and $553.3 million for the year ended September 30, 1997 and the nine months ended June 30, 1998, respectively, making the Company one of the largest providers of electrical contracting and maintenance services in the United States. Of such fiscal 1997 pro forma revenues, approximately 80% was derived from commercial approximately 46% and industrial approximately 34% contracting, approximately 14% was derived from residential contracting and approximately 6% was derived from electrical maintenance work. Combined revenues of the Companies, which have been in business an average of 21 years, increased at an average compound annual growth rate of approximately 17% from fiscal 1995 through 1997.

The Company offers a broad range of electrical contracting services, including design and installation for both new and renovation projects in the commercial, industrial and residential markets. The Company also offers long-term and per-call maintenance services, which generally provide recurring revenues that are relatively independent of levels of construction activity. Typically, the Companies specialize in either commercial and industrial or residential work, although a few of the Companies have both commercial and industrial and residential operations.

In certain markets the Company offers design-and-build expertise and specialized services, which typically require specific skills and equipment and provide higher margins than general electrical contracting and maintenance services. In a design-and-build project, the electrical contractor applies in-house electrical engineering expertise to design the most cost-effective electrical system for a given structure and purpose, taking into account local code requirements. Specialized services offered by the Company include installations of wiring or cabling for the following: data cabling for computer networks; fiber optic cable systems; telecommunications systems; energy management systems which control the amount of power used in facilities; fire alarm and security systems; cellular phone transmission sites; "smart houses" that integrate computer, energy management, security, safety, comfort and telecommunication systems; lightning protection systems; clean rooms for fabrication of microprocessors and similar devices; computer rooms; back-up electrical systems and uninterruptible power supplies; high voltage distribution and traffic signal systems.

INDUSTRY OVERVIEW

General. Virtually all construction and renovation in the United States generates demand for electrical contracting services. Depending upon the exact scope of work, electrical work generally accounts for approximately 8% to 12% of the total construction cost of the Company's commercial and industrial projects and 5% to 10% of the total construction cost of the Company's residential projects. In recent years, the Companies have experienced a growing demand for electrical contracting services per project due to increased electrical code requirements, demand for additional electrical capacity, including increased capacity for computer systems, additional data cabling requirements and the construction of "smart houses" with integrated systems.

The overall electrical contracting industry, including commercial, industrial and residential markets, was estimated by the U.S. Census to have generated annual revenues in excess of $40 billion in 1992, the most recent available U.S. Census data. These Census data indicate that the electrical contracting industry is highly fragmented with more than 54,000 companies, most of which are small, owner-operated businesses, performing various types of electrical work. The Company believes there are significant opportunities for a well-capitalized national company to provide comprehensive electrical contracting and maintenance services and that the fragmented nature of the electrical contracting industry will provide significant opportunities to consolidate commercial and industrial and residential electrical contracting and maintenance service businesses.

Commercial and Industrial Market. Commercial and industrial consumers of electrical contracting and maintenance services include general contractors; developers; consulting engineers; architects; owners and managers of large retail establishments, office buildings, apartments and condominiums; theaters and restaurants; hotels and casinos; manufacturing and processing facilities; arenas and convention centers; hospitals; school districts; military and other government agencies; airports; prisons and car lots. High-rise residential projects are viewed as commercial rather than residential projects because the electrical wiring methods and field skills require similar techniques. Commercial and industrial electrical construction is most often performed by a subcontractor for a general contractor, although an electrical contractor may also perform services directly as a prime contractor. Generally, contracts are obtained through a competitive bid process or on negotiated terms through ongoing customer relationships.

Typically, electrical contracting services for the industrial and commercial market involve wiring a structure to specifications set by the customer, increasingly with design-and-build engineering expertise provided by the electrical contractor. The normal commercial or industrial job is wired through pipe or conduit, which is installed through metal or concrete structures. Some commercial and industrial contractors prefabricate certain components offsite, at the contractor's office or at the facilities of a subcontractor or manufacturer, and these items are transported to the job site ready to be installed.

From fiscal 1995 through 1997, the Companies revenues from electrical contracting for commercial and industrial customers have grown at an average compound annual rate of approximately 17% per year. The Company believes that growth in the commercial and industrial market reflects a number of factors, including (i) levels of construction and renovation activity; (ii) regulations imposed by electric codes, which establish minimum power and wiring requirements; (iii) safety codes mandating additional installation of smoke detectors and the use of ground fault circuit protection devices in more locations; (iv) revised national energy standards that dictate the use of more energy-efficient lighting fixtures and other equipment; (v) continuing demand to build out lease spaces in office buildings and to reconfigure space for new tenants; (vi) increases in use of electrical power, creating needs for increased capacity and outlets, as well as data cabling and fiber optics and (vii) requirements of building owners and developers to facilitate marketing their properties to tenants and buyers by installing electrical capacity in excess of minimum code requirements.

Residential Market. Contracting work for the residential market consists primarily of electrical installations in new single family and low-rise multifamily residence construction for customers such as large homebuilders and apartment developers. The Company also provides maintenance services to these customers as well as to individual property owners in some locations. The typical residential electrical wiring job is done with plastic-jacketed wiring installed through wood studs. As in the commercial and industrial market, the opportunities for design-and-build projects have grown recently for residential contractors. The residential market, with its repetitive floor plans, lends itself to prefabrication techniques. The use of prefabricated components increases productivity by reducing construction time, labor costs and skill requirements. The residential market is primarily dependent on the number of single family and multifamily home starts, which are in turn affected by interest rates, tax considerations and general economic conditions. Competitive factors particularly important in the residential market include a contractor's ability to build relationships with customers such as large homebuilders and apartment developers by providing services in diverse geographic markets as construction activity shifts to new locations. The Companies residential electrical contracting revenues have grown at an average compound annual rate of approximately 19% from fiscal 1995 through 1997.

Residential electrical contractors with specialized expertise and the necessary licenses are in a position to meet market demand for increasingly complex residential electrical systems. For example, some newly constructed homes have been designed as smart houses with integrated computer-controlled systems wired in during construction. In addition, more stringent building and fire codes have resulted in more complex wiring requirements for smoke detectors and alarms.

STRATEGY

The Company believes that its size, geographical diversity of operations, industry relationships, expertise in specialized markets, number of licensed electricians and access to design technology give the Company significant competitive advantages in the electrical contracting and maintenance services industry. Through increased size, the Company believes it has greater ability to compete for larger jobs that require greater technical expertise, personnel availability and bonding capacity, to more effectively allocate and share resources in serving customers in each of its markets and to attract, train and retain qualified electricians. The Company also believes that increased size provides increased efficiency in materials purchasing, computer system development, employee benefits, bonding, insurance and financing. The Company believes that the diversity of its operations diminishes the effects of regional and market downturns, offers opportunities to pursue growth in its existing markets and creates a base of expertise to expand into new markets and serve new customers.

The Company leverages its experienced management and extensive relationships within the electrical contracting industry to increase its revenues and reduce its cost infrastructure through internal growth as well as the acquisition of additional electrical contracting businesses. The Company's management includes a Chief Executive Officer and two Chief Operating Officers, each with 25 years or more of experience in the electrical contracting industry. The Company has extensive business relationships within the industry, in part through Companies that are members of the IEC. The IEC is the second largest electrical trade organization in the U.S. and has nearly 3,000 contracting firms as members. The Company's Chief Executive Officer is a past president of the IEC, and two founders are members of the executive committee of the IEC. The IEC sponsors forum groups, which are discussion groups of members of the IEC that foster the sharing of best business practices. The Companies are members of the IEC and other trade organizations, and the Company has implemented programs to share best practices among the Companies and future acquisitions.

The Company's goal is to become a leading national provider of electrical services by improving its operations, expanding its business and markets through internal growth and pursuing an aggressive acquisition strategy.

Operating Strategy. The Company believes there are significant opportunities to increase revenues and profitability of the Acquired Companies and subsequently acquired businesses. The key elements of the Company's operating strategy are:

Share Information, Technical Capabilities and Best Practices. The Company believes it will be able to expand the services it offers in its local markets by leveraging the specialized technical and marketing strengths of individual Companies. The Company identifies and shares best practices that can be successfully implemented throughout its operations. The Company intends to use the computer-aided- design technology and expertise of certain of the Companies to bid for more design-and-build projects and to assist customers in value engineering and creating project documents. The Company believes that its increased size, capital and workforce will permit it to pursue projects that require greater design and performance capabilities and the ability to meet accelerated timetables.

Expand Scope of Maintenance and Specialized Services. The Company intends to further develop its long-term and per call maintenance service operations, which generally realize higher gross margins and provide recurring revenues that are relatively independent of levels of construction activity. The Company also believes that certain specialized businesses currently offered by only a few of the Companies can be expanded throughout the Company and in some cases can provide higher margins. Through sharing of expertise and specialized licenses and the ability to demonstrate a safety record in specialized markets served by the Companies, the Company intends to expand its presence and profitability in markets where it previously relied on subcontractors.

Establish National Market Coverage. The Company believes that the growth of many of the Companies has been restricted due to the geographic limitations of existing operations and that the Company's broad geographic coverage will increase internal growth opportunities. The Company intends to leverage its geographic diversity to bid for additional business from existing customers that operate on a regional and national basis, such as developers, contractors, homebuilders and owners of national chains. The Company believes that significant demand exists from such companies to utilize the services of a single electrical contracting and maintenance service provider and existing local and regional relationships can be expanded as the Company develops a nationwide network.

Operate on Decentralized Basis. The Company believes that, while maintaining strong operating and financial controls, a decentralized operating structure will retain the entrepreneurial spirit present in each of the Companies. The Company also structured to allow it to capitalize on the considerable local and regional market knowledge and customer relationships possessed by each of the Companies, as well as companies that may be acquired in the future. By maintaining a local and regional focus in each of its markets, the Company believes it will be able to build relationships with general contractors and other customers, address design preferences and code requirements, respond quickly to customer demands for higher-margin renovation and upgrade projects and adjust to local conditions.

Attract and Retain Quality Employees. The Company believes that the ability to attract and retain qualified electricians is a critical competitive factor and that the acquisitions of the Companies provide competitive advantages in this regard. The Company attracts and develops skilled employees by extending active recruiting and training programs, offering stock-based compensation for key employees, and offering expanded career paths and more stable income through the larger public company. The Company believes that this ability will allow it to increase efficiency and pursue additional customer relationships.

Achieve Operating Efficiencies. Certain administrative functions have been centralized. In addition, by combining overlapping operations of certain of the Companies, the Company expects to realize savings in overhead and other expenses. The Company uses its increased purchasing power to gain volume discounts in areas such as electrical materials, vehicles, advertising, bonding, employee benefits and insurance. The Company will seek to realize additional cost savings and other benefits by the sharing of purchasing, pricing, bidding and other business practices and the sharing of licenses. The Company intends to further develop and extend the use of computer systems to facilitate communication among the Acquired Companies. At some locations, the larger combined workforce provides additional staffing flexibility.

Acquisition Strategy. The Company believes that, due to the highly fragmented nature of the electrical contracting and maintenance services industry, it has significant opportunities to pursue its acquisition strategy. The Company focuses on acquiring companies with management philosophies based on an entrepreneurial attitude as well as a willingness to learn and share improved business practices through open communications. The Company believes that many electrical contracting and maintenance service businesses that lack the capital necessary to expand operations will become acquisition candidates. For these acquisition candidates, the Company provides (i) information on best practices, (ii) expertise to expand in specialized markets, (iii) the opportunity to focus on customers rather than administration, (iv) national name recognition, (v) increased liquidity and (vi) the opportunity for a continued role in management. The Companies participate in professional associations such as the IEC and Associated Builders and Contractors, and the Company intends to continue these relationships, in part to assist in identifying attractive acquisition candidates. Other key elements of the Company's acquisition strategy are:

Enter New Geographic Markets. The Company pursues acquisitions that are located in new geographic markets, are financially stable and have the customer base necessary to integrate with or complement its existing business. The Company also expects that increasing its geographic diversity will allow it to better serve an increasingly nationwide base of customers and further reduce the impact on the Company of local and regional economic cycles, as well as weather- related or seasonal variations in business.

Expand Within Existing Markets. Once the Company has entered a market, it seeks to acquire other well-established electrical contracting and maintenance businesses operating within that region, including "tuck-in" acquisitions of smaller companies. The Company believes that tuck-in acquisitions afford the opportunity to improve its overall cost structure through the integration of such acquisitions into existing operations as well as to increase revenues through access to additional specialized markets, such as heavy industrial markets. Despite the integration opportunities afforded by such tuck-in acquisitions, the Company maintains existing business names and identities to retain goodwill for marketing purposes.

COMPANY OPERATIONS

The Company offers a broad range of electrical contracting services, including installation and design, for both new and renovation projects in the commercial, industrial and residential markets. The Company also offers long-term and per call maintenance services, which generally provide recurring revenues that are relatively independent of levels of construction activity.

In certain markets the Company offers design-and-build expertise and specialized services, which typically require specific skills and equipment and provide higher margins than general electrical contracting and maintenance services. The Company also acts as a subcontractor for a variety of national, regional and local builders in the installation of electrical and other systems.

Commercial and Industrial. New commercial and industrial work begins with either a design request or engineer's plans from the owner or general contractor. Initial meetings with the parties allow the contractor to prepare preliminary and then more detailed design specifications, engineering drawings and cost estimates. Once a project is awarded, it is conducted in scheduled phases, and progress billings are rendered to the owner for payment, less a retainage of 5% to 10% of the construction cost of the project. Actual field work (ordering of equipment and materials, fabrication or assembly of certain components, delivery of materials and components to the job site, scheduling of work crews and inspection and quality control) is coordinated during these phases. The Company generally provides the materials to be installed as a part of these contracts, which vary significantly in size from a few hundred dollars to several million dollars and vary in duration from less than a day to more than a year.

Residential. New residential installations begin with a builder providing architectural or mechanical drawings for the residences within the tract being developed. The Company typically submits a bid or contract proposal for the work. Company personnel analyze the plans and drawings and estimate the equipment, materials and parts and the direct and supervisory labor required for the project. The Company delivers a written bid or negotiates an arrangement for the job. The installation work is coordinated by the Company's field supervisors along with the builder's personnel. Payments for the project are generally obtained within 30 days, at which time any mechanics' and materialmen's liens securing such payments are released. Interim payments are often obtained to cover labor and materials costs on larger projects.

Maintenance Services. The Company's maintenance services are supplied on a long-term and per call basis. The Company's long-term maintenance services are provided through service contracts that require the customer to pay an annual or semiannual fee for periodic diagnostic services at a specific discount from standard prices for repair and replacement services. The Company's per call maintenance services are initiated when a customer requests emergency repair service or the Company calls the client to schedule periodic maintenance work. Service technicians are scheduled for the call or routed to the customer's residence or business by the dispatcher. Service personnel work out of the Company's service vehicles, which carry an inventory of equipment, tools, parts and supplies needed to complete the typical variety of jobs. The technician assigned to a service call travels to the residence or business, interviews the customer, diagnoses the problem, prepares and discusses a price quotation, performs the work and often collects payment from the customer. Most work is warrantied for one year.

Major Customers. The Company has a diverse customer base, with no single customer accounting for more than 5% of the Company's pro forma combined revenues for the year ended September 30, 1997. As a result of emphasis on quality and worker reliability, management and a dedicated sales and work force at the Companies have been responsible for developing and maintaining successful relationships with key customers. Customers of the Companies generally include general contractors; developers; consulting engineers; architects; owners and managers of large retail establishments, office buildings, apartments and condominiums, theaters and restaurants; hotels and casinos; manufacturing and processing facilities; arenas and convention centers; hospitals; school districts; military and other government agencies; airports; prisons and car lots. The Company intends to continue its emphasis on developing and maintaining relationships with its customers by providing superior, high-quality service.

Employee Screening, Training and Development. The Company is committed to providing the highest level of customer service through the development of a highly trained workforce. Employees are encouraged to complete a progressive training program to advance their technical competencies and to ensure that they understand and follow the applicable codes, the Company's safety practices and other internal policies. The Company supports and funds continuing education for its employees, as well as apprenticeship training for its technicians under the Bureau of Apprenticeship and Training of the Department of Labor and similar state agencies. Employees who train as apprentices for four years may seek to become journeymen electricians and, after additional years of experience, master electricians. The Company pays progressive increases in compensation to employees who acquire such additional training, and more highly trained employees serve as foremen, estimators and project managers. The Company's master electricians are licensed in one or more cities or other jurisdictions in order to obtain the permits required in the Company's business, and certain master electricians have also obtained specialized licenses in areas such as security systems and fire alarm installation. In some areas, licensing boards have set continuing education requirements for maintenance of licenses. Because of the lengthy and difficult training and licensing process for electricians, the Company believes that the number, skills and licenses of its employees constitute a competitive strength in the industry.

The Company actively recruits and screens applicants for its technical positions and has established programs in some locations to recruit apprentice technicians directly from high schools and vocational-technical schools. Prior to employment, the Company will make an assessment of the technical competence level of all potential new employees, confirm background references, conduct random drug testing and check criminal and driving records.

Purchasing. As a result of economies of scale derived through the acquisitions of the Companies and the Company's in- house supply operations, the Company believes it will be able to purchase equipment, parts and supplies at discounts to historical levels. In addition, as a result of the Company's size, it believes it will also lower its costs for (i) the purchase or lease and maintenance of vehicles; (ii) bonding, casualty and liability insurance; (iii) health insurance and related benefits; (iv) retirement benefits administration; (v) office and computer equipment; (vi) marketing and advertising; (vii) long distance services and (viii) a variety of accounting, financial management and legal services.

Substantially all the equipment and component parts the Company sells or installs are purchased from manufacturers and other outside suppliers. The Company is not materially dependent on any of these outside sources.

MANAGEMENT INFORMATION AND CONTROLS

The Company has centralized its consolidated accounting and financial reporting activities at its operational headquarters in Houston, Texas, while basic accounting activities are conducted at the operating level. The Company believes that its current information systems hardware and software are adequate to meet current needs for financial reporting, internal management control and other necessary information and the needs of newly acquired corporations.

PROPERTY AND EQUIPMENT

The Company operates a fleet of owned and leased service trucks, vans and support vehicles. It believes these vehicles generally are adequate for the Company's current operations.

At September 14, 1998, the Company maintained warehouses, sales facilities and administrative offices at 76 locations. Substantially of the Company's facilities are leased. The Company leases its corporate headquarters located in Houston, Texas.

The Company believes that its properties are generally adequate for its present needs. Furthermore, the Company believes that suitable additional or replacement space will be available as required.

COMPETITION

The electrical contracting industry is highly fragmented and competitive. Most of the Company's competitors are small, owner-operated companies that typically operate in a limited geographic area. There are few public companies focused on providing electrical contracting services. In the future, competition may be encountered from new entrants, such as public utilities and other companies attempting to consolidate electrical contracting service companies. Competitive factors in the electrical contracting industry include (i) the availability of qualified and licensed electricians, (ii) safety record, (iii) cost structure, (iv) relationships with customers, (v) geographic diversity, (vi) ability to reduce project costs, (vii) access to technology, (viii) experience in specialized markets and (ix) ability to obtain bonding. See "Risk Factors -- Competition."

REGULATIONS

The Company's operations are subject to various federal, state and local laws and regulations, including (i) licensing requirements applicable to electricians; (ii) building and electrical codes; (iii) regulations relating to consumer protection, including those governing residential service agreements and (iv) regulations relating to worker safety and protection of the environment. The Company believes it has all required licenses to conduct its operations and is in substantial compliance with applicable regulatory requirements. Failure of the Company to comply with applicable regulations could result in substantial fines or revocation of the Company's operating licenses.

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 the Company's electricians who work in the state or county that issued the permit or license. The Company intends to implement a policy to ensure that, where possible, any such permits or licenses that may be material to the Company's operations in a particular geographic region are held by at least two Company employees within that region.

LITIGATION

Each of the Founding Companies has, from time to time, been a party to litigation arising in the normal course of its business, most of which involves claims for personal injury or property damage incurred in connection with its operations. Management believes that none of these actions will have a material adverse effect on the financial condition or results of operations of the Company.

EMPLOYEES

At September 11, 1998, the Company had approximately 8,141 employees. The Company is not a party to any collective bargaining agreements. The Company believes that its relationship with its employees is satisfactory.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information concerning the Company's directors, officers and certain key employees:

NAME	AGE	POSITION
C. Byron Snyder.....	50	Chairman of the Board of Directors
Jon Pollock.........	52	President, Chief Executive Officer and Director
Jerry Mills.........	57	Senior Vice President and Chief Operating Officer -- Commercial and Industrial and Director
Ben L. Mueller......	51	Senior Vice President and Chief Operating Officer -- Residential and Director
Jim P. Wise	54	Senior Vice President and Chief Financial Officer
John F. Wombwell....	36	Senior Vice President, General Counsel and Secretary
D. Merril Cummings..	37	Vice President -- Mergers and Acquisitions
J. Paul Withrow.....	33	Vice President and Chief Accounting Officer
Donald Paul Hodel...	62	Director
Richard Muth........	50	President of Muth Electric, Inc., and Director
Alan R. Sielbeck....	45	Director
Robert Stalvey......	48	Vice President of Ace Electric, Inc., and Director
Richard L. Tucker...	63	Director
Bob Weik............	62	President of BW Consolidated, Inc., and Director

Directors are elected at each annual meeting of stockholders. All officers serve at the discretion of the Board of Directors, subject to terms of their employment agreement terms. See "-- Employment Agreements."

C. Byron Snyder has been Chairman of the Board of Directors of the Company since its inception. Mr. Snyder is owner and President of Relco Refrigeration Co., a distributor of refrigerator equipment, which he acquired in 1992. Prior to 1992, Mr. Snyder was the owner and Chief Executive Officer of Southwestern Graphics International, Inc., a diversified holding company which owned Brandt & Lawson Printing Co., a Houston-based general printing business, and Acco Waste Paper Company, an independent recycling business. Brandt & Lawson Printing Co. was sold to Hart Graphics in 1989, and Acco Waste Paper Company was sold to Browning-Ferris Industries in 1991. Mr. Snyder is a director of Carriage Services, Inc., a publicly held death care company.

Jon Pollock has been President, Chief Executive Officer and a director of the Company since consummation of the Offering. Mr. Pollock has been the president of Pollock Electric Inc., one of the Founding Companies, since he founded that company in 1983. Mr. Pollock is a Registered Professional Engineer in Texas and several other states and holds Master Electrician licenses from 50 different jurisdictions. Mr. Pollock received a bachelor of science in electrical engineering from Washington University. Mr. Pollock is past National President of the Independent Electrical Contractors Association and received the IEC Electrical Man of the Year award in 1996. As National President of the IEC, Mr. Pollock was responsible for overseeing the IEC's activities relating to the development and execution of apprenticeship and safety training programs, industry lobbying activities and the development of national electrical code standards.

Jerry Mills has been Senior Vice President and Chief Operating Officer -- Commercial and Industrial and a director of the Company since consummation of the Offering. Mr. Mills has been the President of Mills Electrical Contractors, Inc., one of the founding companies, since he began that company in 1972. Mr. Mills is a past board member of the Independent Electrical Contractors, the Associated Builders and Contractors, the Associated General Contractors and the Richardson Electrical Board. Prior to 1972, Mr. Mills was an officer and part owner of Koegel Cash Consulting Engineers.

Ben L. Mueller has been Senior Vice President, Chief Operating Officer -- Residential and a director of the Company since consummation of the Offering. Mr. Mueller has been the Executive Vice President of Houston-Stafford since 1993 and has served as vice president of Houston-Stafford since 1975. Mr. Mueller is a past member of the board of the IEC, Houston Chapter, and has served on the Electrical Board for the City of Sugar Land, Texas.

Jim P. Wise joined the Company in September 1997 as Senior Vice President and Chief Financial Officer. From September 1994 to September 1997, he was Vice President -- Finance and Chief Financial Officer at Sterling Chemicals, Inc., a publicly held manufacturer of commodity petrochemicals and pulp chemicals. From July 1994 to September 1994, he was Senior Vice President and Chief Financial Officer of U.S. Delivery Systems, Inc., a delivery service consolidator. From September 1991 to July 1994, he was Chairman and Chief Executive Officer of Neostar Group, Inc., a private investment banking and financial advisory firm. Mr. Wise was employed by Transco Energy Company as Executive Vice President, Chief Financial Officer and was a member of the Board of Directors from November 1982 until September 1991.

John F. Wombwell has been Senior Vice President, General Counsel and Secretary of the Company since consummation of the Offering. Mr. Wombwell was a partner at Andrews & Kurth L.L.P., where he practiced law in the area of corporate and securities matters for more than five years.

D. Merril Cummings joined the Company as Vice President -- Mergers and Acquisitions in October 1997. Mr. Cummings has served as a consultant to the Company since its inception in June 1997. From February 1997 through June 1997 he served as a consultant to C. Byron Snyder and his privately owned corporations. From 1992 through 1996, Mr. Cummings served as Vice President and Chief Financial Officer for J A Interests, Inc., a private asset management company, and its commonly owned affiliates, including Southern Jet Management, Inc., a general aviation services and charter company. From 1982 through January 1992, Mr. Cummings held various positions with Arthur Andersen LLP. Mr. Cummings is a Certified Public Accountant.

J. Paul Withrow has served as Vice President and Chief Accounting Officer of the Company since October 1997. From 1987 to 1997, Mr. Withrow held various positions with Arthur Andersen LLP. Mr. Withrow is a Certified Public Accountant.

Donald Paul Hodel has been a director of the Company since April 1998. Mr. Hodel has served as President of the Christian Coalition since June 1997. He is Managing Director of Summit Group International, Ltd,. an energy and natural resources consulting firm he founded in 1989. Mr. Hodel served as Secretary of the Interior from 1985 to 1989 and Secretary of Energy from 1982 to 1985. Mr. Hodel has served as director of both publicly traded and privately held companies and is the recipient of the Presidential Citizens Medal and honorary degrees from three universities. Mr. Hodel serves on the board of directors of Columbia Energy Group.

Richard Muth has been a director of the Company since consummation of the Offering. Mr. Muth founded Muth Electric, Inc. in 1970 and has been the owner and president since that time. Mr. Muth served on the South Dakota State Electrical Commission from 1980 to 1991 and the Associated General Contractors Associate Division Board. Mr. Muth also received the South Dakota Electrical Council "Man of the Year" award in 1993. Mr. Muth holds electrical contractors' licenses in South Dakota, Minnesota, Nebraska, Wyoming and Montana.

Alan R. Sielbeck has been a director of the Company since consummation of the Offering. Mr. Sielbeck has served as Chairman of the Board and Chief Executive Officer of Service Experts, Inc., a publicly traded heating, ventilation and air conditioning service company, since its inception in March 1996. Mr. Sielbeck has served as Chairman of the Board and President of AC Service and Installation Co. Inc. and Donelson Air Conditioning Company, Inc. since 1990 and 1991, respectively. From 1985 to 1990, Mr. Sielbeck served as President of RC Mathews Contractor, Inc., a commercial building general contractor, and Chief Financial Officer of RCM Interests, Inc., a commercial real estate development company.

Robert Stalvey has been a director of the Company since consummation of the Offering. Mr. Stalvey has served as Vice President of Ace since 1976. Mr. Stalvey will continue to serve in these positions following the consummation of the Offerings.

Richard L. Tucker has been a director of the Company since consummation of the Offering. Dr. Tucker holds the Joe C. Walter Jr. Chair in Engineering, is Director of the Construction Industry Institute, and is Director of the Sloan Program for the Construction Industry at the University of Texas at Austin. Dr. Tucker has been on the faculty at the University of Texas since 1976. Dr. Tucker is a registered engineer.

Bob Weik has been a director of the Company since consummation of the Offering. Mr. Weik has served as President, Treasurer and a director of the Bexar-Calhoun companies since their inception in 1958. Mr. Weik will continue to serve in those positions following the consummation of the Offerings.

The Board of Directors has established an Audit Committee and a Compensation Committee. The Audit Committee recommends the appointment of auditors and oversees the accounting and audit functions of the Company. The Compensation Committee will determines the salaries and bonuses of executive officers and administers the 1997 Stock Plan. Messrs. Seilbeck, Tucker and Hodel serve as members of the Company's Compensation Committee and Audit Committee. Any future material transactions, including the issuance of securities other than through the 1997 Stock Plan and the 1997 Directors Stock Plan, between the Company and its management and affiliates will be subject to prior review and approval by the members of the Board of Directors without an interest in such transaction.

The Board of Directors is divided into three classes of directors, with directors serving staggered three-year terms, expiring at the annual meeting of stockholders following the 1998 fiscal year, 1999 fiscal year and 2000 fiscal year, respectively. At each annual meeting of stockholders, one class of directors will be elected for a full term of three years to succeed that class of directors whose terms are expiring.

C. Byron Snyder and trusts for the benefit of his children, as the holders of all of the outstanding Restricted Common Stock, are be entitled to elect one member of the Company's Board of Directors and to one-half of one vote for each share held on all other matters. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors. Only the holders of the Restricted Common Stock may remove the director such holders are entitled to elect. See "Description of Capital Stock."

DIRECTOR COMPENSATION

Directors who are employees of the Company or a subsidiary do not receive additional compensation for serving as directors. Each director who is not an employee of the Company or a subsidiary will receive a fee of $2,000 for attendance at each Board of Directors meeting and $1,000 for each committee meeting (unless held on the same day as a Board of Directors meeting). Directors of the Company will be reimbursed for reasonable out-of-pocket expenses incurred in attending meetings of the Board of Directors or committees thereof, and for other expenses reasonably incurred in their capacity as directors of the Company. Each non-employee director will receive stock options to purchase 5,000 shares of Common Stock upon initial election to the Board of Directors and thereafter an annual grant of 5,000 options on each September 30 on which the non-employee director continues to serve. See "-- 1997 Directors Stock Plan."

EXECUTIVE COMPENSATION

The Company was incorporated in June 1997 and, prior to the Offering, had not conducted any operations other than activities related to the acquisitions of the Founding Companies and the Offering. During 1998 the annualized base salaries of its most highly compensated executive officers will be: Mr. Pollock - -- $225,000, Mr. Mills -- $200,000, Mr. Mueller -- $200,000, Mr. Wise -- $190,000 and Mr. Wombwell -- $190,000.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with each executive officer of the Company which prohibits such officer from disclosing the Company's confidential information and trade secrets and generally restricts these individuals from competing with the Company for a period of two years after the date of the termination of employment with the Company. Each of the agreements has an initial term of five years and provides for annual extensions at the end of its initial term, subject to the parties' mutual agreement, and is terminable by the Company for "cause" upon ten days' written notice and without "cause" (i) by the employee upon thirty days' written notice or (ii) by the Company upon approval of 51% of the Board of Directors. The employment agreements provide that the Company shall pay each executive officer the annual salary set forth above under "-- Executive Compensation," which salary may be increased by the Board of Directors. Such agreements also provide that each executive officer will be reimbursed for out-of-pocket business expenses and shall be eligible to participate in all benefit plans and programs as are maintained from time to time by the Company. All employment agreements provide that if the officer's employment is terminated by the Company without "cause" or is terminated by the officer for "good reason," the officer will be entitled to receive a lump sum severance payment at the effective time of termination equal to the base salary (at the rate then in effect) for the greater of (i) the time period remaining under the term of the agreement or (ii) one year. In addition, the time period during which such officer is restricted from competing with the Company will be shortened from two years to one year.

The employment agreements contain certain provisions concerning a change-in-control of the Company, including the following: (i) in the event the officer's employment is terminated within two years following the change in control by the Company other than for "cause" or by the officer for "good reason," or the officer is terminated by the Company within three months prior to the change in control at the request of the acquirer in anticipation of the change in control, the officer will be entitled to receive a lump sum severance amount equal to the greater of (i) three years' base salary or (ii) the base salary for whatever period is then remaining on the initial term and the provisions which restrict competition with the Company shall not apply; (ii) in any change-of-control situation, the officer may elect to terminate his employment by giving five business days' written notice prior to the closing of the transaction giving rise to the change-in-control, which will be deemed a termination of employment by the Company without "cause," and the provisions of the employment agreement governing the same will apply, except that the severance amount otherwise payable shall be doubled (but not to exceed six times the officer's base pay) (if the successor does not give written notice of its acceptance of the Company's obligations under the employment agreement at least ten business days prior to the anticipated closing date, the severance amount shall be tripled, but not to exceed nine times base salary) and provisions which restrict competition with the Company shall not apply; and (iii) if any payment to the officer is subject to the 20% excise tax on excess parachute payments, the officer shall be made "whole" on a net aftertax basis. A change in control is generally defined to occur upon (i) the acquisition by any person of 20% or more of the total voting power of the outstanding securities of the Company, (ii) the first purchase pursuant to a tender or exchange offer for Common Stock, (iii) the approval of certain mergers, sale of substantially all the assets, or dissolution of the Company or (iv) a change in a majority of the members of the Company's Board of Directors.

In general, a "parachute payment" is any "payment" made by the Company in the nature of compensation that is contingent on a change in control of the Company and includes the present value of the accelerations of vesting and the payment of options and other deferred compensation amounts upon a change in control. If the aggregate present value of the parachute payments to certain individuals, including officers, equals or exceeds three times that individual's "base amount" (generally, the individual's average annual compensation from the Company for the five calendar years ending before the date of the change in control), then all parachute amounts in excess of the base amount are "excess" parachute payments. An individual will be subject to a 20% excise tax on excess parachute amounts and the Company will not be entitled to a tax deduction for such payments.

1997 STOCK PLAN

The Company's 1997 Stock Plan was adopted by the Board of Directors and stockholders in October 1997. The purpose of the 1997 Stock Plan is to provide officers, employees and consultants with additional incentives by increasing their ownership interests in the Company. Individual awards under the 1997 Stock Plan may take the form of one or more of: (i) either incentive stock options ("ISOs") or non-qualified stock options ("NQSOs"); (ii) stock appreciation rights; (iii) restricted or phantom stock; (iv) bonus stock awards; (v) awards not otherwise provided for, the value of which is based in whole or in part upon the value of the Common Stock and (vi) cash awards that may or may not be based on the achievement of performance goals, including goals related to one or more of the following: cash flow, return on equity, sales, profit margin, earnings per share and stock price.

The Compensation Committee or the Company's President, to the extent such duties are delegated to him by the Compensation Committee, will administer the 1997 Stock Plan and select the individuals who will receive awards and establish the terms and conditions of those awards. The Compensation Committee will not be eligible to receive awards under the plan, and the President will not have the authority to make grants to officers or directors of the Company. See "Management -- Directors and Executive Officers" for the composition of the Compensation Committee following the consummation of the Offerings. The maximum number of shares of Common Stock that may be subject to outstanding awards, determined immediately after the grant of any award, may not exceed the greater of 3,500,000 shares or 15% of the aggregate number of shares of Common Stock outstanding; provided, however, that ISOs may not be granted with respect to more than 1,000,000 shares. Shares of Common Stock which are attributable to awards which have expired, terminated or been canceled or forfeited are available for issuance or use in connection with future awards. The maximum number of shares of Common Stock with respect to which any person may receive options and stock appreciation rights in any year is 250,000 shares and the maximum value of any other amount may not exceed $4 million as of the date of its grant.

The 1997 Stock Plan will remain in effect for ten years, unless earlier terminated by the Board of Directors. The 1997 Stock Plan may be amended by the Board of Directors or the Compensation Committee without the consent of the stockholders of the Company, except that any amendment will be subject to stockholder approval if required by any federal or state law or regulation or by the rules of any stock exchange or automated quotation system on which the Common Stock may then be listed or quoted.

NQSOs to purchase 150,000 shares of Common Stock have been granted to each of Mr. Wise and Mr. Wombwell. The options granted to Messrs. Wise and Wombwell have an exercise price equal to 60% of the initial public offering price per share in the offering. Each of these options will vest at the rate of 20% per year, commencing on the first anniversary of grant and will expire at the earliest of (i) ten years from the date of grant, (ii) three months following termination of employment, other than due to death or disability or (iii) one year following a termination of employment due to death or disability.

1997 DIRECTORS STOCK PLAN

The Company's 1997 Directors Stock Plan was adopted by the Board of Directors and approved by the Company's stockholders in October 1997. The Directors Plan provides for (i) the automatic grant to each non-employee director serving at the consummation of the Offerings of an option to purchase 5,000 shares, (ii) the automatic grant to each non-employee director of an option to purchase 5,000 shares upon such person's initial election as a director and (iii) an automatic annual grant to each non-employee director of an option to purchase 5,000 shares on each September 30th on which such director remains a non-employee director. All options will have an exercise price per share equal to the fair market value of the Common Stock on the date of grant, will vest over five years at the rate of 20% per year and will expire on the earliest of (i) ten years from the date of grant, (ii) three months after termination of service as a director, other than due to death or disability or (iii) one year following a termination of employment due to death or disability. In addition, options can be granted to a non-employee director upon such terms as the Board determines, whenever it believes such additional grant is appropriate. The maximum number of shares of Common Stock that may be subject to outstanding awards determined immediately after the grant of any award is 250,000.

CERTAIN TRANSACTIONS

ORGANIZATION OF THE COMPANY

The Company was founded in June 1997 by C. Byron Snyder. In connection with the formation of IES, IES issued to Mr. Snyder, the Snyder Children's Trust and D. Merril Cummings a total of 2,329,600 shares of Common Stock for nominal consideration. The shares issued to the Snyder Children's Trust were subsequently transferred to two separate trusts, each for the benefit of one of Mr. Snyder's children. Mr. Snyder is currently a director of the Company. The trustees of the trusts are independent third parties not subject to control by Mr. Snyder. In September 1997, IES issued an additional 442,589 shares to Mr. Snyder and such trusts. The total value of the shares (based upon a value of $9.75 per share) issued to Mr. Snyder and the trusts were recognized as acquisition costs in connection with the Acquisitions. In

October 1997, Mr. Snyder and the trusts exchanged 2,655,709 shares of Common Stock for an equal number of shares of Restricted Common Stock. Mr. Snyder agreed to advance whatever funds were necessary to effect the Acquisitions and the Offerings. As of September 30, 1997, Mr. Snyder had outstanding advances to the Company in the aggregate amount of approximately $1.6 million at September 30, 1997. The initial $1 million of such advances bore interest at 8.5%, and additional advances bore interest at LIBOR plus 1.5%. All of Mr. Snyder's advances were repaid from the net proceeds of the Offering.

The Company has issued a total of 1,396,602 shares of Common Stock at $.01 per share to various members of management, including: Mr. Pollock -- 465,914 shares, Mr. Mills -- 232,957 shares, Mr. Mueller -- 232,957 shares, Mr. Wise -- 100,000 shares, Mr. Wombwell -- 100,000 shares and other key employees -- 264,774 shares. The Company also granted options to purchase 5,000 shares of Common Stock under the 1997 Directors Stock Plan, effective upon the consummation of the Offerings, to each of the non-employee directors of the Company.

Simultaneously with the closing of the Offering, the Company acquired by stock purchase all the issued and outstanding capital stock and other equity interests of the Founding Companies, at which time each Founding Company became a wholly owned subsidiary of the Company. The Acquisitions Consideration was negotiated by the parties and was based primarily upon the pro forma adjusted net income of each Founding Company. The Acquisitions Consideration consisted of (i) approximately $53.4 million in cash and (ii) 12,313,025 shares of Common Stock. In addition, the Company repaid historical indebtedness of the Founding Companies. In connection with the Acquisitions, owners of certain of the Founding Companies received distributions, as described below.

Individuals who are executive officers or directors of the Company received the following portions of the Acquisitions Consideration for their interests in the Founding Companies.

COMPANY	CASH	SHARES OF COMMON STOCK
Houston-Stafford		
Ben Mueller.......	$ 4,648,161	1,072,652
Mills		
Jerry Mills	9,306,722	2,147,705
Bexar-Calhoun		
Bob Weik(a)	6,174,713	1,424,935
Pollock		
Jon Pollock	985,493	319,729
Muth		
Richard Muth(b) ..	1,939,750	447,635
Ace		
Robert Stalvey ...	413,956	95,528
Total	$ 23,468,795	5,508,184

(a) Excludes cash of $322,989 and 74,536 shares of Common Stock received by two related trusts in which Mr. Weik may be deemed to have an interest, as to which Mr. Weik disclaims beneficial ownership.

(b) Excludes cash of $111,320 and 25,689 shares of Common Stock received by Mr. Muth's wife, Darlene Muth, as to which he disclaims beneficial ownership.

The foregoing table does not include distributions to owners (based on September 30, 1997 balances), as follows: $2.4 million received by Mr. Mueller, $9.4 million received by Mr. Mills, $2.0 million received by Mr. Weik, $383,000 received by Mr. Pollock, $1.8 million received by Mr. Muth and $204,000 received by Mr. Stalvey.

TRANSACTIONS INVOLVING CERTAIN OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

During fiscal 1994, 1995 and 1996, Houston-Stafford made payments totaling $174,000, $124,000 and $187,000, respectively, to the Brown-Mueller Joint Venture, a general partnership of which Mr. Mueller is a member, for lease payments on certain real properties used as electrical shops. For the year ended September 30, 1997, such lease payments totaled $109,000. Mr. Mueller is Senior Vice President, Chief Operating Officer -- Residential and a director of the Company.

At December 31, 1996, Houston-Stafford owed Mr. Mueller $185,985 on a promissory note, payable in monthly installments and maturing April 2001. Such note was prepaid by Houston-Stafford in October 1997.

At December 31, 1996, Houston-Stafford owed Mr. Mueller $766,400 related to a promissory note maturing August 2003 and secured by Mr. Mueller's stock in Houston-Stafford, and such obligation and any related obligations shall be terminated at the consummation of the Offerings. Mr. Mueller will receive approximately $4.6 million and 1.1 million shares of Common Stock in connection with the Acquisitions in exchange for such promissory note as well as 0.2 million shares for his new role as a member of IES management. Houston-Stafford will recognize a non-cash, non-recurring compensation charge of approximately $17.0 million related to the transfer of such cash and shares of Common Stock to Mr. Mueller at the time of the Acquisitions.

Pursuant to a 5-year lease agreement effective November 1, 1997, Houston-Stafford agreed to lease certain facilities owned by Mr. Mueller in Spring, Texas. Such lease agreement provides for an annual rent of $20,000, which the Company believes is not in excess of fair rental value for such facilities.

During fiscal 1994, Mills derived contract revenues of $187,000 from CIMA Services, Inc. ("CIMA"), an electrical services company of which Mr. Mills was a part owner until October 1997. Additionally, during fiscal 1994, Mills paid $2,900,000 to CIMA for material purchases. At December 31, 1994, Mills had outstanding accounts receivable from CIMA of $145,000 and accounts payable to CIMA of $294,000. Mr. Mills is Senior Vice President and Chief Operating Officer -- Commercial and Industrial and a director of the Company.

During fiscal 1995, Mills derived contract revenues of $1.1 million from CIMA. Additionally, during fiscal 1995, Mills paid $812,000 to CIMA for material purchases. At December 31, 1995, Mills had outstanding accounts receivable from CIMA of $2,000 and accounts payable to CIMA of $23,000.

During fiscal 1996, Mills derived contract revenues of $1.3 million from CIMA. Additionally, during fiscal 1996, Mills paid $1.1 million to CIMA for material purchases. At December 31, 1996, Mills had outstanding accounts receivable from CIMA of $208,000 and accounts payable to CIMA of $633,000.

From January 1, 1997 to September 1, 1997, Mills derived contract revenues of $776,000 from CIMA. Additionally, during this period of time, Mills paid $1.1 million to CIMA for material purchases. At August 31, 1997, Mills had outstanding accounts receivable from CIMA of $314,000 and accounts payable to CIMA of $119,000.

Mills leases certain real property from Mr. Mills. Amounts paid pursuant to this lease were $26,000 for 1995, $156,000 for 1996 and $117,000 for the nine months ended September 30, 1997.

During 1995, Mr. Weik incurred indebtedness from Bexar-Calhoun of which the largest aggregate amount outstanding at any time was $647,000. All of such indebtedness was repaid as of April 18, 1997. Mr. Weik is a director of the Company.

During 1997, Mr. Weik incurred indebtedness from Bexar-Calhoun of which the largest aggregate amount outstanding at any time was $533,525. All of such indebtedness was repaid as of August 6, 1997.

Prior to the closing of the Acquisitions and the consummation of the Offerings, Bexar-Calhoun will distribute all interest it owns, directly or indirectly, in real property to Mr. Weik and his immediate family. It is anticipated that such real estate will be leased to the Company for an annual rent of approximately $150,000. The Company believes that such rent is not in excess of fair rental value for such facilities.

Pollock leases certain real property from Mr. Pollock. Amounts paid pursuant to this lease were $20,000 for fiscal 1995, $36,000 for fiscal 1996 and $36,000 for fiscal 1997.

Since January 1, 1996, Mr. Muth has from time to time incurred indebtedness from Muth, of which the largest aggregate amount outstanding at any time was $205,000. All amounts owed by Mr. Muth to Muth will be repaid prior to the closing of the Offerings. Mr. Muth is a director of the Company.

Prior to the closing of the Acquisitions and the consummation of the Offerings, certain assets of Muth will be purchased by Mr. Muth for $217,140.

From time to time in the past Muth has completed electrical contracts for Muth Properties, L.L.C., a limited liability company of which Mr. Muth is a member. Total electrical contracts completed by Muth for Muth Properties, L.L.C. were $82,731 for 1995, $82,032 for 1996 and $120,915 for the six months ended June 30, 1997. Prior to the closing of the Acquisitions and the consummation of the Offerings, a final payment of $162,900 will be made by Muth Properties, L.L.C. to Muth.

Prior to July 1, 1997, Muth leased certain real property from Mr. Muth, d/b/a D & D Properties. Lease payments made by Muth to Mr. Muth totaled $80,725 for 1994, $95,180 for 1995, $118,088 for 1996 and $56,906 for the six months ended June 30, 1997. Effective July 1, 1997, Muth Properties, L.L.C. became the lessor of these properties. It is anticipated that annual rentals paid to Muth Properties, L.L.C. by Muth will be approximately $120,000.

Stalvey Rentals, a general partnership of which Mr. Stalvey is a member, is presently constructing a new facility to lease to Ace in Valdosta, Georgia and an inducement letter has been executed regarding Ace's commitment to lease the new facility for a period of 20 years beginning as soon as a certificate of occupancy is obtained. Ace entered into a five year lease, with a five year option period, with Mr. Stalvey and his brother. Initial annual rent on this facility is $103,200, without respect to property taxes and insurance. Mr. Stalvey is a director of the Company.

In addition to the transactions described above, certain of the Founding Companies have entered into lease agreements with parties related to the Company, for rents that the Company believes are not in excess of fair rental value.

PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to beneficial ownership of the Company's Common Stock, as of June 30, 1998, by (i) all persons known to the Company to be the beneficial owner of 5% or more thereof, (ii) each director and nominee for director, (iii) each executive officer and (iv) all officers and directors as a group. Unless otherwise indicated, the address of each such person is c/o Integrated Electrical Services, Inc., 515 Post Oak Blvd., Suite 450, Houston, Texas 77027. All persons listed have sole voting and investment power with respect to their shares unless otherwise indicated.

	BENEFICIAL OWNERSHIP AFTER OFFERINGS	
	SHARES	PERCENT
C. Byron Snyder(a)	2,655,709	8.6%
Jon Pollock(b)	785,743	2.5%
Jerry Mills	2,472,662	7.7%
Ben L. Mueller	1,310,359(c)	4.3%
Jim P. Wise	100,000	*
John F. Wombwell	100,000	*
Donald Paul Hodel(e)	--	*
Richard Muth(d)	473,324	1.5%
Alan R. Sielbeck(e)	--	*
Robert Stalvey	95,528	*
Richard L. Tucker(e)	--	*
Bob Weik(f)	1,499,469	4.9%
Roy D. Brown(e)	1,608,979	5.2%
All executive officers and directors as a group (15 persons)(g)	9,660,718	31.3%

---

* Less than one percent.

(a) Includes 1,118,193 shares held by trusts for the benefit of Mr. Snyder's children, as to which Mr. Snyder disclaims beneficial ownership. Consists entirely of Restricted Common Stock, which represents all of the Restricted Common Stock outstanding. The holders of Restricted Common Stock, voting together as a single class, are entitled to elect one member of the Company's Board of Directors and to one-half of one vote for each share held on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors. Such shares may be converted to Common Stock in certain circumstances. See "Description of Capital Stock."

(b) Includes 465,914 shares of Common Stock held by the Pollock Family Partnership, Ltd.

(c) Includes 4,750 shares held by a trust for the benefit of Mr. Mueller's daughter.

(d) Includes 25,689 shares of Common Stock owned by Mr. Muth's wife, as to which Mr. Muth disclaims beneficial ownership.

(e) Mr. Hodel's address is Christian Coalition, 1801-L Sara Drive, Chesapeake, VA 23320-2647. Mr. Sielbeck's address is Service Experts, Inc., 111 Westwood Place, Suite 420, Brentwood, TN 37027. Mr. Tucker's address is The University of Texas at Austin, 3208 Red River Street, Suite 300, Austin, TX 78705-2697. Mr. Brown's address is Houston-Stafford Electric, Inc., 10203 Mula Circle, Stafford, Texas 77477.

(f) Includes 74,536 shares of Common Stock owned by two related trusts, as to which Mr. Weik disclaims beneficial ownership.

(g) Includes 2,655,709 shares of Restricted Common Stock described in Note (a) above.

DESCRIPTION OF CAPITAL STOCK

GENERAL

The Company's authorized capital stock consists of 100,000,000 shares of Common Stock, par value $0.01 per share, 2,655,709 shares of Restricted Common Stock, par value $0.01 per share, and 10,000,000 shares of preferred stock, par value $0.01 per share. As of September 11, 1998, 30,756,875 shares of Common Stock and Restricted Common Stock are issued and outstanding. The following summary of the terms and provisions of the Company's capital stock does not purport to be complete and is qualified in its entirety by reference to the Company's Amended and Restated Certificate of Incorporation and Bylaws, which have been filed as exhibits to the Company's registration statement, of which this Prospectus is a part, and applicable law.

COMMON STOCK AND RESTRICTED COMMON STOCK

The holders of Common Stock are entitled to one vote for each share on all matters voted upon by stockholders, including the election of directors. Such holders are not entitled to vote cumulatively for the election of directors. Holders of a majority of the shares of Common Stock entitled to vote in any election of directors may elect all of directors standing for election.

The holders of Restricted Common Stock, voting together as a single class, are entitled to elect one member of the Company's Board of Directors and to one-half of one vote for each share held on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors. Only the holder of the Restricted Common Stock may remove the director such holder is entitled to elect.

Subject to the rights of any then outstanding shares of preferred stock, holders of Common Stock and Restricted Common Stock are together entitled to participate pro rata in such dividends as may be declared in the discretion of the Board of Directors out of funds legally available therefor. Holders of Common Stock and Restricted Common Stock together are entitled to share ratably in the net assets of the Company upon liquidation after payment or provision for all liabilities and any preferential liquidation rights of any preferred stock then outstanding. Holders of Common Stock and holders of Restricted Common Stock have no preemptive rights to purchase shares of stock of the Company. Shares of Common Stock are not subject to any redemption provisions and are not convertible into any other securities of the Company. Shares of Restricted Common Stock are not subject to any redemption provisions and are convertible into Common Stock as described below. All outstanding shares of Common Stock and Restricted Common Stock are, and the shares of Common Stock to be issued pursuant to the Offering and the Acquisitions will be, upon payment therefor, fully paid and non-assessable.

Each share of Restricted Common Stock will automatically convert to Common Stock on a share-for-share basis in the event of a disposition of such share of Restricted Common Stock by the holder thereof (other than a distribution by a holder to its partners or beneficial owners, or a transfer to a related party of such holders (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)).

The Common Stock is listed on the NYSE under the symbol "IEE." The Restricted Common Stock is not listed on any exchange.

PREFERRED STOCK

The preferred stock may be issued from time to time by the Board of Directors as shares of one or more classes or series. Subject to the provisions of the Company's Amended and Restated Certificate of Incorporation and limitations prescribed by law, the Board of Directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares and to change the number of shares constituting any series, and to provide for or change the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights and liquidation preferences of the shares constituting any class or series of the preferred stock, in each case without any further action or vote by the stockholders. The Company has no current plans to issue any shares of preferred stock of any class or series.

One of the effects of undesignated preferred stock may be to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of the Company's management. The issuance of shares of preferred stock pursuant to the Board of Directors' authority described above may adversely affect the rights of the holders of Common Stock. For example, preferred stock issued by the Company may rank prior to the Common Stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of Common Stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the Common Stock at a premium or may otherwise adversely affect the market price of the Common Stock.

STATUTORY BUSINESS COMBINATION PROVISION

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law ("Section 203"). Section 203 provides, with certain exceptions, that a Delaware corporation may not engage in any of a broad range of business combinations with a person or an affiliate, or associate of such person, who is an "interested stockholder" for a period of three years from the date that such person became an interested stockholder unless: (i) the transaction resulting in a person becoming an interested stockholder, or the business combination, is approved by the Board of Directors of the corporation before the person becomes an interested stockholder, (ii) the interested stockholder acquired 85% or more of the outstanding voting stock of the corporation in the same transaction that makes such person an interested stockholder (excluding shares owned by persons who are both officers and directors of the corporation, and shares held by certain employee stock ownership plans) or (iii) on or after the date the person becomes an interested stockholder, the business combination is approved by the corporation's board of directors and by the holders of at least 66% of the corporation's outstanding voting stock at an annual or special meeting, excluding shares owned by the interested stockholder. Under Section 203, an "interested stockholder" is defined as any person who is (i) the owner of 15% or more of the outstanding voting stock of the corporation or (ii) an affiliate or associate of the corporation and who was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder.

A corporation may, at its option, exclude itself from the coverage of Section 203 by including in its certificate of incorporation or bylaws by action of its stockholders to exempt itself from coverage. The Company has not adopted such an amendment to its Amended and Restated Certificate of Incorporation or Bylaws.

LIMITATION ON DIRECTORS' LIABILITIES

Pursuant to the Company's Amended and Restated Certificate of Incorporation and under Delaware law, directors of the Company are not liable to the Company or its stockholders for monetary damages for breach of fiduciary duty, except for liability in connection with a breach of the duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Delaware law or any transaction in which a director has derived an improper personal benefit. The Company has entered into indemnification agreements with its directors and executive officers which indemnify such person to the fullest extent permitted by its Amended and Restated Certificate of Incorporation, its Bylaws and the Delaware General Corporation Law. The Company also intends to obtain directors' and officers' liability insurance. The foregoing provisions may extend to liabilities arising due to violations of the federal securities laws. It is the position of the Securities and Exchange Commission (the "Commission") that indemnification for liabilities under the Securities Act is against public policy and is, therefore, unenforceable.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION AND BYLAW PROVISIONS

The Company's Amended and Restated Certificate of Incorporation and Bylaws include provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or an unsolicited acquisition proposal that a stockholder might consider favorable, including a proposal that might result in the payment of a premium over the market price for the shares held by stockholders. These provisions are summarized in the following paragraphs.

Classified Board of Directors. The Amended and Restated Certificate of Incorporation provides for the Board of Directors to be divided into three classes of directors serving staggered three-year terms. The classification of the Board of Directors has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of members of the Board of Directors.

Supermajority Voting. The Amended and Restated Certificate of Incorporation requires the approval of the holders of at least 75% of the then outstanding shares of the Company's capital stock entitled to vote thereon and the approval of the holders of at least 75% of the then outstanding shares of each class of stock of the Company voting separately as a class on, among other things, certain amendments to the Amended and Restated Certificate of Incorporation. The Board of Directors may amend, alter, change or repeal any bylaws without the assent or vote of the stockholders, but any such bylaws may be altered, amended or repealed upon the affirmative vote of at least 66 2/3% of the stock entitled to vote thereon.

Authorized but Unissued or Undesignated Capital Stock. The Company's authorized capital stock will consist of 100,000,000 shares of Common Stock, 2,655,709 shares of Restricted Common Stock, and 10,000,000 shares of preferred stock. Any authorized but unissued (and in the case of preferred stock, undesignated) stock may be issued by the Board of Directors in one or more transactions. In this regard, the Company's Amended and Restated Certificate of Incorporation grants the Board of Directors broad power to establish the rights and preferences of authorized and unissued preferred stock. The issuance of shares of preferred stock pursuant to the Board of Directors' authority described above could decrease the amount of earnings and assets available for distribution to holders of Common Stock and adversely affect the rights and powers, including voting rights, of such holders and may also have the effect of delaying, deferring or preventing a change in control of the Company. The Board of Directors does not currently intend to seek stockholder approval prior to any issuance of preferred stock, unless otherwise required by law.

Special Meeting of Stockholders. The Bylaws provide that special meetings of stockholders of the Company may only be called by the Chairman of the Board of Directors upon the written request of the Board of Directors pursuant to a resolution approved by a majority of the Board of Directors.

Stockholder Action by Written Consent. The Amended and Restated Certificate of Incorporation and Bylaws generally provide that any action required or permitted by the stockholders of the Company must be effected at a duly called annual or special meeting of the stockholders and may not be effected by any written consent of the stockholders.

Notice Procedures. The Bylaws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as director, the removal of directors and amendments to the Amended and Restated Certificate of Incorporation or Bylaws to be brought before annual meetings of stockholders of the Company. These procedures provide that notice of such stockholder proposals must be timely given in writing to the Secretary of the Company prior to the annual meeting. Generally, to be timely, notice must be received at the principal executive offices of the Company not less than 80 days prior to an annual meeting (or if fewer than 90 days' notice or prior public disclosure of the date of the annual meeting is given or made by the Company, not later than the tenth day following the date on which the notice of the date of the annual meeting was mailed or such public disclosure was made). The notice must contain certain information specified in the Bylaws, including a brief description of the business desired to be brought before the annual meeting and certain information concerning the stockholder submitting the proposal.

Charter Provisions Relating to Rights Plan. The Amended and Restated Certificate of Incorporation authorizes the Board of Directors of the Company to create and issue rights (the "Rights") entitling the holders thereof to purchase from the Company shares of capital stock or other securities. The times at which, and the terms upon which, the Rights are to be issued may be determined by the Board of Directors and set forth in the contracts or instruments that evidence the Rights. The authority of the Board of Directors with respect to the Rights includes, but is not limited to, the determination of (i) the initial purchase price per share of the capital stock or other securities of the Company to be purchased upon exercise of the Rights, (ii) provisions relating to the times at which and the circumstances under which the Rights may be exercised or sold or otherwise transferred, either together with or separately from, any other securities of the Company, (iii) antidilutive provisions which adjust the number or exercise price of the Rights or amount or nature of the securities or other property receivable upon exercise of the Rights, (iv) provisions which deny the holder of a specified percentage of the outstanding securities of the Company the right to exercise the Rights and/or cause the Rights held by such holder to become void, (v) provisions which permit the Company to redeem the Rights and (vi) the appointment of a rights agent with respect to the Rights. If authorized by the Board of Directors, the Rights would be intended to protect the Company's stockholders from certain non-negotiated takeover attempts which present the risk of a change of control on terms which may be less favorable to the Company's stockholder than would be available in a transaction negotiated with and approved by the Board of Directors. The Board of Directors believes that the interests of the stockholders generally are best served if any acquisition of the Company or a substantial percentage of the Company's Common Stock results from arm's-length negotiations and reflects the Board of Directors' careful consideration of the proposed terms of a transaction. In particular, the Rights if issued would be intended to help (i) reduce the risk of coercive two-tiered, front-end loaded or partial offers which may not offer fair value to all stockholders of the Company, (ii) deter market accumulators who through open market or private purchases may achieve a position of substantial influence or control without paying to stockholders a fair control premium and (iii) deter market accumulators who are simply interested in putting the Company "in play."

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is Harris Trust and Savings Bank.

SHARES ELIGIBLE FOR FUTURE SALE

The market price of the Common Stock could be adversely affected by the sale of substantial amounts of Common Stock in the public market. As of September 11, 1998, 28,101,166 shares of Common Stock and 2,655,709 shares of Restricted Common Stock were issued and outstanding. Of such shares, 13,923,675 shares of Common Stock and all of the shares of Restricted Common Stock were issued in a transaction not registered under the Securities Act, and, accordingly, such shares may not be sold except in transactions registered under the Securities Act or pursuant to an exemption from registration, including the exemptions contained in Rules 144 and 701 under the Securities Act.

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned his or her shares for at least one year but not more than two years, or a person who may be deemed an "affiliate" of the Company who has beneficially owned shares for at least one year, would be entitled to sell within any three month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Common Stock or the average weekly trading volume of the Common Stock during the four calendar weeks preceding the date on which notice of the proposed sale is sent to the Commission. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. A person who is not deemed to have been an affiliate of the Company at any time for 90 days preceding a sale and who has beneficially owned his shares for at least two years would be entitled to sell such shares under Rule 144 without regard to the volume limitations, manner of sale provisions, notice requirements or the availability of current public information about the Company.

In general, under Rule 701 under the Securities Act, any employee, officer, or director of or consultant to the Company who purchased his or her shares pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701. Such provisions permit nonaffiliates to sell their Rule 701 shares without having to comply with the public information, holding period, volume limitation, or notice provisions of Rule 144 and permit affiliates to sell their Rule 701 shares without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the commencement of the Offerings.

Prior to the Offering, there was no established trading market for the Common Stock, and no predictions can be made as to the effect that sales of Common Stock under Rule 144, pursuant to a registration statement, or otherwise, or the availability of shares of Common Stock for sale, will have on the market price prevailing from time to time. Sales of substantial amounts of Common Stock in the public market, or the perception that such sales could occur, could depress the prevailing market price. Such sales may also make it more difficult for the Company to issue or sell equity securities or equity-related securities in the future at a time and price that it deems appropriate. See "Risk Factors -- Shares Eligible for Future Sale."

Former stockholders of the Founding Companies, certain executive officers and directors are entitled to certain rights with respect to the registration of their shares of Common Stock under the Securities Act. In the aggregate, these groups hold 16,365,336 shares of Common Stock and Restricted Common Stock. If the Company proposes to register any of its securities under the Securities Act, such stockholders are entitled to notice of such registration and are entitled to include, at the Company's expense, all or a portion of their shares therein, subject to certain conditions. These registration rights do not apply to the registration statement containing this Prospectus or to any registration statement filed with respect to employee benefit plans.

PLAN OF DISTRIBUTION

This Prospectus may be used by the Company for the offer and sale of up to 21,000,000 shares of Common Stock from time to time in connection with the acquisition of other businesses, assets or securities in business combination transactions. The consideration offered by the Company in such acquisitions, in addition to any shares of Common Stock offered by this Prospectus, may include assets, debt or other securities or assumption by the Company of liabilities of the business being acquired, or a combination thereof. The terms of acquisitions are typically determined by negotiations between the Company and the owners of the businesses, assets or securities to be acquired, with the Company taking into account the quality of management, the past and potential earning power and growth of the businesses, assets or securities to be acquired, and other relevant factors. Shares of Common Stock issued to the owners of the businesses, assets or securities to be acquired are generally valued at a price reasonably related to the market value of the shares of Common Stock either at the time the terms of the acquisition are tentatively agreed upon or at or about the time or times of added delivery of the shares of Common Stock.

LEGAL MATTERS

Certain legal matters in connection with the Common Stock being offered hereby will be passed upon for the Company by John F. Wombwell, Esq., Senior Vice President, General Counsel and Secretary of the Company. Mr. Wombwell owns 100,000 shares of Common Stock and options to purchase 150,000 shares of Common Stock, subject to vesting.

ADDITIONAL INFORMATION

The Company has filed with the Commission a Registration Statement on Form S-1 (together with all amendments, schedules and exhibits thereto the "Registration Statement") under the Securities Act with respect to the Common Stock offered hereby. This Prospectus, which is included as part of the Registration Statement, does not contain all the information contained in the Registration Statement, certain portions of which have been omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules thereto. Statements made in the Prospectus as to the contents of any contract, agreement or other document are not necessarily complete; with respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference. The Registration Statement and the exhibits thereto may be inspected, without charge, at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at Citicorp Center, 500 West Madison Street, Room 1400, Chicago, IL 60661, and 7 World Trade Center, Suite 1300, New York, NY 10048 or on the Internet at http://www.sec.gov. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

The Company intends to furnish its stockholders with annual reports containing audited financial statements and such other reports as may be required from time to time by law or the New York Stock Exchange.

INDEX TO FINANCIAL STATEMENTS

INTEGRATED ELECTRICAL SERVICES, INC.

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
BASIS OF PRESENTATION

The following unaudited pro forma combined financial statements give effect to (i) the acquisitions by Integrated Electrical Services, Inc. (IES), of 16 companies and related entities engaged in all facets of electrical contracting and maintenance services on January 30, 1998 (together, the Founding Companies), and related transactions, (ii) IES's January 30, 1998, initial public offerings in the United States and Canada and outside the United States and Canada (including the underwriters exercise of the overallotment option for 1,050,000 shares) (the "Offering"), and (iii) the acquisitions of 19 additional electrical contracting and maintenance businesses from April 1998 through September 11, 1998 (the "Post IPO Acquisitions"). Of these Post IPO Acquisitions, 18 were accounted for using the purchase method of accounting and one was accounted for using the pooling-of-interests method of accounting. The Founding Company Acquisitions and the Post IPO Acquisitions are collectively referred to as the "Companies". The Founding Company Acquisitions occurred simultaneously with the closing of the Offering and were accounted for using the purchase method of accounting. Pursuant to the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 97 (SAB97), Houston-Stafford Electric, Inc. ("HSE") is for accounting purposes considered the entity which acquired the other Founding Companies and IES (the "Accounting Acquirer"). As such, IES's consolidated historical financial statements represent the financial position and results of operations of (i) HSE as restated to include the financial position and results of operations of the Pooled Company, and (ii) the other Founding Companies and the Post IPO Acquisitions beginning on their respective dates of acquisition.

The unaudited pro forma combined balance sheet gives effect to the 8 Post IPO Acquisitions which were acquired subsequent to June 30, 1998, and related transactions as if they had occurred on June 30, 1998. The unaudited pro forma combined statements of operations give effect to these transactions as if they had occurred on October 1, 1996.

IES has preliminarily analyzed the savings that it expects to be realized from reductions in salaries, bonuses and certain benefits to the owners. To the extent the owners of the Companies have contractually agreed to prospective changes in salary, bonuses, benefits and lease payments, these changes have been reflected in the unaudited pro forma combined statement of operations.

The pro forma adjustments are based on preliminary estimates, available information and certain assumptions that Company management deems appropriate and may be revised as additional information becomes available. The pro forma financial data do not purport to represent what IES's combined financial position or results of operations would actually have been if such transactions in fact had occurred on those dates and are not necessarily representative of IES's combined financial position or results of operations for any future period. Since the Companies were not under common control or management, historical combined results may not be comparable to, or indicative of, future performance. The unaudited pro forma combined financial statements should be read in conjunction with the historical financial statements and notes thereto included elsewhere in this Prospectus. See also "Risk Factors" included elsewhere herein.

INTEGRATED ELECTRICAL SERVICES, INC.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET
JUNE 30, 1998
(AMOUNTS IN THOUSANDS)

	IES and Subsidiaries	Davis Electrical Constructors, Inc.	Other Insignificant Acquisitions	Pro Forma Adjustments	Pro Forma
ASSETS					
CURRENT ASSETS:					
Cash	$ 13,337	$ 3,652	$ 8,744	$ (5,469)	$ 20,264
Receivables	110,541	10,240	20,489	(894)	140,376
Allowance for doubtful accounts	(3,083)	--	(122)	(922)	(4,127)
Receivables, net	107,458	10,240	20,367	(1,816)	136,249
Inventories	5,917	--	688	(34)	6,571
Cost and estimated earnings in excess of billings on uncompleted contracts	7,671	2,459	2,788	--	12,918
Prepaid Expenses	2,168	54	583	--	2,805
Total current assets	136,551	16,405	33,170	(7,319)	178,807
GOODWILL, NET	208,699	--	--	78,158	286,857
PROPERTY AND EQUIPMENT, NET	16,769	1,171	6,365	(607)	23,698
OTHER NONCURRENT ASSETS	1,478	3,612	1,091	(2,999)	3,182
Total Assets	$ 363,497	$ 21,188	$ 40,626	$ 67,233	$ 492,544
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Current maturities of debt	$ 516	$ --	$ 643	$ --	$ 1,159
Accounts payable and accrued expense	49,859	4,366	6,478	959	61,662
Billings in excess of costs and estimated earnings on uncompleted contracts	24,207	360	3,402	1,118	29,087
Income taxes payable	2,759	--	1,315	--	4,074
Other current liabilities	1,706	--	211	--	1,917
Total current liabilities	79,047	4,726	12,049	2,077	97,899
LONG-TERM BANK DEBT	20,000	--	710	68,785	89,495
OTHER LONG-TERM DEBT, NET	8,628	--	421	--	9,049
OTHER NON-CURRENT LIABILITIES	440	2,907	163	(2,907)	603
Total liabilities	108,115	7,633	13,343	67,955	197,046
STOCKHOLDERS' EQUITY:					
Common stock	253	62	467	(501)	281
Restricted common stock	27	--	--	--	27
Additional paid in capital	252,445	130	2,743	37,215	292,533
Treasury stock	--	--	(3,249)	3,249	--
Retained earnings	2,657	13,363	27,322	(40,685)	2,657
Total stockholders' equity	255,382	13,555	27,283	(722)	295,498
Total liabilities and stockholders' equity	$ 363,497	$ 21,188	$ 40,626	$ 67,233	$ 492,544

INTEGRATED ELECTRICAL SERVICES, INC.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED JUNE 30, 1998
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	IES and Subsidiaries	Other Founding Companies	Mark Henderson, Inc.	Davis Electrical Constructors, Inc.	Other Insignificant Acquisitions	Pro Forma Adjustments	Pro Forma Total
REVENUES	$ 219,620	$ 83,456	$ 47,985	$ 64,756	$ 137,538	$ --	$ 553,355
COST OF SERVICES	173,420	64,709	42,669	56,653	105,024	--	442,475
GROSS PROFIT	46,200	18,747	5,316	8,103	32,514	--	110,880
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	29,467	11,267	2,216	5,254	23,907	(15,255)	56,856
NON-CASH, NON-RECURRING COMPENSATION CHARGE	17,036	--	--	--	--	(17,036)	--
GOODWILL AMORTIZATION	1,743	--	--	--	--	3,706	5,449
OPERATING INCOME (LOSS)	(2,046)	7,480	3,100	2,849	8,607	28,585	48,575
OTHER INCOME (EXPENSE):							
Interest expense	(269)	(408)	(36)	--	(219)	(3,131)	(4,063)
Interest income	288	181	35	102	220	(730)	96
Gain (loss) on sale of assets	195	57	(5)	--	3	(94)	156
Other	134	(17)	20	--	213	(234)	116
	348	(187)	14	102	217	(4,189)	(3,695)
INCOME BEFORE INCOME TAXES	(1,698)	7,293	3,114	2,951	8,824	24,396	44,880
INCOME TAX PROVISION	6,443	5,409	--	--	--	7,022	18,874
NET INCOME (LOSS)	$ (8,141)	$ 1,884	$ 3,114	$ 2,951	$ 8,824	$ 17,374	$ 26,006
EARNINGS PER SHARE:							
Basic							$ .85
Diluted							$ .84
Shares used in computing pro forma earnings per share(1):							
Basic							30,756,875
Diluted							31,114,124

- ----------

(1) Includes (a) 2,655,709 shares issued to the IES founder and chairman of the board, (b) 1,396,602 shares issued to management of IES, (c) 12,313,025 shares issued to owners of the Founding Companies, (d) the 8,050,000 shares sold in the Offering (including the underwriters exercise of the overallotment option of 1,050,000 shares), and (e) 6,341,539 shares issued to the owners of the Post IPO Acquisitions. Additionally, includes 357,249 shares computed under the treasury stock method related to 3,110,550 options which are currently outstanding.

INTEGRATED ELECTRICAL SERVICES, INC.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1997
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	IES and Subsidiaries	Other Founding Companies	Mark Henderson, Inc.	Davis Electrical Constructors, Inc.	Other Insignificant Acquisitions	Pro Forma Adjustments	Pro Forma Total
REVENUES	$ 117,111	$ 233,126	$ 55,541	$ 100,020	$ 199,236	$ --	$ 705,034
COST OF REVENUES	95,937	183,584	46,938	82,101	153,611	--	562,171
GROSS PROFIT	21,174	49,542	8,603	17,919	45,625	--	142,863
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	14,261	30,766	3,267	14,196	30,296	(19,885)	72,901
GOODWILL AMORTIZATION	--	--	--	--	--	7,154	7,154
OPERATING INCOME (LOSS)	6,913	18,776	5,336	3,723	15,329	12,731	62,808
OTHER INCOME (EXPENSE):							
Interest expense	(214)	(639)	(52)	(2)	(331)	(4,369)	(5,607)
Interest income	89	--	165	290	285	(740)	89
Gain (loss) on sale of assets	--	--	13	--	48	(61)	--
Other	510	589	(423)	--	374	(434)	616
	385	(50)	(297)	288	376	(5,604)	(4,902)
INCOME BEFORE INCOME TAXES	7,298	18,726	5,039	4,011	15,705	7,127	57,906
INCOME TAX PROVISION	2,923	1,436	853	--	1,890	17,299	24,401
NET INCOME (LOSS)	$ 4,375	$ 17,290	$ 4,186	$ 4,011	$ 13,815	$ (10,172)	$ 33,505
EARNINGS PER SHARE:							
Basic							$ 1.09
Diluted							$ 1.09
Shares used in computing pro forma earnings per share (1):							
Basic							30,756,875
Diluted							30,756,875

- ----------

(1) Includes (a) 2,655,709 shares issued to the IES founder and chairman of the board, (b) 1,396,602 shares issued to management of IES, (c) 12,313,025 shares issued to owners of the Founding Companies, (d) the 8,050,000 shares sold in the Offering (including the underwriters exercise of the overallotment option of 1,050,000 shares), and (e) 6,341,539 shares issued to the owners of the Post IPO Acquisitions.

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

1. GENERAL:

Integrated Electrical Services, Inc. (IES), was founded to create a leading national provider of electrical contracting and maintenance services to the commercial, industrial and residential markets. See BASIS OF PRESENTATION for a description of the Company's offering and acquisitions of the Companies and related accounting treatment.

The historical financial statements of the other Founding Companies (excluding HSE) included in the accompanying pro forma financial statements reflect the results of operations of the Founding Companies for periods prior to January 30, 1998, and were derived from the respective Founding Companies' financial statements. The periods included in these financial statements for the individual Founding Companies are for the year ended September 30, 1997, and the period from October 1, 1997 to January 30, 1998. The audited historical financial statements for the Founding Companies included elsewhere herein have been included in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 80.

The historical financial statements of the Post IPO Acquisitions reflect the financial position of the eight Post IPO Acquisitions which were acquired subsequent to June 30, 1998, and the results of operations of the Post IPO acquisitions accounted for using the purchase method of accounting for the year ended September 30, 1997, and the current fiscal year from their respective dates of acquisition.

2. ACQUISITION OF COMPANIES:

On January 30, 1998, the Company completed its initial public offering of its stock, which involved the sale to the public of 7,000,000 shares of the Company's common stock at $13.00 per share. The Company received net proceeds from the Offering of approximately $78.8 million. Concurrent with the completion of the Offering, IES acquired the Founding Companies for consideration consisting of $53.4 million ($38.8 million excluding the cash paid to the Accounting Acquirer) in cash and 12,313,025 shares (8,961,000 shares excluding the shares issued to the owners of the Accounting Acquirer) of common stock. Additionally, on February 5, 1998, the Company sold 1,050,000 shares of its common stock pursuant to the overallotment option granted to the underwriters in connection with the Offering for net proceeds of approximately $12.7 million. The Company used approximately $7.6 million of the net proceeds from the Offering to retire outstanding third party debt and approximately $16.0 million to pay indebtedness incurred by the Founding Companies for distributions to the owners prior to the Acquisitions. The Company used the remaining net proceeds to fund a portion of the cash consideration for the Post IPO Acquisitions.

Subsequent to its IPO, and through June 30, 1998, the Company has acquired 11 additional electrical contracting and maintenance businesses for approximately $30.9 million of cash and 3.5 million shares of common stock. Of these 11 Post IPO Acquisitions, 10 were accounted for using the purchase method of accounting and one was accounted for using the pooling-of-interests method of accounting. Accordingly, the Company's historical financial statements have been restated to include the historical financial statements of the Pooled Company.

Subsequent to June 30, 1998, and through September 11, 1998, the Company has acquired eight additional electrical contracting and maintenance businesses for approximately $63.6 million of cash (funded through borrowings under the Company's $175 million bank credit facility) and 2.8 million shares of common stock. All of those acquisitions were accounted for using the purchase method of accounting.

In connection with the acquisitions of the Founding Companies and the Post IPO Acquisitions, the Company has recorded approximately $288 million of excess total consideration paid over the net tangible assets acquired has been recorded as goodwill in the accompanying consolidated financial statements. The accompanying balance sheets include allocations of the respective purchase prices initially assigned to the assets acquired and liabilities assumed based on preliminary estimates of fair value and may be revised as additional information concerning the valuation of such assets and liabilities becomes available.

3. UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS:

(a) Records the transfer in connection with the Acquisitions of $4.2 million of previously undistributed earnings and nonoperating assets, net of liabilities to the owners of the eight Post IPO Acquisitions which closed subsequent to June 30, 1998.

(b) Records the purchase of the eight Post IPO Acquisitions closed subsequent to June 30, 1998 by IES consisting of cash of $63.6 million and approximately 2,823,000 shares of Common Stock valued $42.9 for a total purchase price of $106.5 million resulting in excess purchase price of $78.1 million over the net assets acquired of $28.4 million.

The following tables summarize unaudited pro forma combined balance sheet adjustments (in thousands):

	ADJUSTMENTS (a)	ADJUSTMENTS (b)	PRO FORMA ADJUSTMENTS
ASSETS			
Current assets --			
Cash and cash equivalents	$ (5,469)	$ --	$ (5,469)
Accounts receivable	(894)	(922)	(1,816)
Inventories	--	(34)	(34)
Total current assets	(6,363)	(956)	(7,319)
Goodwill, net	--	78,158	78,158
Property and equipment, net	(607)	--	(607)
Other assets	(2,999)	--	(2,999)
Total assets	$ (9,969)	$ 77,202	$ 67,233
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities --			
Accounts payable and accrued expenses	$ --	$ 959	$ 959
Billings in excess of estimated earnings on uncompleted contracts	--	1,118	1,118
Total current liabilities	--	2,077	2,077
Long-term debt, net of current maturities	--	68,785	68,785
Other non-current liabilities	(5,722)	2,815	(2,907)
Total liabilities	(5,722)	73,677	67,955
Stockholders' equity --			
Common stock	--	(501)	(501)
Additional paid-in capital	(4,247)	41,462	37,215
Retained earnings	--	(40,685)	(40,685)
Treasury stock	--	3,249	3,249
Total stockholders' equity	(4,247)	3,525	(722)
Total liabilities and stockholders' equity	$ (9,969)	$ 77,202	$ 67,233

4. UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS ADJUSTMENTS FOR THE NINE MONTHS ENDED JUNE 30, 1998:

(a) Reflects the reduction in salaries, bonuses and benefits and lease payments to the owners of the Companies. These reductions in salaries, bonuses and benefits and lease payments have been agreed prospectively in accordance with the terms of employment agreements executed as part of the acquisitions. Such employment agreements are primarily for five years, contain restrictions related to competition and provide severance for termination of employment in certain circumstances. Also reflects the reversal of the $17.0 million non-recurring, non-cash compensation charge recorded by HSE in connection with a note receivable and rights held by an officer of HSE which was exchanged for cash and shares of IES common stock in connection with the Founding Company acquisitions.

(b) Reflects the amortization of goodwill recorded as a result of these acquisitions (based on a 40-year estimated life).

(c) Reflects additional interest expense on borrowings of $63.6 million to fund the cash portion of the consideration paid for the eight acquisitions which closed subsequent to June 30, 1998, net of reduction on interest expense attributable to the $8.1

million of historical debt repaid using proceeds from the Offerings or to be transferred to the owners of the Founding Companies. The additional interest expense was calculated utilizing an assumed annual effective interest rate of approximately 7.5%. Also, reflects elimination of interest income.

(d) Reflects the incremental provision for federal and state income taxes at a 38% overall tax rate, before non-deductible goodwill and other permanent items, relating to the other statements of operations adjustments and for income taxes on the pretax income of Companies that have historically elected S Corporation tax status.

The following table summarizes unaudited pro forma combined statement of operations adjustments (in thousands):

	ADJUSTMENT				PRO FORMA
	(a)	(b)	(c)	(d)	ADJUSTMENTS
Selling, general and administrative expenses	$(15,255)	$ --	--	$ --	$(15,255)
Non-cash, non-recurring compensation charge	(17,036)	--	--	--	(17,036)
Goodwill amortization	--	3,706	--	--	3,706
Income (loss) from operations	32,291	(3,706)	--	--	28,585
Other income (expense) --					
Interest expense	--	--	(3,131)	--	(3,131)
Interest income	--	--	(730)	--	(730)
Gain (loss) on sale of assets	--	--	(94)	--	(94)
Other, net	--	--	(234)	--	(234)
Other income (expense), net	--	--	(4,189)	--	(4,189)
Income (loss) before income taxes	32,291	(3,706)	(4,189)	--	24,396
Provision for income taxes	--	--	--	7,022	7,022
Net income (loss)	$ 32,291	$ (3,706)	$ (4,189)	$ (7,022)	$ 17,374

5. UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS ADJUSTMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1997:

(a) Reflects the reduction in salaries, bonuses and benefits and lease payments to the owners of the Companies. These reductions in salaries, bonuses and benefits and lease payments have been agreed prospectively in accordance with the terms of employment agreements executed as part of the acquisitions. Such employment agreements are primarily for five years, contain restrictions related to competition and provide severance for termination of employment in certain circumstances.

(b) Reflects the amortization of goodwill recorded as a result of these acquisitions over a 40-year estimated life, as well as a reduction in historical Founding Companies' minority interest expense attributable to minority interests that were acquired as part of the transaction.

(c) Reflects additional interest expense on borrowings of $63.6 million to fund the cash portion of the consideration paid for the eight acquisitions which closed subsequent to June 30, 1998, net of reduction on interest expense attributable to the $8.1 million of historical debt repaid using proceeds from the Offerings or to be transferred to the owners of the Founding Companies. The additional interest expense was calculated utilizing an assumed annual effective interest rate of approximately 7.5%. Also, reflects elimination of interest income.

(d) Reflects the incremental provision for federal and state income taxes at a 38% overall tax rate, before non-deductible goodwill and other permanent items, relating to the other statements of operations adjustments and for income taxes on the pretax income of Companies that have historically elected S Corporation tax status.

The following table summarizes unaudited pro forma combined statement of operations adjustments (in thousands):

	ADJUSTMENT				PRO FORMA
	(a)	(b)	(c)	(d)	ADJUSTMENTS
Selling, general and administrative expenses	$(19,885)	$ --	$ --	$ --	$(19,885)
Goodwill amortization	--	7,154	--	--	7,154
Income (loss) from operations	19,885	(7,154)	--	--	12,731
Other income (expense) --					
Interest expense	--	--	(4,369)	--	(4,369)
Interest income	--	--	(740)	--	(740)
Gain (loss) on sale of assets	--	--	(61)	--	(61)
Other, net	--	316	(750)	--	(434)
Other income (expense), net	--	316	(5,920)	--	(5,604)
Income (loss) before income taxes	19,885	(6,838)	(5,920)	--	7,127
Provision for income taxes	--	--	--	17,299	17,299
Net income (loss)	$ 19,885	$ (6,838)	$ (5,920)	$(17,299)	$(10,172)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Integrated Electrical Services, Inc.:

We have audited the accompanying consolidated balance sheets of Integrated Electrical Services, Inc., a Delaware corporation, and subsidiaries (see Note 1) as of December 31, 1996, and September 30, 1997, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the two years in the period ended December 31, 1996, and for the year ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrated Electrical Services, Inc., and subsidiaries as of December 31, 1996, and September 30, 1997, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1996, and for the year ended September 30, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 1, the accompanying consolidated financial statements reflect the Company on a historical basis including Houston-Stafford Electric, Inc., as the accounting acquirer restated for the effect of a pooling-of-interests transaction.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE INFORMATION)

(NOTE 1)

ASSETS	DECEMBER 31, 1996	SEPTEMBER 30, 1997	JUNE 30, 1998
			(UNAUDITED)
CURRENT ASSETS:			
Cash and cash equivalents	$ 4,301	$ 4,154	$ 13,337
Accounts receivable-			
Trade, net of allowance of $459, $537 and $3,083, respectively	9,638	14,287	86,247
Retainage	4,143	4,611	21,211
Inventories, net	346	2,878	5,917
Costs and estimated earnings in excess of billings on uncompleted contracts	828	1,368	7,671
Prepaid expenses and other current assets	674	1,173	2,168
Total current assets	19,930	28,471	136,551
RECEIVABLES FROM RELATED PARTIES	338	309	--
OTHER RECEIVABLES	166	--	--
GOODWILL, net	13	970	208,699
OTHER NONCURRENT ASSETS	303	1,934	1,478
PROPERTY AND EQUIPMENT, net	2,962	4,110	16,769
Total assets	$ 23,712	$ 35,794	$ 363,497
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 553	$ 894	$ 516
Accounts payable and accrued expenses	7,990	14,669	49,859
Income taxes payable	201	1,540	2,759
Billings in excess of costs and estimated earnings on uncompleted contracts	3,319	3,266	24,207
Other current liabilities	799	332	1,706
Total current liabilities	12,862	20,701	79,047
LONG-TERM BANK DEBT	--	--	20,000
OTHER LONG-TERM DEBT, net of current maturities	1,406	1,275	8,628
OTHER NON-CURRENT LIABILITIES	738	1,182	440
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Preferred stock, $.01 par value, 10,000,000 authorized, none issued and outstanding	--	--	--
Common stock, $.01 par value, 100,000 shares authorized, 4,492,039, 4,492,039 and 25,278,650 shares issued and outstanding	45	45	253
Restricted common stock, $.01 par value, 2,655,709 shares authorized, 2,655,709 shares issued and outstanding at June 30, 1998	--	--	27
Additional paid-in capital	887	887	252,445
Retained earnings	7,774	11,704	2,657
Total stockholders' equity	8,706	12,636	255,382
Total liabilities and stockholders' equity	$ 23,712	$ 35,794	$ 363,497

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(NOTE 1)

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED JUNE 30,	
	1995	1996	1997	1997	1997	1998
			(UNAUDITED)		(UNAUDITED)	
REVENUES	$ 73,345	$ 101,431	$ 92,379	$ 117,111	$ 79,847	$ 219,620
COST OF SERVICES (including depreciation)	63,709	85,081	76,306	95,937	65,189	173,420
Gross profit	9,636	16,350	16,073	21,174	14,658	46,200
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,905	10,228	10,222	14,261	10,170	29,467
NON-CASH NON-RECURRING COMPENSATION CHARGE IN CONNECTION WITH THE FOUNDING COMPANY ACQUISITIONS (Note 1)	--	--	--	--	--	17,036
GOODWILL AMORTIZATION	--	--	--	--	--	1,743
Income (loss) from operations	1,731	6,122	5,851	6,913	4,488	(2,046)
OTHER INCOME (EXPENSE):						
Interest expense	(286)	(171)	(164)	(214)	(143)	(269)
Other	104	185	456	599	187	617
Other income (expense), net	(182)	14	292	385	44	348
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	1,549	6,136	6,143	7,298	4,532	(1,698)
PROVISION FOR INCOME TAXES	563	2,471	2,408	2,923	1,847	6,443
NET INCOME (LOSS)	$ 986	$ 3,665	$ 3,735	$ 4,375	$ 2,685	$ (8,141)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	$ .22	$ .82	$ .83	$ .97	$ .60	$ (.49)
SHARES USED IN THE COMPUTATION OF BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 2)	4,492,039	4,492,039	4,492,039	4,492,039	4,492,039	16,757,359

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(NOTE 1)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED JUNE 30, 1997 (UNAUDITED)	NINE MONTHS ENDED JUNE 30, 1998 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$ 986	$ 3,665	$ 3,735	$ 4,375	$ 2,685	$ (8,141)
Adjustment for change in fiscal year of the pooled company	--	--	195	--	--	--
Non-cash non-recurring compensation charge	--	--	--	--	--	17,036
Adjustments to reconcile net income to net cash provided by (used in) operating activities-						
Depreciation and amortization	219	304	319	398	342	2,918
Loss (gain) on sale of property and equipment	1	3	(142)	(140)	(140)	(195)
Changes in operating assets and liabilities-						
(Increase) decrease in-						
Accounts receivable	(1,155)	(4,157)	(4,399)	(3,886)	(1,417)	(7,004)
Inventories	315	(9)	(1,400)	(1,409)	(1,062)	548
Costs and estimated earnings in excess of billings on uncompleted contracts	791	(95)	(540)	(841)	(461)	(1,234)
Prepaid expenses and other current assets	204	(91)	(153)	(286)	50	632
Increase (decrease) in-						
Accounts payable and accrued expenses	761	1,675	2,613	2,379	542	(2,359)
Billings in excess of costs and estimated earnings on uncompleted contracts	962	1,609	(54)	(747)	(38)	5,882
Other current liabilities	249	906	688	272	(424)	(216)
Other, net	(11)	(20)	190	210	63	2
Net cash provided by operating activities	3,322	3,790	1,052	325	140	7,869
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	132	22	70	84	30	686
Additions of property and equipment	(409)	(900)	(1,025)	(997)	(771)	(2,731)
Purchase of businesses, net of cash acquired	--	--	(100)	(100)	--	(66,588)
Increase in note receivable	--	--	--	--	(76)	--
Collections of notes receivable	--	--	77	77	6	475
Other, net	6	--	--	21	--	--
Net cash used in investing activities	(271)	(878)	(978)	(915)	(811)	(68,158)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	521	2,960	10,373	10,979	4,232	20,626
Payments of long-term debt	(2,446)	(3,408)	(10,594)	(11,545)	(4,071)	(24,909)
Distributions to stockholders	(15)	--	--	--	--	--
Distributions to accounting acquirer	--	--	--	--	--	(17,758)
Proceeds from initial public offering	--	--	--	--	--	91,513
Net cash provided by (used in) financing activities	(1,940)	(448)	(221)	(566)	161	69,472
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,111	2,464	(147)	(1,156)	(510)	9,183
CASH AND CASH EQUIVALENTS, beginning of period	726	1,837	4,301	5,310	5,310	4,154
CASH AND CASH EQUIVALENTS, end of period	$ 1,837	$ 4,301	$ 4,154	$ 4,154	$ 4,800	$ 13,337
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for-						
Interest	$ 286	$ 171	$ 160	$ 193	$ 63	$ 161
Income taxes	266	1,643	1,421	2,571	1,204	3,308
Non-cash property distribution	--	--	--	--	--	756

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT SHARE INFORMATION)

(NOTE 1)

	COMMON STOCK		RESTRICTED COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT			
BALANCE, December 31, 1994	4,492,039	$ 45	--	$ --	$ 887	$ 3,123	$ 4,055
Net income	--	--	--	--	--	986	986
BALANCE, December 31, 1995	4,492,039	45	--	--	887	4,109	5,041
Net income	--	--	--	--	--	3,665	3,665
BALANCE, December 31, 1996	4,492,039	45	--	--	887	7,774	8,706
Net income	--	--	--	--	--	3,735	3,735
Adjustment for change in fiscal year of pooled company	--	--	--	--	--	195	195
BALANCE, September 30, 1997	4,492,039	45	--	--	887	11,704	12,636
Non-cash non-recurring compensation charge (unaudited)	--	--	--	--	17,036	--	17,036
Initial public offering of stock (unaudited)	8,050,000	80	--	--	91,433	--	91,513
Issuance of stock for acquisitions (unaudited)	12,736,611	128	2,655,709	27	160,715	--	160,870
Distribution to accounting acquirer (unaudited)	--	--	--	--	(17,626)	(888)	(18,514)
Net loss (unaudited)	--	--	--	--	--	(8,141)	(8,141)
Other (unaudited)	--	--	--	--	--	(18)	(18)
BALANCE, June 30, 1998 (unaudited)	25,278,650	$ 253	2,655,709	$ 27	$ 252,445	$ 2,657	$ 255,382

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION AND BASIS OF PRESENTATION:

Integrated Electrical Services, Inc. (the Company or IES), a Delaware corporation, was founded in June 1997 to create a leading national provider and consolidator of electrical contracting and maintenance services, focusing primarily on the commercial, industrial and residential markets. On January 30, 1998, concurrent with the closing of its initial public offering (IPO or Offering) of common stock, IES acquired, in separate transactions, for consideration including $53.4 million of cash and 12,313,025 shares of common stock, 16 companies and related entities engaged in all facets of electrical contracting and maintenance services (collectively, the Founding Companies or the Founding Company Acquisitions).

For financial statement presentation purposes, Houston-Stafford Electric, Inc. (Houston-Stafford), one of the Founding Companies, has been identified as the accounting acquirer. The acquisition of the remaining Founding Companies and IES was accounted for using the purchase method of accounting. The allocation of purchase prices to the assets acquired and liabilities assumed has been initially assigned and recorded based on preliminary estimates of fair value and may be revised as additional information concerning the valuation of such assets and liabilities becomes available.

Subsequent to its IPO, and through June 30, 1998, the Company acquired 11 additional electrical contracting and maintenance businesses for approximately $30.9 million of cash and 3,519,023 shares of common stock (the Post IPO Acquisitions). Of these 11 Post IPO Acquisitions, 10 were accounted for using the purchase method of accounting (the Purchased Companies) and one was accounted for using the pooling-of-interests method of accounting (the Pooled Company) resulting in a restatement of the Company's financial statements for all periods presented (see Note 3).

The accompanying consolidated financial statements through January 30, 1998, reflect the historical accounts of Houston-Stafford as the accounting acquirer. The historical financial statements have been restated for all periods presented for the effect of the acquisition accounted for as a pooling-of-interest. The Founding Companies are included in the Company's results of operations beginning February 1, 1998, and the Purchased Companies beginning on their respective dates of acquisition. Houston-Stafford's results of operations through January 30, 1998, include a non-cash, non-recurring compensation charge of approximately $17.0 million required by the Securities and Exchange Commission (SEC) in connection with a note receivable and rights held by an officer of Houston-Stafford which was exchanged for cash and shares of IES common stock in connection with the Founding Company Acquisitions (see Note 10). The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The accompanying consolidated financial statements after January 30, 1998, include the accounts of IES and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Interim Financial Information

The interim financial statements for the nine months ended June 30, 1997 and 1998, and the nine months ended September 30, 1997, are unaudited and have been prepared pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are valued by the Company at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was approximately $219,000 and $304,000 for the years ended December 31, 1995 and 1996, and $391,000 for the year ended September 30, 1997, respectively.

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

Goodwill

Goodwill represents the excess of the aggregate of purchase price paid by the Company in the acquisition of businesses accounted for as purchases over the fair market value of the net assets acquired. Goodwill is amortized on a straight-line basis over 40 years. As of September 30, 1997, accumulated amortization was approximately $33,000.

The Company periodically evaluates the recoverability of intangibles resulting from business acquisitions and measures the amount of impairment, if any, by assessing current and future levels of income and cash flows as well as other factors, such as business trends and prospects and market and economic conditions.

Debt Issue Costs

Debt issue costs related to the Company's credit facility (see Note 6) are included in other noncurrent assets and are amortized to interest expense over the scheduled maturity of the debt.

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Revenues from construction contracts are recognized on the percentage-of-completion method generally measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income. The effects of these revisions are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

Accounts receivable at December 31, 1996, and September 30, 1997, include approved claims and change orders which were expected to be collected within the fiscal year.

The Company provides an allowance for doubtful accounts based on a specified percentage of outstanding receivables and the specific identification of accounts receivable where collection is no longer probable.

Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," allows entities to choose between a new fair value method of accounting for employee stock options or similar equity instruments and the current method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25 under which compensation expense is recorded to the extent that the fair market value of the related stock is in excess of the options exercise price at date of grant. Entities electing to remain with the accounting in APB Opinion No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value method of accounting prescribed in SFAS No. 123 had been applied. The Company will measure compensation expense attributable to stock options based on the method prescribed in APB Opinion No. 25 and will provide the required pro forma disclosure of net income and earnings per share, as applicable, in the notes to future consolidated annual financial statements.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with SFAS No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and are measured using enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 13 for discussion of significant estimates reflect in the Company financial statements.

New Accounting Pronouncements

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the consolidated financial position or results of operations of the Company.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for the way public enterprises are to report information about operating segments in annual financial statements and requires the reporting of selected information about operating segments in interim financial reports issued to shareholders. SFAS No. 131 is effective for the Company for its year ended September 30, 1999, at which time the Company will adopt the provision. The Company is currently evaluating the impact on the Company's financial disclosures.

In February 1998, the FASB issued SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits," which becomes effective for financial statements for the year ended September 30, 1999. SFAS No. 132 requires revised disclosures about pension and other postretirement benefit plans. The Company is currently assessing the impact of this statement on its annual financial statements.

On June 1, 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which becomes effective for the Company for its year ended September 30, 2000. SFAS No. 133 requires a company to recognize all derivative instruments (including certain derivative instruments embedded in other contracts) as assets or liabilities in its balance sheet and measure them at fair value. The statement requires that changes in the derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company is evaluating SFAS No. 133 and the impact on existing accounting policies and financial reporting disclosures. However, the Company has not to date engaged in activities or entered into arrangements normally associated with derivative instruments.

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Earnings per Share

The Company has adopted SFAS No. 128, "Earning Per Share," which requires restatement of all comparative per share amounts. Under the provisions of SFAS No. 128, the presentation of primary earnings per share has been replaced with earnings per share for potentially dilutive securities such as outstanding options. All prior period earnings per share data have been restated.

For financial statement purposes as required by the rules and regulations of the Securities Act, Houston-Stafford has been identified as the accounting acquirer in the transaction with IES and its initial public offering. As such the shares of IES beneficially owned by the shareholders of Houston-Stafford and the shares issued in the pooling transaction have been used in the calculation of basic and diluted earnings per share of the Company, for all periods prior to the IPO.

3. BUSINESS COMBINATIONS:

On January 30, 1998, concurrent with the closing of its IPO, IES acquired, in separate transactions, for consideration including $53.4 million of cash and 12,313,025 shares of common stock, 16 companies and related entities engaged in all facets of electrical contracting and maintenance services. Subsequent to its IPO, and through June 30, 1998, the Company has acquired 11 additional electrical contracting and maintenance businesses for approximately $30.9 million of cash and 3.5 million shares of common stock. Of these 11 Post IPO Acquisitions, 10 were accounted for using the purchase method of accounting and the Pooled Company was accounted for using the pooling-of-interests method of accounting. Accordingly, the Company's historical financial statements have been restated to include the historical financial statements of the Pooled Company.

Pooling

On June 1, 1998, IES completed the acquisition of all the capital stock of H.R. Allen, Inc. (Allen), in a business combination accounted for as a "pooling-of-interests" transaction in accordance with the requirements of APB No. 16. Allen, headquartered in Charleston, South Carolina, provides electrical contracting and maintenance services. IES issued 1,140,000 shares of common stock in exchange for all of the capital stock of Allen. There were no transactions between IES, or Allen during periods prior to the business combination.

The following table summarizes the unaudited restated revenues, net income and per share data of the Company after giving effect to the Pooled Company (in thousands, except per share data).

	YEAR ENDED DECEMBER 31,				YEAR ENDED SEPTEMBER 30,	
	1995		1996		1997	
	REVENUES	NET INCOME	REVENUES	NET INCOME	REVENUES	NET INCOME
Revenues and net income-						
As previously reported	$ 54,082	$ 731	$ 70,493	$ 3,047	$ 81,575	$ 3,316
Pooled Company	19,263	255	30,938	618	35,536	1,059
As restated	$ 73,345	$ 986	$ 101,431	$ 3,665	$ 117,111	$ 4,375
Earnings per share-						
As previously reported		$ .22		$ .91		$ .99
Pooled Company		--		(.09)		(.02)
As restated		$ .22		$ .82		$ .97

Purchases

The total consideration paid for the Purchased Companies through June 30, 1998, was approximately $73.0 million (including assumed debt of approximately $5.2 million). The $53.7 million excess of the total consideration paid over the net tangible assets acquired has been recorded as goodwill in the accompanying consolidated financial statements. The accompanying June 30, 1998, consolidated balance sheet includes allocations of the respective purchase prices to the assets acquired and liabilities assumed based on preliminary estimates of fair value and are subject to final adjustment.

The unaudited pro forma data presented below reflect the results of operations for the Company, the Founding Companies and the Purchased Companies through June 30, 1998, assuming the transactions were completed on October 1, 1996:

	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED JUNE 30, 1998
Revenues	$ 502,905	$ 303,077
Net income	$ 24,323	$ 16,063
Basic earnings per share	$ .95	$ .62
Diluted earnings per share	$ .95	$ .61

The preceding pro forma adjustments include: (a) the reversal of Houston-Stafford's non-cash, non-recurring compensation charge of approximately $17.0 million, (b) certain reductions in salaries, bonuses, benefits and lease payments to the former owners of the acquired companies which took effect as of the effective date of their respective acquisitions, (c) amortization of goodwill resulting from the acquisitions, and (d) elimination of interest income and increased interest expense on borrowings of $6.4 million to fund certain S corporation distributions.

Subsequent to June 30, 1998, the Company acquired eight companies for an aggregate consideration of approximately 2,823,000 shares of common stock and $63.6 million in cash, net of cash acquired. The cash portion of such consideration was provided by borrowings under the Company's credit facility.

4. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands)::

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Land	N/A	$ 1,465	$ 1,773
Buildings	5-32	486	686
Transportation equipment	3-5	1,582	2,158
Machinery and equipment	3-10	916	1,214
Building and leasehold improvements	5-32	251	273
Furniture and fixtures	5-7	326	563
		5,026	6,667
Less- Accumulated depreciation and amortization		(2,064)	(2,557)
Property and equipment, net		$ 2,962	$ 4,110

5. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 415	$ 459
Additions to costs and expenses	58	85
Deductions for uncollectible receivables written off and recoveries	(14)	(7)
Balance at end of period	$ 459	$ 537

Accounts payable and accrued liabilities consist of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 5,128	$ 9,033
Accrued compensation and other expenses	2,862	5,636
	$ 7,990	$ 14,669

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 35,780	$ 43,997
Estimated earnings	6,480	6,816
	42,260	50,813
Less- Billings to date	$ (44,751)	$ (52,711)
	$ (2,491)	$ (1,898)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 828	$ 1,368
Less- Billings in excess of costs and estimated earnings on uncompleted contracts	(3,319)	(3,266)
	$ (2,491)	$ (1,898)

6. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note payable to an officer, dated August 1996, payable in monthly payments of $12 including interest at a rate of 8%, maturing August 2003 and secured by stock (see Note 10)	$ 766	$ 699
Note payable to a bank, dated October 1994, payable in monthly payments of $21 plus interest at prime plus .75%, maturing October 1998 and secured by trade receivables, inventory and equipment	458	--
Line of credit with a bank with total borrowing capacity of $3,100,000, bearing interest at prime plus 1/2 percent, repaid in 1998 with proceeds from the Company's credit facility	--	507
Notes payable to banks earning interest ranging from 8% to 8.25%, repaid in 1998 with proceeds from the Company's credit facility	176	387
Note payable to an officer, bearing interest at 11%, repaid in 1998 with proceeds from the Company's credit facility	60	47
Mortgage payables to a bank and an individual bearing interest at 9% and 10%, repaid in 1998 with proceeds from the Company's credit facility	178	145
Capital lease obligations	--	65
Other	321	319
	1,959	2,169
Less- Current maturities	553	894
Total long-term debt	$ 1,406	$ 1,275

Principal payments due on long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 894
1999	305
2000	285
2001	204
2002	182
Thereafter	299
Total	$ 2,169

Credit Facility

In January 1998, the Company obtained a credit facility from a commercial bank. The credit facility is a three-year revolving credit facility of up to $65 million to be used for working capital, capital expenditures, other corporate purposes and acquisitions. In August, the Company increased the credit facility to $175.0 million. The credit facility matures July 30, 2001. Amounts borrowed under the credit facility bear interest at an annual rate equal to either (a) the London interbank offered rate (LIBOR) plus 1.0 percent to 2.0 percent, as determined by the ratio of the Company's total funded debt to EBITDA (as defined in the credit facility) or (b) the higher of (i) the bank's prime rate and (ii) the Federal funds rate plus 0.5 percent plus up to an additional 5 percent, as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.25 percent to 0.375 percent, as determined by the ratio of the Company's total funded debt to EBITDA, will be due on any unused borrowing capacity under the credit facility. The Company's existing and future subsidiaries guarantee the repayment of all amounts due under the facility, and the facility is secured by the capital stock of those subsidiaries and the accounts receivable of the Company and those subsidiaries. The credit facility requires the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibits the payment of cash dividends on the common stock, restricts the ability of the Company to incur other indebtedness and requires the Company to comply with various affirmative and negative covenants including certain financial ratios. As of September 11, 1998, $42 million was borrowed under the credit facility.

7. LEASES:

The Company leases various facilities, at which it conducts its operations, under noncancelable operating leases. For a discussion of leases with certain related parties see Note 10.

Future minimum lease payments under these noncancelable operating leases are as follows in thousands):

YEAR ENDING SEPTEMBER 30-	
1998	$ 204
1999	185
2000	160
2001	133
2002	122
Thereafter	287
	$ 1,091

Rental expense for the years ended December 31, 1995 and 1996, and September 30, 1997, was approximately $118,000, $155,000 and $206,000, respectively.

8. INCOME TAXES:

Federal and state income tax provisions are as follows (in thousands):

	YEAR ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30,
	1995	1996	1997
Federal-			
Current	$ 482	$ 1,741	$ 2,691
Deferred	22	434	(149)
State-			
Current	59	241	400
Deferred	--	55	(19)
	$ 563	$ 2,471	$ 2,923

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 35 percent to income before provision for income taxes as follows (in thousands):

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997
Provision at the statutory rate	$ 542	$ 2,148	$ 2,554
Increase resulting from-			
Non-deductible expenses	(25)	139	150
State income tax, net of benefit for federal deduction	46	184	219
	$ 563	$ 2,471	$ 2,923

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred income tax assets-		
Bad debts	$ 137	$ 162
Reserves and accrued expenses	365	564
Total deferred income tax asset	502	726
Deferred income tax liabilities-		
Property and equipment	(40)	(112)
Deferred contract revenue	(1,051)	(1,012)
Accrued expenses	--	(47)
Total deferred income tax liability	(1,091)	(1,171)
Net deferred income tax liability	$ (589)	$ (445)

The net deferred tax assets and liabilities are comprised of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Current deferred tax asset	$ 502	$ 726
Deferred tax liabilities-		
Current	$ (1,051)	$ (1,059)
Long-term	(40)	(112)
Total	$ (1,091)	$ (1,171)

9. STOCKHOLDERS' EQUITY:

Restricted Common Stock

In October 1997, the 2,655,709 shares of common stock held by the founder of IES were converted into 2,655,709 shares of restricted common stock. The shares of restricted common stock have rights similar to shares of common stock except that such shares are entitled to elect one member of the board of directors and are entitled to one-half of one vote for each share held on all other matters. Each share of restricted common stock will convert into common stock upon disposition by the holder of such shares.

Stock Plan

In September 1997, the Company's board of directors and stockholders approved the Company's 1997 Stock Plan (the Plan), which provides for the granting or awarding of incentive or nonqualified stock options, stock appreciation rights, restricted or phantom stock and other incentive awards to directors, officers, key employees and consultants of the Company. The number of shares authorized and reserved for issuance under the Plan is the greater of 3.5 million shares or 15 percent of the aggregate number of shares of common stock outstanding. The terms of the option awards will be established by the compensation committee of the Company's board of directors. The Company has filed a registration statement on Form S-8 under the Securities Act of 1933 registering the issuance of shares upon exercise of options granted under this Plan. Options generally vest at the rate of 20 percent per year, commencing on the first anniversary of the grant date and will expire 10 years from the date of grant, three months following termination of employment due to death or disability, or one year following termination of employment by means other than death or disability.

Director's Stock Plan

In September 1997, the Company's board of directors and stockholders approved the 1997 Directors' Stock Plan (the Directors' Plan), which provides for the granting or awarding of stock options to nonemployee directors. The number of shares authorized and reserved for issuance under the Directors' Plan is 260,000 shares. The directors' Plan provides for the automatic grant of options to purchase 5,000 shares to each nonemployee director serving in such capacity at the commencement of the Offerings.

Each nonemployee director was granted options to purchase an additional 5,000 shares at the time of an initial election of such director. In addition, each director will be automatically granted options to purchase 5,000 shares annually at each September 30, on which such director remains a director. All options have an exercise price based on the fair market value at the date of grant and vesting terms similar to options granted under the Stock Plan discussed above.

The Directors' Plan allows nonemployee directors to receive additional option grants in amounts and at terms as deemed appropriate by the Company's board of directors.

As of September 11, 1998, the Company had total outstanding options under these Plans to purchase up to a total of approximately 3,110,550 shares of common stock.

Initial Public Offering

On January 30, 1998, the Company completed its initial public offering, issuance to the public 7,000,000 shares of its common stock at a price of $13.00 per share, resulting in net proceeds to the Company of $78.8 million after deducting underwriting commissions and discounts. On February 5, 1998, the Company sold 1,050,000 shares of common stock pursuant to the overallotment option granted to the underwriters. The Company realized net proceeds from the sale of $12.7 million.

10. RELATED-PARTY TRANSACTIONS:

The Company has transactions in the normal course of business with certain affiliated companies. Amounts due from related parties at December 31, 1996, and September 30, 1997, were $338,000 and $309,000.

The Company leases certain real properties from certain related parties. The annual rentals for 1995, 1996 and for the year ended September 30, 1997, approximated $210,000, $291,000 and $216,000, respectively.

In August 1996, the Company negotiated the purchase of the stock from an officer. The selling price of the shares totaled $800,000. The Company signed an installment promissory note that provided for the payout of $800,000 over seven years at 8 percent interest, secured by the purchased stock. Subsequent to the August 1996 transaction, the executive remained an officer of the Company and was paid cash compensation of approximately $372,000 during the last four months of 1996 and approximately $252,000 during the first nine months of 1997. These amounts have been reflected as compensation expense in the accompanying income statements for the applicable periods. At the closing of the IPO, the officer exchanged the promissory note for cash and shares of IES common stock. In connection therewith, the Company recorded a non-cash, non-recurring compensation charge of approximately $17.0 million.

11. EMPLOYEE BENEFIT PLANS:

Certain subsidiaries of the Company provide various defined contributions savings plans for their employees (the Plans). The Plans cover substantially all full-time employees of such subsidiaries. Participants vest at varying rates ranging from full vesting upon participation to those that provide for vesting to begin after three years of service and are fully vested after seven years. Certain plans provide for a deferral option that allows employees to elect to contribute a portion of their pay into the plan and provide for a discretionary profit sharing contribution by the individual subsidiary. Generally the subsidiaries match a portion of the amount deferred by participating employees. Contributions for the profit sharing portion of the plan are generally at the discretion of the individual subsidiary board of directors. The aggregate contributions to the Plans were $50,000, $75,000 and $100,000 for the years ended December 31, 1995 and 1996, and September 30, 1997.

12. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, receivables from related parties, other receivables, accounts payable, a line of credit, notes payable and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

13. COMMITMENTS AND CONTINGENCIES:

Litigation

Subsidiaries of the Company are involved in various legal proceeds that have arisen in the ordinary course of business. While it is not possible to predict the outcome of such proceedings with certainty, in the opinion of the Company's management, all such proceedings are either adequately covered by insurance or, if not so covered should not ultimately result in any liability which would have a material adverse effect on the financial position, liquidity or results of operations of the Company.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability, commercial property, workers' compensation and general umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

14. RISK CONCENTRATION:

Financial instruments, which potentially subject the Company to concentrations of credit risk consist principally of cash deposits and trade accounts receivable. The Company grants credit, generally without collateral, to its customers, which are generally contractors and home builders throughout the United States. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors throughout the United States within the construction and home-building market. However, the Company generally is entitled to payment for work performed and has certain lien rights in that work. Further, management believes that its contract acceptance, billing and collection policies are adequate to minimize any potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Integrated Electrical Services, Inc.:

We have audited the accompanying balance sheet of Integrated Electrical Services, Inc., a Delaware corporation, as of September 30, 1997, and the related statements of operations, cash flows and stockholders' equity for the period from inception (June 26, 1997) through September 30, 1997 and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrated Electrical Services, Inc. as of September 30, 1997, and the results of its operations and its cash flows for the period from inception (June 26, 1997) through September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

INTEGRATED ELECTRICAL SERVICES, INC.

BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	SEPTEMBER 30, 1997
ASSETS	
CASH AND CASH EQUIVALENTS	$ --
DEFERRED OFFERING COSTS	1,560
Total current assets	1,560
PROPERTY AND EQUIPMENT, NET	6
Total assets	$ 1,566
LIABILITIES AND STOCKHOLDERS' EQUITY	
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ --
AMOUNTS DUE TO STOCKHOLDER	1,565
Total current liabilities	1,565
STOCKHOLDERS' EQUITY:	
Preferred stock, $.01 par value, 10,000,000 authorized, none issued and outstanding	--
Common stock, $.01 par value, 100,000,000 shares authorized, 4,052,311 shares issued and outstanding	41
Receivable from stockholders	(40)
Additional paid-in capital	13,618
Retained deficit	(13,618)
Total stockholders' equity	1
Total liabilities and stockholders' equity	$ 1,566

- ----------

Reflects a 2,329.6-for-one stock split effected in October 1997.

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

INTEGRATED ELECTRICAL SERVICES, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	PERIOD FROM INCEPTION THROUGH SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
REVENUES	$ --	$ --
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	13,618	532
LOSS BEFORE INCOME TAXES	(13,618)	(532)
PROVISION FOR INCOME TAXES	--	--
NET LOSS	$(13,618)	$ (532)

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

INTEGRATED ELECTRICAL SERVICES, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	PERIOD FROM INCEPTION THROUGH SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(13,618)	$ (532)
Non-cash compensation charge	13,618	--
Adjustments to reconcile net loss to net cash used in operating activities--		
Changes in assets and liabilities--		
Increase in deferred offering costs	(1,560)	(2,868)
Increase in accounts payable and accrued liabilities	--	1,793
Increase in amounts due to stockholder	1,565	1,629
Net cash provided by operating activities	5	22
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(6)	(22)
Net cash used in investing activities	(6)	(22)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Initial capitalization	1	--
Net cash provided by financing activities	1	--
NET INCREASE IN CASH AND CASH EQUIVALENTS	--	--
CASH AND CASH EQUIVALENTS, beginning of period	--	--
CASH AND CASH EQUIVALENTS, end of period	$ --	$ --

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

INTEGRATED ELECTRICAL SERVICES, INC.

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION
(JUNE 26, 1997) THROUGH DECEMBER 31, 1997
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RECEIVABLE FROM STOCKHOLDERS	ADDITIONAL PAID-IN CAPITAL	RETAINED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT				
INITIAL CAPITALIZATION, June 26, 1997	2,329,600	$ 23	$ --	$ --	$ --	$ 23
ISSUANCE OF ADDITIONAL SHARES TO MANAGEMENT	1,722,711	18	--	--	--	18
NET LOSS	--	--	--	13,618	(13,618)	--
RECEIVABLE FROM STOCKHOLDERS FOR STOCK ISSUED	--	--	(40)	--	--	(40)
BALANCE, September 30, 1997	4,052,311	41	(40)	13,618	(13,618)	1
NET LOSS	--	--	--	--	(532)	(532)
BALANCE, January 30, 1998	4,052,311	$ 41	$ (40)	$ 13,618	$ (14,150)	$ (531)

- ----------

Reflects a 2,329.6-for-one stock split effected in October 1997.

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

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Integrated Electrical Services, Inc., a Delaware corporation (IES or the Company), was founded in June 1997 to create a leading national provider of electrical contracting and maintenance services, focusing primarily on the residential, commercial and industrial markets. IES intends to acquire certain U.S. businesses (the Acquisitions), complete the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of its common stock and, subsequent to the Offerings, continue to acquire through merger or purchase similar companies to expand its national and regional operations. The Company has elected a September fiscal year.

IES has not conducted any operations, and all activities to date have related to the Offerings and the Acquisitions. All expenditures of the Company to date have been funded by its founder and current primary stockholder, on behalf of the Company. The Company's founder and primary stockholder has also committed to fund future organization expenses and offering costs. As of September 30, 1997 and January 30, 1998, costs of approximately $1,560,000 and $2,868,000, respectively, have been incurred in connection with the Offerings, and such costs will be a reduction of the proceeds from the Offerings. IES has treated these costs as deferred offering costs in the accompanying balance sheet and statements of cash flows. IES utilized proceeds from the Offerings to execute the Acquisitions and to repay its current primary stockholder for funding deferred offering costs. The ability of IES to generate future operating revenues is dependent upon the ability of the Company to manage the effect on the combined companies of changes in demand for commercial and residential construction, the effect of business growth, including the availability of electricians, and the need for other key personnel. These risk factors are discussed in more detail in "Risk Factors".

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

2. STOCKHOLDERS' EQUITY:

Common Stock and Preferred Stock

In connection with the organization and initial capitalization of IES, the Company issued 2,329,600 shares (as restated for the 2,329.6-for-one stock split discussed below) of common stock at $.01 par value (Common Stock). IES subsequently issued another 1,722,711 shares (as restated for the 2,329.6-for-one stock split discussed below) of Common Stock at $.01 par value to certain management of IES. Consequently, as restated for the 2,329.6-for-one stock split discussed below, the Company had issued a total of 2,655,709 shares to its founder and Chairman of the Board, and certain trusts established for the benefit of his children, and an aggregate of 1,396,602 shares to other executive management of the Company. As a result of the issuance of shares to management for nominal consideration, the Company recorded for financial statement presentation purposes, a nonrecurring, noncash compensation charge of $13.6 million, calculated based on the fair value of such shares which has been determined to be $9.10 and $9.80 per share (a discount of 35% and 30%, respectively, from the estimated initial public offering price) for the shares issued in June 1997 and September 1997, respectively. The fair value of such shares was based on specific factors related to the Company and the transaction including restrictions on transferability and sale, the time value of money during the holding period and the substantive progress of the transaction at each issuance date. The nonrecurring compensation charge discussed above does not include any of the shares issued to the founder and chairman of the board, and certain trusts established for the benefit of his children. The shares issued to the founder and Chairman of the Board, and such trusts, will be reflected as acquisition costs in connection with the Acquisitions.

IES effected a 2,329.6-for-one stock split in October 1997, for each share of common stock of the Company then outstanding. In addition, the Company increased the number of authorized shares of common stock to 100,000,000 and increased the number of authorized shares of $.01 par value preferred stock to 10,000,000. The effects of the Common Stock split and the increase in the shares of authorized common stock have been retroactively reflected on the balance sheet, statement of stockholders' equity and in the accompanying notes. Additionally, the difference between the initial capitalization and the par value of Common Stock outstanding subsequent to the stock split has been reflected as a receivable from stockholders, which is presented as a reduction in stockholders' equity in the accompanying financial statements.

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Restricted Common Stock

In October 1997, the 2,655,709 shares of Common Stock held by the founder of IES were converted into 2,655,709 shares of restricted common stock. The shares of restricted common stock have rights similar to shares of Common Stock, except that such shares are entitled to elect one member of the board of directors and are entitled to one-half of one vote for each share held on all other matters. Each share of restricted common stock will convert into Common Stock upon disposition by the holder of such shares.

Stock Plan

In September 1997, the Company's board of directors and stockholders approved the Company's 1997 Stock Plan (the Plan), which provides for the granting or awarding of incentive or nonqualified stock options, stock appreciation rights, restricted or phantom stock, and other incentive awards to directors, officers, key employees and consultants of the Company. The number of shares authorized and reserved for issuance under the Plan is the greater of 3.5 million shares or 15% of the aggregate number of shares of Common Stock outstanding. The terms of the option awards will be established by the Compensation Committee of the Company's board of directors. The Company filed a registration statement on Form S-8 under the Securities Act of 1933 registering the issuance of shares upon exercise of options granted under this Plan. The Company granted nonqualified stock options to purchase a total of approximately 2.3 million shares of Common Stock to key employees of the Company at the initial public offering price upon consummation of the Offerings. These options will vest at the rate of 20 percent per year, commencing on the first anniversary of the grant date and will expire ten years from the date of grant, three months following termination of employment due to death or disability, or one year following termination of employment by means other than death or disability. In September 1997, 300,000 options were granted to certain key employees under the Plan with an exercise price equal to 60% of the initial public offering price. These options vest at a rate of 20 percent per year, commencing on the date of grant. The compensation expense recognized for these options prior to September 30, 1997 was not material as they were not granted until September 1997.

Directors' Stock Plan

In September 1997, the Company's board of directors and stockholders approved the 1997 Directors' Stock Plan (the Directors' Plan), which provides for the granting or awarding of stock options to nonemployee directors. The number of shares authorized and reserved for issuance under the Directors' Plan is 250,000 shares. The Directors' Plan provides for the automatic grant of options to purchase 5,000 shares to each nonemployee director serving in such capacity at the commencement of the Offerings.

Each nonemployee director will be granted options to purchase an additional 5,000 shares at the time of an initial election of such director. In addition, each director will be automatically granted options to purchase 5,000 shares annually at each September 30 on which such director remains a director. All options will have an exercise price based on the fair market value at the date of grant and have vesting terms similar to options granted under the Stock Plan discussed above.

The Directors' Plan allows nonemployee directors to receive additional option grants in amounts and at terms as deemed appropriate by the Company's board of directors.

3. STOCK-BASED COMPENSATION:

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," allows entities to choose between a new fair value method of accounting for employee stock options or similar equity instruments and the current method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25 under which compensation expense is recorded to the extent that the fair market value of the related stock is in excess of the options exercise price at date of grant. Entities electing to remain with the accounting in APB Opinion No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value method of accounting prescribed in SFAS No. 123 had been applied. The Company will measure compensation expense attributable to stock options based on the method prescribed in APB Opinion No. 25 and will provide the required pro forma disclosure of net income and earnings per share, as applicable, in the notes to future consolidated annual financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS:

SFAS No. 128 requires the presentation of basic earnings per share and diluted earnings per share in financial statements of public enterprises rather than primary and fully diluted earnings per share as previously required. Under the provisions of this statement, basic earnings per share will be computed based on weighted average shares outstanding and will exclude dilutive securities such as options and warrants. Diluted earnings per share will be computed including the impacts of all potentially dilutive securities. The Company adopted this statement in December 1997, but does not anticipate that the statement will have a material impact on the Company.

SFAS No. 129 will require additional disclosure of information about an entity's capital structure, including information about dividend and liquidation preferences, voting rights, contracts to issue additional shares, and conversion and exercise prices. The Company adopted this statement in December 1997.

SFAS No. 130 requires the presentation of comprehensive income in an entity's financial statements. Comprehensive income represents all changes in equity of an entity during the reporting period, including net income and charges directly to equity which are excluded from net income. This statement did not have a material impact on the Company or its financial disclosures, as the Company currently did not enter into any material transactions which result in charges (or credits) directly to equity (such as additional minimum pension liability changes, currency translation adjustments, and unrealized gains and losses on available for sale securities).

5. FOUNDING COMPANY ACQUISITIONS:

IES acquired the following entities (the Founding Companies) on January 30, 1998 contemporaneously with the initial public offering. The entities acquired are:

Ace Electric, Inc.
Amber Electric, Inc.
BW Consolidated, Inc. and Subsidiaries
Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc.
Hatfield Electric, Inc.
Charles P. Bagby, Co., Inc. and General Partner, Inc.
Houston-Stafford Electric, Inc. and Stark Investments, Inc.
Mills Electrical Contractors, Inc.
Muth Electric, Inc.
Pollock Electric Inc.
Reynolds Electric Corp.
Rodgers Electric Company, Inc.
Summit Electric of Texas, Incorporated
Thomas Popp & Company
Thurman & O'Connell Corporation

The aggregate consideration that was paid by IES to acquire the Founding Companies was approximately $53.4 million in cash and 12.3 million shares of Common Stock. Additionally, approximately 3.9 million of the 4.1 million shares issued to the IES founder and Chairman of the Board and certain trusts, and certain other management, were reflected as acquisition costs as part of the acquisition transactions.

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

In addition, the Company has entered into employment agreements with certain key executives of the Founding Companies and the executive officers of IES. These employment agreements generally prohibit such individuals from disclosing confidential information and trade secrets, and restrict such individuals from competing with the Company for a period of two years following termination of employment. The initial term of these employment agreements is five years with provisions for annual extensions at the end of the initial term.

6. BANK CREDIT FACILITY

The Company entered into a credit facility with a commercial bank. The credit facility is a three-year revolving credit facility of up to $70 million to be used for working capital, capital expenditures, other corporate purposes and acquisitions.

On August 7, 1998, the Company increased its three-year revolving credit facility with NationsBank of Texas, N.A. as agent (the "Credit Facility") from $70.0 million to $175.0 million. The Credit Facility matures on July 30, 2001, bears interest at the bank's prime rate or LIBOR, at the Company's option, plus an applicable margin based on the ratio of debt to EBITDA (as defined). An annual commitment fee from 0.25% to 0.375% is payable on any unused portion of the Credit Facility. The Company's subsidiaries have guaranteed the repayment of all amounts due under the facility, and the facility is secured by the capital stock of the guarantors and the accounts receivable of the Company and the guarantors.

The Credit Facility will be used to fund acquisitions, capital expenditures and working capital requirements. Under the terms of the Credit Facility the Company is required to comply with various affirmative and negative covenants including: (i) the maintenance of certain financial ratios, (ii) restrictions on additional indebtedness, and (iii) restrictions on liens, guarantees and dividends.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Mills Electrical Contractors, Inc.:

We have audited the accompanying consolidated balance sheets of Mills Electrical Contractors, Inc., a Texas corporation, and Subsidiary as of December 31, 1995 and 1996 and September 30, 1997, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mills Electrical Contractors, Inc. and Subsidiary as of December 31, 1995 and 1996 and September 30, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,808	$ 5,239	$ 833
Accounts receivable--			
Trade, net of allowance of $148, $252 and $353, respectively	6,251	10,121	13,137
Retainage, net of allowance of $20, $74, $42 and $42, respectively	796	2,669	1,621
Related parties	3	208	632
Other receivables	307	1,055	27
Inventories, net	69	49	93
Costs and estimated earnings in excess of billings on uncompleted contracts	131	329	1,584
Prepaid expenses and other current assets	29	118	120
Total current assets	9,394	19,788	18,047
PROPERTY AND EQUIPMENT, net	912	1,675	2,397
GOODWILL, net	--	180	173
OTHER ASSETS	340	394	443
Total assets	$ 10,646	$ 22,037	$ 21,060
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Line-of-Credit and current maturities of long-term debt	$ 131	$ 294	$ 643
Accounts payable and accrued expenses--			
Trade	4,439	8,886	7,672
Related parties	23	633	--
Billings in excess of costs and estimated earnings on uncompleted contracts	1,746	4,523	1,966
Unearned revenue and other current liabilities	98	--	--
Total current liabilities	6,437	14,336	10,281
LONG-TERM DEBT, net of current maturities	260	333	169
MINORITY INTEREST	--	3	75
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, $1 par value, 1,000 shares authorized, 855 shares issued and 727 shares outstanding	1	1	1
Additional paid-in capital	175	175	175
Retained earnings	3,824	7,240	10,410
Treasury stock, 128 shares, at cost	(51)	(51)	(51)
Total stockholders' equity	3,949	7,365	10,535
Total liabilities and stockholders' equity	$ 10,646	$ 22,037	$ 21,060

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED SEPTEMBER 30,	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30,
	1994	1995	1996	1996	1997	1997	1998
				(Unaudited)			
REVENUES	$ 25,544	$ 35,250	$ 65,439	$ 43,684	$ 52,644	$ 74,399	$ 20,882
COST OF SERVICES (including depreciation and amortization)	20,937	27,372	50,535	33,998	44,035	60,572	16,244
Gross profit	4,607	7,878	14,904	9,686	8,609	13,827	4,638
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,391	4,741	7,643	3,837	4,972	8,778	5,385
Income (loss) from operations	1,216	3,137	7,261	5,849	3,637	5,049	(747)
OTHER INCOME (EXPENSE):							
Interest expense	(22)	(56)	(61)	(34)	(19)	(46)	(57)
Other	92	195	215	153	215	277	44
Other income (expense), net	70	139	154	119	196	231	(13)
INCOME (LOSS) BEFORE MINORITY INTEREST AND PROVISION FOR STATE INCOME TAXES	1,286	3,276	7,415	5,968	3,833	5,280	(760)
Minority interest in net (income) loss of subsidiary	--	--	(3)	(5)	--	2	--
INCOME (LOSS) BEFORE PROVISION FOR STATE INCOME TAXES	1,286	3,276	7,412	5,963	3,833	5,282	(760)
Provision for state income taxes	52	131	309	182	147	274	84
NET INCOME (LOSS)	$ 1,234	$ 3,145	$ 7,103	$ 5,781	$ 3,686	$ 5,008	$ (844)

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:							
Net income (loss)	$ 1,234	$ 3,145	$ 7,103	$ 5,781	$ 3,686	$ 5,008	$ (844)
Adjustments to reconcile net income to net cash provided by (used in) operating activities --							
Depreciation and amortization	179	253	385	197	449	637	245
Loss (gain) on sale of property and equipment	(2)	--	(20)	(21)	5	6	3
Changes in operating assets and liabilities --							
(Increase) decrease in --							
Accounts receivable	(2,107)	(1,894)	(6,997)	(9,998)	(1,364)	1,637	2,157
Inventories, net	10	1	20	2	(45)	(27)	47
Costs and estimated earnings in excess of billings on uncompleted contracts	(402)	386	(198)	(307)	(1,255)	(1,146)	(319)
Prepaid expenses and other current assets	(46)	105	(89)	(149)	(2)	58	35
Increase (decrease) in --							
Accounts payable and accrued expenses	1,780	1,178	5,057	3,090	(1,846)	121	25
Billings in excess of costs and estimated earnings on uncompleted contracts	(353)	1,159	2,777	3,926	(2,556)	(3,705)	415
Unearned revenue and other current liabilities	--	98	(98)	(98)	--	--	--
Other, net	(64)	(29)	(52)	(130)	22	100	3
Net cash provided by (used in) operating activities	229	4,402	7,888	2,293	(2,906)	2,689	1,767
CASH FLOWS FROM INVESTING ACTIVITIES:							
Increase in notes receivable	(12)	(291)	(75)	(75)	--	--	--
Collection of notes receivable	140	141	377	377	--	--	--
Proceeds from sale of property and equipment	8	15	44	44	8	8	5
Additions of property and equipment	(279)	(255)	(912)	(538)	(1,177)	(1,551)	(339)
Net cash used in investing activities	(143)	(390)	(566)	(192)	(1,169)	(1,543)	(334)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Borrowings of long-term debt	--	--	--	--	1,000	1,000	7,569
Payments of long-term debt	(19)	(136)	(204)	(117)	(815)	(902)	(90)
Distributions to stockholders	(147)	(2,216)	(3,687)	(426)	(516)	(3,777)	(8,844)
Sale of treasury stock	181	--	--	--	--	--	--
Net cash provided by (used in) financing activities	15	(2,352)	(3,891)	(543)	(331)	(3,679)	(1,365)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	101	1,660	3,431	1,558	(4,406)	(2,533)	68
CASH AND CASH EQUIVALENTS, beginning of period	47	148	1,808	1,808	5,239	3,366	833
CASH AND CASH EQUIVALENTS, end of period	$ 148	$ 1,808	$ 5,239	$ 3,366	$ 833	$ 833	$ 901
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:							
Cash paid for --							
Interest	$ 22	$ 56	$ 61	$ 34	$ 19	$ 46	$ 48
Income Taxes	$ --	$ 55	$ 93	$ 93	$ 105	$ 105	$ --

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		ADDITIONAL			TOTAL
	SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	STOCKHOLDERS' EQUITY
BALANCE, December 31, 1993	855	$ 1	$ 11	$ 1,808	$ (68)	$ 1,752
Sale of 42 shares of treasury stock	--	--	164	--	17	181
Distributions to stockholders	--	--	--	(147)	--	(147)
Net income	--	--	--	1,234	--	1,234
BALANCE, December 31, 1994	855	1	175	2,895	(51)	3,020
Distributions to stockholders	--	--	--	(2,216)	--	(2,216)
Net income	--	--	--	3,145	--	3,145
BALANCE, December 31, 1995	855	1	175	3,824	(51)	3,949
Distributions to stockholders	--	--	--	(3,687)	--	(3,687)
Net income	--	--	--	7,103	--	7,103
BALANCE, December 31, 1996	855	1	175	7,240	(51)	7,365
Distributions to stockholders (unaudited)	--	--	--	(516)	--	(516)
Net income (unaudited)	--	--	--	3,686	--	3,686
BALANCE, September 30, 1997	855	1	175	10,410	(51)	10,535
Distributions to stockholders	--	--	--	(8,844)	--	(8,844)
Net loss	--	--	--	(844)	--	(844)
BALANCE, January 30, 1998	855	$ 1	$ 175	$ 722	$ (51)	$ 847

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

The accompanying consolidated financial statements include the accounts of Mills Electrical Contractors, Inc. (Mills), a Texas corporation, and its 89% owned subsidiary, Fort Worth Regional Electrical Systems, L.L.C. (RES), a Texas limited liability company (collectively, the Company). The subsidiary was formed during 1996. In September 1997, Mills sold 10% of the capital stock of RES to an officer of RES at net book value per share resulting in proceeds to the Company of $71,000. Financial statements prior to 1996 reflect only the accounts of Mills. All significant intercompany transactions have been eliminated in consolidation.

The Company focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities as well as residential facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from 12 to 36 months. The Company performs the majority of its work in the Dallas-Fort Worth, Texas, area.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim consolidated financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Supplemental Cash Flow Information (in thousands)

The Company had the following noncash investing and financing activities for the years ended December 31, 1994, 1995, 1996 and September 1997 and the nine months ended September 30, 1996 and 1997 and the period from October 1, 1997 through January 30, 1998:

	1994	1995	1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Property acquired in capital lease transactions	$ 290	$ 195	$ 254	$ 17	$ 237	$ --	$--
Goodwill recognized in purchase transactions	$ --	$ --	$ 185	$ --	$ 185	$ --	$--

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost, net of an allowance for obsolescence, or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation and amortization expense was $179,000, $253,000, $385,000, $637,000 and $245,000 for the years ended December 31, 1994, 1995 and 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

In June 1996, RES agreed to purchase a business, consisting of equipment in a capital lease transaction and an agreement to lease a building under an operating lease, as well as the purchase of the rights to the name "Regional Electric Systems" from an individual who became an officer of RES. The acquired assets were recorded at their estimated fair market value using the purchase method of accounting. The transaction resulted in the recognition of goodwill of approximately $185,000 which is being amortized over a 20 year period.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable and a general reserve based upon the total trade and retainage accounts receivable balances.

Income Taxes

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying consolidated financial statements of the Company include only a provision for state income taxes and do not include a provision for current or deferred federal income taxes. The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's consolidated financial statements.

New Accounting Pronouncement

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the consolidated financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	3-5	$ 788	$ 1,031	$ 1,346
Machinery and equipment	5	785	1,071	1,266
Leasehold improvements	5-10	170	330	421
Furniture and fixtures	5	591	901	1,439
Less -- Accumulated depreciation and amortization		(1,422)	(1,658)	(2,075)
Property and equipment, net		$ 912	$ 1,675	$ 2,397

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997
Balance at beginning of period	$ 77	$ 128	$ 168	$ 432
Additions to/(reduction of) costs and expenses	51	40	158	(37)
Balance at end of period	$ 128	$ 168	$ 326	$ 395

Included as a component of other receivables at December 31, 1995, is a note receivable from a corporation of $291,000 with interest at 10 percent per annum. This note was collected during 1996.

Accounts payable and accrued expenses, trade consist of the following:

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 2,236	$ 4,922	$ 6,275
Accrued compensation and benefits	1,608	3,423	1,017
Other accrued expenses	595	541	380
	$ 4,439	$ 8,886	$ 7,672

Electrical system installation contracts in progress are as follows:

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 33,016	$ 55,954	$ 80,236
Estimated earnings, net of losses	7,090	15,879	16,534
	40,106	71,833	96,770
Less -- Billings to date	(41,721)	(76,027)	(97,152)
	$ (1,615)	$ (4,194)	$ (382)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 131	$ 329	$ 1,584
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(1,746)	(4,523)	(1,966)
	$ (1,615)	$ (4,194)	$ (382)

========	========	========

5. LINE-OF-CREDIT DEBT:

The Company has a $2,000,000 line-of-credit agreement with a bank to be drawn upon as needed, with variable interest at the bank's prime rate, as defined, secured by accounts receivable, furniture, fixtures and equipment, an assignment of a $500,000 life insurance policy on the president and the president's personal guaranty. In June 1997, the line-of-credit agreement was extended to

June of 1999. At September 30, 1997, there was an outstanding draw against this line of credit in the amount of $400,000, which is due and payable within one year.

The line-of-credit agreement with the bank contains various covenants pertaining to working capital, certain financial ratios and net worth. At September 30, 1997, the Company was in compliance with all such covenants.

LONG-TERM DEBT

Long-term debt consists primarily of capital leases for the purchase of vehicles and construction equipment as discussed in Note 6.

The Company has a term note payable with a bank, secured by a Company vehicle. The principal is payable monthly in the amount of $1,000 plus interest at 9.75 percent. At December 31, 1996 and September 30, 1997, a balance of $5,000 and $0 was due and payable within one year, respectively.

The Company has an obligation to a related party for the purchase of the rights to the name "Regional Electric Systems" requiring monthly payments of principal and interest, at 8.25 percent, of $6,000 through May 1999. At December 31, 1996 and September 30, 1997, a balance of $60,000 and $63,000 was due and payable within one year, respectively.

The maturities of the line of credit and long-term debt as of September 30, 1997, are as follows (in thousands):

Year ending September 30--	
1998	$ 643
1999	143
2000	26
	$ 812

6. LEASES:

Obligations Under Capital Leases

The Company leases certain vehicles and construction equipment under leases classified as capital leases. The construction equipment lease is with an officer of the Company. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of September 30, 1997 (in thousands):

Year ending September 30--	
1998	$ 212
1999	103
2000	5
Total minimum lease payments	320
Less -- Amounts representing interest	17
Present value of minimum lease payments	$ 303

Operating Leases

The Company leases a building which is owned by the principal stockholder of the Company. The lease is classified as an operating lease and expires on October 31, 1997. The rent paid under this related-party lease was approximately $156,000, $156,000, $156,000 and $57,000 for the years ended December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively. The Company also leases a building which is owned by an officer of the Company. This lease commenced during 1996. The lease is classified as an operating lease and expires on May 31, 1999. The Company has an option to renew the lease for one additional two-year term at a reduced lease rate. The rent paid under this related-party lease was approximately $60,000 for the year ended September 30, 1997. The Company also rents certain office equipment and warehouse space under several operating lease agreements which vary in length and terms. The rent paid under these lease agreements was approximately $8,000, $45,000, $49,000 and $20,000 for the years ended December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

Future minimum lease payments under these noncancelable operating leases are as follows (in thousands):

Year Ended September 30--	
1998	$ 138
1999	67
2000	38
Thereafter	71
	$ 314

7. RELATED-PARTY TRANSACTIONS:

The Company has entered into operating and capital lease transactions with related parties as discussed in Note 6.

CIMA Services, Inc. (CIMA) and RES are related parties due to the ownership by the Company's president of 49% and 1%, respectively, of these companies' capital stock.

The related-party transactions and balances are as follows (in thousands):

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	1997
Accounts receivable from CIMA	$ 2	$ 208	$ 632
Accounts receivable from sale of subsidiary stock	--	--	71
Interest receivable from CIMA and officer	1	--	--
Accounts payable to CIMA	23	633	--
Contract revenues from CIMA	1,116	1,257	1,368
Purchases of material from CIMA	812	1,080	2,062
Interest income received from CIMA and officers	38	14	1
Minority interest in net income of RES	--	3	(2)
Liability attributable to minority interest	--	3	75
Capital lease obligation to an officer of RES	--	116	82
Payments under capital lease obligation with an officer of RES	--	31	54
Payments under operating leases with officers of the Company	26	232	270

Contract revenues from CIMA were approximately $250,000 and payments under operating leases with officers of the Company were approximately $78,000 for the period from October 1, 1997 through January 30, 1998. Additionally, the Company has guaranteed an officer note at a bank with an outstanding balance of approximately $125,000 at September 30, 1997. The Company's property and equipment has been cross-pledged as collateral.

8. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan that covers all employees meeting certain age and service requirements. Company contributions to the plan are at the discretion of the board of directors. Contributions to the plan charged to operations in 1994, 1995, 1996 and the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998 were $186,000, $450,000, $789,000, $789,000 and $275,000, respectively.

9. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, a line of credit, notes payable and long-term debt. The Company believes that the carrying values of these instruments on the accompanying consolidated balance sheets approximates their fair values.

10. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's consolidated financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including workers' compensation, business auto liability, commercial general liability, property and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

11. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales greater than 10 percent of total sales to three major customers (comprising approximately 20%, 12% and 11% of total sales), two major customers (comprising approximately 15% and 13% of total sales), two major customers (comprising approximately 20% and 18% of total sales) and one major customer (comprising approximately 32% of total sales) during the years ended December 31, 1994, 1995, 1996 and September 1997, respectively. The Company did not have sales greater than 10 percent of total sales to any one customer during the period from October 1, 1997 through January 30, 1998.

In addition, the Company grants credit, generally without collateral, to its customers, which are usually general contractors located primarily in the Dallas-Fort Worth, Texas area. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the Dallas-Fort Worth, Texas, area. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

Cash and Cash Equivalents

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

12. BACKCHARGE CLAIMS:

It is the Company's policy to recognize income from backcharge claims only when a definitive agreement has been reached and collection is reasonably assured. In December 1996, the Company reached a settlement on one of its backcharge claims related to prior periods for approximately $856,000 which is reflected in the accompanying consolidated statement of operations for the year ended December 31, 1996, as an increase in revenues and as a component of other receivables in the accompanying consolidated balance sheet at December 31, 1996. This amount was collected in 1997.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To BW Consolidated, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of BW Consolidated, Inc., a Texas corporation, and Subsidiaries as of December 31, 1995 and 1996 and September 30, 1997, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BW Consolidated, Inc. and Subsidiaries as of December 31, 1995 and 1996 and September 30, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,180	$ 507	$ 1,275
Accounts receivable--			
Trade, net of allowance of $82, $119 and $124, respectively	3,178	4,718	4,835
Retainage	471	768	601
Other receivables	62	53	71
Notes receivable from stockholders	42	--	--
Inventories, net of allowance of $24, $29, $28 and $28, respectively	461	557	541
Costs and estimated earnings in excess of billings	186	182	224
Prepaid expenses and other current assets	5	10	29
Total current assets	5,585	6,795	7,576
PROPERTY AND EQUIPMENT, net	3,925	4,609	5,206
NOTE RECEIVABLE FROM STOCKHOLDERS, net of current portion	470	--	--
OTHER ASSETS	21	27	49
Total assets	$ 10,001	$ 11,431	$ 12,831

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 214	$ 94	$ 96
Accounts payable and accrued expenses	2,318	2,131	2,400
Income taxes payable	130	166	--
Billings in excess of costs and estimated earnings	606	749	840
Total current liabilities	3,268	3,140	3,336
LONG-TERM DEBT, net of current maturities	951	861	842
DEFERRED TAXES	180	--	--
COMMITMENTS AND CONTINGENCIES			
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	--	209	1,302
STOCKHOLDERS' EQUITY:			
Common stock, $1 par value, 2,000,000, 500,000, 500,000 and 500,000 shares authorized, respectively; 31,598, 20,000, 20,000 and 20,000 shares issued and outstanding, respectively	32	20	20
Additional paid-in capital	566	205	205
Retained earnings	5,965	6,996	7,126
Treasury stock, 5,088 shares, at cost	(961)	--	--
Total stockholders' equity	5,602	7,221	7,351
Total liabilities and stockholders' equity	$ 10,001	$ 11,431	$ 12,831

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1996	1997
				(UNAUDITED)	
REVENUES	$ 23,168	$ 27,730	$ 33,023	$ 24,994	$ 24,136
COST OF SERVICES (including depreciation)	17,967	20,964	25,017	18,909	18,868
Gross profit	5,201	6,766	8,006	6,085	5,268
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,091	3,637	3,686	2,713	2,793
Income from operations	2,110	3,129	4,320	3,372	2,475
OTHER INCOME (EXPENSE):					
Interest expense	(135)	(120)	(97)	(73)	(84)
Other	97	263	174	137	158
Other income (expense), net	(38)	143	77	64	74
NET INCOME BEFORE INCOME TAX AND MINORITY INTEREST	2,072	3,272	4,397	3,436	2,549
INCOME TAX EXPENSE (BENEFIT)	772	1,238	(28)	(67)	33
NET INCOME BEFORE MINORITY INTEREST	1,300	2,034	4,425	3,503	2,516
MINORITY INTEREST EXPENSE	--	--	250	203	269
NET INCOME	$ 1,300	$ 2,034	$ 4,175	$ 3,300	$ 2,247

	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
REVENUES	$ 32,165	$ 11,208
COST OF SERVICES (including depreciation)	24,976	6,908
Gross profit	7,189	4,300
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,766	3,277
Income from operations	3,423	1,023
OTHER INCOME (EXPENSE):		
Interest expense	(108)	(18)
Other	195	54
Other income (expense), net	87	36
NET INCOME BEFORE INCOME TAX AND MINORITY INTEREST	3,510	1,059
INCOME TAX EXPENSE (BENEFIT)	72	--
NET INCOME BEFORE MINORITY INTEREST	3,438	1,059
MINORITY INTEREST EXPENSE	316	232
NET INCOME	$ 3,122	$ 827

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED SEPTEMBER 30,	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30,
	1994	1995	1996	1996	1997	1997	1998
				(UNAUDITED)			
CASH FLOWS FROM OPERATING ACTIVITIES:							
Net income	$ 1,300	$ 2,034	$ 4,175	$ 3,300	$ 2,247	$ 3,122	$ 827
Adjustments to reconcile net income to net cash provided by operating activities --							
Depreciation and amortization	292	329	426	296	404	534	185
Loss (gain) on sale of property and equipment	9	(54)	(17)	(19)	(5)	(3)	2
Deferred tax benefit	--	--	(180)	(180)	--	--	--
Minority interest expense	--	--	250	203	269	316	232
Changes in operating assets and liabilities -- (Increase) decrease in--							
Accounts receivable	(459)	(244)	(1,828)	(1,115)	50	(663)	432
Inventories	(7)	131	(96)	(109)	16	29	(104)
Costs and estimated earnings in excess of billings on uncompleted contracts	80	(13)	4	(194)	(42)	156	104
Prepaid expenses and other current assets	(3)	4	(5)	(5)	(19)	(19)	15
Increase (decrease) in --							
Accounts payable and accrued expenses	(153)	141	(187)	222	269	(140)	(189)
Billings in excess of costs and estimated earnings on uncompleted contracts	(51)	282	143	200	91	34	263
Other current liabilities	34	41	36	(18)	(166)	(112)	--
Net cash provided by operating activities	1,042	2,651	2,721	2,581	3,114	3,254	1,767
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from sale of property and equipment	4	141	66	63	20	23	87
Stockholder receivable	--	(512)	512	512	--	--	--
Other assets	1	(3)	(6)	3	(22)	(31)	7
Additions of property and equipment	(485)	(1,001)	(1,160)	(984)	(892)	(1,068)	(411)
Net cash used in investing activities	(480)	(1,375)	(588)	(406)	(894)	(1,076)	(317)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Borrowings of short-term debt	643	515	1,832	632	800	2,000	932
Borrowings of long-term debt	--	--	10	24	39	25	1,099
Repayments of short-term debt	(643)	(515)	(1,832)	(632)	(800)	(2,000)	--
Repayments of long-term debt	(377)	(310)	(219)	(200)	(198)	(217)	(941)
Stockholder distributions	--	(32)	(2,556)	(2,222)	(2,117)	(2,451)	(3,645)
Stockholder contributions	--	--	--	--	--	--	21
Minority interest contributions	--	--	85	85	935	935	316
Minority interest distributions	--	--	(126)	(72)	(111)	(165)	(137)
Purchase of treasury stock	--	(961)	--	--	--	--	--
Net cash used in financing activities	(377)	(1,303)	(2,806)	(2,385)	(1,452)	(1,873)	(2,355)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	185	(27)	(673)	(210)	768	305	(905)
CASH AND CASH EQUIVALENTS, beginning of period	1,022	1,207	1,180	1,180	507	970	1,275
CASH AND CASH EQUIVALENTS, end of period	$ 1,207	$ 1,180	$ 507	$ 970	$ 1,275	$ 1,275	$ 370
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION							
Cash paid for --							
Interest	$ 137	$ 119	$ 97	$ 73	$ 84	$ 108	$ 13
Income taxes	$ 744	$ 1,197	$ 132	$ 128	$ 198	$ 202	$ --

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
BALANCE, December 31, 1993	31,151	$ 31	$ 512	$ 2,663	$ --	$ 3,206
Sale of common stock	261	1	30	--	--	31
Net income	--	--	--	1,300	--	1,300
BALANCE, December 31, 1994	31,412	32	542	3,963	--	4,537
Sale of common stock	186	--	24	--	--	24
Net income	--	--	--	2,034	--	2,034
Dividends paid	--	--	--	(32)	--	(32)
Purchase of treasury stock	--	--	--	--	(961)	(961)
BALANCE, December 31, 1995	31,598	32	566	5,965	(961)	5,602
Shares retired upon merger	(26,510)	(27)	154	(127)	--	--
Treasury stock canceled	(5,088)	(5)	(515)	(441)	961	--
Shares issued	1,000	10	--	(10)	--	--
Stock split 20 to 1 and recapitalization (Note 1)	19,000	10	--	(10)	--	--
Distributions to stockholders	--	--	--	(2,556)	--	(2,556)
Net income	--	--	--	4,175	--	4,175
BALANCE, December 31, 1996	20,000	20	205	6,996	--	7,221
Distributions to stockholders (unaudited)	--	--	--	(2,117)	--	(2,117)
Net income (unaudited)	--	--	--	2,247	--	2,247
BALANCE, September 30, 1997	20,000	20	205	7,126	--	7,351
Stockholder contributions	--	--	21	--	--	21
Distributions to stockholders	--	--	--	(4,884)	--	(4,884)
Net income	--	--	--	827	--	827
BALANCE, January 30, 1998	20,000	$ 20	$ 226	$ 3,069	$ --	$ 3,315

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS, ORGANIZATION AND BASIS OF PRESENTATION:

BW Consolidated, Inc. (the Company), a Nevada S Corporation, and Subsidiaries, two of which are Texas limited partnerships, focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed-price contracts with contract terms generally ranging from three to 24 months. The Company performs the majority of its work in Texas.

In January 1996, the original parent company, Bexar Enterprises, Inc., a Nevada C Corporation, was merged with BW Investments, Inc., Bexar Electric Company, Inc., and Calhoun Electric Company, Inc., all wholly owned subsidiaries. The survivor of the merger was Calhoun Electric Company, Inc., a Texas S Corporation, and its 90 percent owned subsidiary, Bexar Electric Company, Ltd. (BEC), a Texas limited partnership. The 10 percent minority interest in the partnership was purchased by employees of Bexar Electric Company, Ltd. An additional 10 percent minority interest in Bexar Electric Company, Ltd. (a Texas limited partnership), was purchased by employees of the Company in January 1997.

In May 1997, Calhoun Electric Company, Inc., a Texas S Corporation, transferred its assets and liabilities to Calhoun Electric Company, Ltd. (CEC), a Texas limited partnership. Subsequent to this transfer, Calhoun Electric Company, Inc., a Texas S Corporation, reorganized as a Nevada S Corporation and changed its name to BW Consolidated, Inc.

The accompanying financial statements present BW Consolidated, Inc. (and its predecessors), together with its majority-owned subsidiaries on a consolidated basis. All significant intercompany activity has been eliminated in consolidation. Additionally, minority interests in subsidiaries of BW Consolidated, Inc. have been reflected as "Minority Interest in Consolidated Subsidiary" in the accompanying consolidated financial statements.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. Additionally, in October 1997, the majority shareholder of the Company transferred 15 percent of its interest in CEC to a former shareholder of Calhoun Electric Company, Inc. and current employee of CEC. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents.

Supplemental Cash Flow Information (in thousands)

The Company had the following noncash investing and financing activities for the years ended December 31, 1994, 1995, 1996, and for the year ended September 30, 1997, the nine months ended September 30, 1996 and 1997 and the period from October 1, 1997 through January 30, 1998:

	1994	1995	1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS SEPTEMBER 30, 1996	NINE MONTHS SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
					(UNAUDITED)		
Property and equipment purchased with direct financing	$ --	$ 25	$ --	$ 141	$ --	$ 141	$ --
Like-kind exchange of equipment	--	15	6	6	--	6	--
Employee Stock Option Plan contribution through stock distribution	30	25	--	--	--	--	--
Exchange of property and equipment for note receivable	--	--	--	18	--	18	--
Land distribution	--	--	--	--	--	--	2,205
Debt distribution	--	--	--	--	--	--	(966)

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the average cost method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts,"' represents billings in excess of revenues recognized.

Warranty Costs

The Company warrants labor for the first year after installation of new electrical systems and servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company has elected S Corporation status effective January 1, 1996, as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes (see Note 7). The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings (see Note 1).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncements

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the consolidated financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	10	$ 2,783	$ 3,446	$ 3,953
Machinery and equipment	5-10	709	673	684
Land and buildings	40	2,592	2,592	2,941
Furniture, fixtures and office equipment	3-15	680	926	965
		6,764	7,637	8,543
Less -- Accumulated depreciation and amortization		(2,839)	(3,028)	(3,337)
Property and equipment, net		$ 3,925	$ 4,609	$ 5,206

4. DETAIL OF CERTAIN CONSOLIDATED BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 80	$ 82	$ 105
Additions to costs and expenses	27	127	49
Deductions for uncollectible receivables written off and recoveries	(25)	(90)	(30)
Balance at end of period	$ 82	$ 119	$ 124

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 1,134	$ 1,191	$ 1,441
Wages	700	407	470
Insurance	238	146	83
Contract costs	141	207	208
Warranty reserve	83	99	97
Other	22	81	101
Total accounts payable and accrued expenses	$ 2,318	$ 2,131	$ 2,400

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Amended contract amount	$ 15,945	$ 18,918	$ 16,983
Revenue recognized to date	7,953	11,105	8,663
Unearned contract amount, backlog	$ 7,992	$ 7,813	8,320
Costs incurred on uncompleted contracts	$ 5,647	$ 8,298	6,433
Estimated earnings	2,306	2,807	2,230
Total contract revenue earned to date	7,953	11,105	8,663
Less-- Billings to date	8,403	11,711	9,278

Net overbilled open contracts	(450)	(606)	(615)
Unbilled completed contracts	30	39	(1)
	$ (420)	$ (567)	$ (616)
Costs and estimated earnings in excess of billings	$ 186	$ 182	$ 224
Billings in excess of costs and estimated earnings	(606)	(749)	(840)
	$ (420)	$ (567)	$ (616)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note payable to a bank, interest at prime plus .75 percent (prime rate at 8.50 percent at September 30, 1997, principal and interest due monthly of $10 maturing in March 2004, secured by certain real estate	$ 678	$ 632	$ 586
Note payable to a corporation, interest at 7 percent, principal and interest due monthly of $2 maturing in July 2004, secured by certain real estate	140	128	--
Note payable to a bank, interest at prime, principal and interest due monthly of $3, maturing in November 2003, secured by certain real estate	205	190	179
Note payable to a bank, interest at prime plus .75 percent, principal and interest due monthly of $2 maturing in February 2007, secured by real estate	--	--	$ 173
Notes payable to manufacturers, interest at 7.9 percent, principal and interest due monthly of $3, maturing in December 1996 and May 1997, secured by certain equipment	43	5	--
Notes payable to a bank, interest at 8.25 percent, principal and interest due monthly of $6, maturing in July and October 1996, secured by certain vehicles and equipment	50	--	--
Various notes payable to a bank, interest ranging from 7.9 percent to 8.25 percent, principal and interest due monthly of $7, maturing in July through November 1996, secured by certain vehicles, machinery and office equipment	49	--	--
Total debt	1,165	955	938
Less-- current maturities	214	94	96
Long-term debt less current maturities	$ 951	$ 861	$ 842

The maturities of long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 96
1999	112
2000	116
2001	126
2002	138
Thereafter	350
	$ 938

The Company had two lines of credit. The first line of credit for $750,000, secured by BEC accounts receivable, inventory and equipment, requires monthly payments of interest at 1 percent over the prime rate. At December 31, 1995 and 1996 and at September 30, 1997, respectively, there were no advances outstanding against the line and the full $750,000 was available. The note maturity date was April 1998. The second line of credit for $500,000, secured by CEC accounts receivable, inventory, equipment and trucks, requires monthly payments of interest at 1/2 percent over the prime rate. During the 1997, this line of credit agreement was renewed and was increased from $300,000 to $500,000. At December 31, 1995 and 1996, respectively, there were no advances outstanding against the line and the full $300,000 was available. At September 30, 1997, there was no advance outstanding against the line and the full $500,000 was available. The note maturity date was May 1998.

The Company had an irrevocable letter of credit from a bank in the amount of $199,000 in favor of the Company's workers' compensation carrier. The expiration date was July 1, 1997. Security for this letter of credit consisted of the assignment of $125,000 in certificates of deposit and a second lien on real estate of the Company, and the personal guarantee of the major stockholder.

All of the long-term debt of the Company was paid off with the proceeds from the initial public offering of IES concurrent with the acquisition of the Company by IES. None of the debt instruments have been renewed.

6. LEASES:

The Company leased undeveloped property from the majority stockholder for storage of equipment and trailers. The lease was entered into on July 1, 1994, and expired on June 30, 1997, and was on a month-to-month basis. The consideration for this lease was $8,000, $17,000, $19,000, $15,000 and $7,000 for the years ended December 31, 1994, 1995, 1996 and September 30, 1997 and the period from October 1, 1997 through January 30, 1998, respectively.

7. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Federal --		
Current	$ 663	$ 1,118
Deferred	26	(45)
State --		
Current	83	157
Deferred	--	8
	$ 772	$ 1,238

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 34% to income before provision for income taxes as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Provision at the statutory rate	$ 704	$ 1,112
State income tax, net of benefit for federal deduction	54	107
Other	14	19
	$ 772	$ 1,238

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following:

	DECEMBER 31, 1995
Deferred income tax assets --	
Allowance for bad debt	$ 4
Accrued liabilities and expenses	122
Total deferred income tax asset	126
Deferred income tax liabilities --	
Property and equipment	(306)
Total deferred income tax liability	(306)
Net deferred income tax liability	$ (180)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31, 1995
Deferred tax assets --	
Current	$ 126
Long-term	--
Total	$ 126
Deferred tax liabilities --	
Current	$ --
Long-term	(306)

Total	$ (306)

Effective January 1, 1996, the Company elected S Corporation status for Calhoun Electric and partnership status for Bexar Electric. The Company will no longer be directly responsible for any deferred tax liability which might exist. The removal of the deferred tax liability which existed as of December 31, 1995, is recognized in the 1996 consolidated statement of operations (see Note 2).

8. RELATED-PARTY TRANSACTIONS:

Notes receivable from a stockholder consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note receivable, secured by a second lien on real estate, interest at 7.5 percent, payable in 60 quarterly installments of $3	$ 107	$ --	$ --
Note receivable, unsecured, interest at 7.45 percent, payments due annually in January of 15 percent of principal plus accrued interest, balance due in January 2000	405	--	--
Total notes receivable from a stockholder	512	--	--
Current portion	42	--	--
Noncurrent portion	$ 470	$ --	$ --

The Company recognized interest income from a stockholder of $0, $30,000, $13,000, $5,000 and $0, in 1994, 1995, 1996 and for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

9. EQUITY:

In 1991, the Company adopted an employee stock ownership plan (ESOP) for the benefit of the Company's employees. The plan covered substantially all employees of the Company. The Company's contributions to the plan are at the discretion of the board of directors, but may not exceed the maximum allowable deduction permitted under the Internal Revenue Code at the time of the contribution. Under this ESOP plan, employees cannot make contributions to the plan. The Company made a contribution of $35,000 and $25,000 in 1994 and 1995, respectively. Effective December 8, 1995, the Company has requested and received approval from the Internal Revenue Service to terminate the ESOP plan. In accordance with the termination of the ESOP, the Company repurchased as treasury stock 5,088 shares for $961,000.

In 1996, the Company sold a minority interest in the limited partnership of Bexar Electric to certain employees of the Company. The minority interest is considered a limited partner; the minority interest held 10 percent and 20 percent at December 31, 1996 and September 30, 1997, respectively.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable from stockholders, accounts payable, a line of credit, notes payable and long-term debt. The Company believes that the carrying value of these instruments on the accompanying consolidated balance sheets approximates their fair value.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's consolidated financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 11 percent of total sales to one major customer during the year ended December 31, 1996.

The Company had accounts receivable balances of approximately 15 percent and 14 percent of total accounts receivable from two major customers as of December 31, 1996, and approximately 10% due from one major customer for the year ended September 30, 1997.

The Company had cash and cash equivalents in financial institutions which exceeded the federally insured limits by $911,000, $269,000 and $858,000 at December 31, 1995 and 1996, and September 30, 1997, respectively.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily general contractors, located in Central and South Texas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the state of Texas. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Muth Electric, Inc.:

We have audited the accompanying balance sheets of Muth Electric, Inc., a South Dakota corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muth Electric, Inc., as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

MUTH ELECTRIC, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 53	$ 82	$ 81
Accounts receivable--			
Trade, net of allowance of $55, $63 and $91, respectively	1,718	2,556	3,154
Retainage	417	212	383
Related party	--	74	246
Inventories	750	820	898
Costs and estimated earnings in excess of billings on uncompleted contracts	545	436	675
Prepaid expenses and other current assets	150	140	135
Total current assets	3,633	4,320	5,572
PROPERTY AND EQUIPMENT, net	946	1,140	1,133
Total assets	$ 4,579	$ 5,460	$ 6,705
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Notes payable	$ --	$ 530	$ 540
Accounts payable and accrued expenses	1,621	1,680	2,177
Billings in excess of costs and estimated earnings on uncompleted contracts	305	180	543
Total current liabilities	1,926	2,390	3,260
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $100 par value, 3,000 shares authorized, 737 shares issued and outstanding	74	74	74
Retained earnings	2,579	2,996	3,371
Total stockholder's equity	2,653	3,070	3,445
Total liabilities and stockholder's equity	$ 4,579	$ 5,460	$ 6,705

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

MUTH ELECTRIC, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED SEPTEMBER 30,	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30,
	1994	1995	1996	1996	1997	1997	1998
				(UNAUDITED)			
REVENUES	$ 13,466	$ 16,012	$ 16,830	$ 12,517	$ 14,466	$ 18,779	$ 8,028
COST OF SERVICES (including depreciation)	9,805	12,189	12,834	9,751	11,428	14,511	6,164
Gross profit	3,661	3,823	3,996	2,766	3,038	4,268	1,864
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,678	2,923	2,957	2,147	2,264	3,074	1,179
Income from operations	983	900	1,039	619	774	1,194	685
OTHER INCOME (EXPENSE):							
Interest income (expense)	6	11	(24)	(17)	(20)	(27)	(6)
Other	(79)	(95)	27	22	(4)	1	3
Other income (expense), net	(73)	(84)	3	5	(24)	(26)	(3)
NET INCOME	$ 910	$ 816	$ 1,042	$ 624	$ 750	$ 1,168	$ 682

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

MUTH ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1996	1997
				(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 910	$ 816	$ 1,042	$ 624	$ 750
Adjustments to reconcile net income to net cash provided by operating activities--					
Depreciation and amortization	142	185	224	194	182
Loss (gain) on sale of property and equipment	(6)	16	(28)	(16)	(14)
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	(260)	70	(674)	(406)	(941)
Inventories	31	(38)	(70)	(66)	(78)
Costs and estimated earnings in excess of billings on uncompleted contracts	579	(291)	70	(44)	(239)
Prepaid expenses and other current assets	(41)	5	10	96	5
Increase (decrease) in--					
Accounts payable and accrued expenses	(478)	525	59	105	497
Billings in excess of costs and estimated earnings on uncompleted contracts	(252)	(95)	(119)	47	363
Net cash provided by operating activities	625	1,193	514	534	525
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property and equipment	11	5	53	34	23
Additions of property and equipment	(201)	(560)	(443)	(401)	(184)
Net cash provided by (used in) investing activities	(190)	(555)	(390)	(367)	(161)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net borrowings (payments) or notes payable	--	--	530	240	10
Payments on short-term borrowings	--	--	--	--	--
Payments of long-term loan receivable	390	--	--	--	--
Distributions to stockholders	(715)	(722)	(625)	(375)	(375)
Net cash used in financing activities	(325)	(722)	(95)	(135)	(365)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110	(84)	29	32	(1)
CASH AND CASH EQUIVALENTS, beginning of period	27	137	53	53	82
CASH AND CASH EQUIVALENTS, end of period	$ 137	$ 53	$ 82	$ 85	$ 81
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 9	$ 4	$ 33	$ 25	$ 28

	YEAR ENDED SEPTEMBER 30,	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30,
	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,168	$ 682
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	212	91
Loss (gain) on sale of property and equipment	(26)	1
Changes in operating assets and liabilities --		
(Increase) decrease in --		
Accounts receivable	(1,209)	1,653
Inventories	(82)	16
Costs and estimated earnings in excess of		

billings on uncompleted contracts	(125)	(403)
Prepaid expenses and other current assets	(81)	(7)
Increase (decrease) in--		
Accounts payable and accrued expenses	451	(72)
Billings in excess of costs and estimated earnings on uncompleted contracts	197	11
Net cash provided by operating activities	505	1,972
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	42	109
Additions of property and equipment	(226)	(57)
Net cash provided by (used in) investing activities	(184)	52
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) or notes payable	300	1,680
Payments on short-term borrowings	--	(1,070)
Payments of long-term loan receivable	--	--
Distributions to stockholders	(625)	(2,495)
Net cash used in financing activities	(325)	(1,885)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4)	139
CASH AND CASH EQUIVALENTS, beginning of period	85	81
CASH AND CASH EQUIVALENTS, end of period	$ 81	$ 220
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for --		
Interest	$ 36	$ 32

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

MUTH ELECTRIC, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1993	737	$ 74	$ 2,290	$ 2,364
Distributions to stockholders	--	--	(715)	(715)
Net income	--	--	910	910
BALANCE, December 31, 1994	737	74	2,485	2,559
Distributions to stockholders	--	--	(722)	(722)
Net income	--	--	816	816
BALANCE, December 31, 1995	737	74	2,579	2,653
Distributions to stockholders	--	--	(625)	(625)
Net income	--	--	1,042	1,042
BALANCE, December 31, 1996	737	74	2,996	3,070
Distributions to stockholders (unaudited)	--	--	(375)	(375)
Net income (unaudited)	--	--	750	750
BALANCE, September 30, 1997	737	$ 74	$ 3,371	$ 3,445
Distributions to stockholders	--	--	(2,495)	(2,495)
Net income	--	--	682	682
BALANCE, January 30, 1998	737	$ 74	$ 1,558	$ 1,632

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

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Muth Electric, Inc. (the Company), a South Dakota corporation, focuses on providing electrical system installation and repair services primarily for residential and commercial facilities. The Company performs the majority of its contract work under fixed-price contracts with contract terms generally ranging from one to 12 months. The Company performs the majority of its work in South Dakota and surrounding states.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the estimated useful life of the asset. Depreciation expense was approximately $142,000, $185,000, $224,000, $212,000 and $91,000 for the years ended December 31, 1994, 1995, 1996 and September 30, 1997 and the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

The Company warrants labor and materials for the first year after installation of new electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable, as well as provides a general reserve for potential unknown adjustments.

Income Taxes

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes. The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 9 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5	$ 806	$ 868	$ 890
Machinery and equipment	7	466	635	707
Leasehold improvements	40	409	479	517
Furniture and fixtures	5	403	425	444
		2,084	2,407	2,558
Less -- Accumulated depreciation and amortization		(1,138)	(1,267)	(1,425)
Property and equipment, net		$ 946	$ 1,140	$ 1,133

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 60	$ 55	$ 63
Additions (deductions) to costs and expenses	(5)	8	28
Balance at end of period	$ 55	$ 63	$ 91

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 652	$ 757	$ 1,258
Accrued compensation and benefits	376	520	435
Other accrued expenses	593	403	484
	$ 1,621	$ 1,680	$ 2,177

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 9,215	$ 7,159	$ 7,250
Estimated earnings, net of losses	1,914	1,277	2,082
	11,129	8,436	9,332
Less-- Billings to date	(10,889)	(8,180)	(9,200)
	$ 240	$ 256	$ 132
Costs and estimated earnings in excess of billings on uncompleted contracts...............	$ 545	$ 436	$ 675
Less: Billings in excess of costs and estimated earnings on uncompleted contracts	(305)	(180)	(543)
	$ 240	$ 256	$ 132

========	========	========

5. LINE OF CREDIT:

The Company has three lines of credit with a bank totaling $1,140,000 of available credit. The line of credit expires January 1998 and bears interest at 9 percent. The line of credit is unsecured. At September 30, 1997, borrowings outstanding under the line of credit were $540,000.

6. EMPLOYEE BENEFIT PLAN:

The Company has a defined 401(k) contribution profit-sharing plan. The Plan provides for the Company to match one-half of the first 5 percent contributed by each employee. Total contributions by the Company under the plan were approximately $83,000, $93,000, $85,000 and $28,000 for the years ending December 31, 1995, 1996 and September 30, 1997 and the period from October 1, 1997 through January 30, 1998, respectively. The Company may also make discretionary contributions. The Company declared discretionary contributions of $70,000 and $65,000 for the years ended December 31, 1995 and 1996, respectively, and had accrued approximately $74,000 at December 31, 1996, relating to all contributions to be funded in the subsequent fiscal year.

7. RELATED-PARTY TRANSACTIONS:

The Company periodically will obtain loans from the stockholder to meet current cash needs. The Company will also loan out excess funds to the stockholder. Loans neither to nor from the stockholder are charged interest. A total of $172,000 was due from a stockholder at September 30, 1997.

The Company has an outstanding trade receivable in the amount of $74,000 to a company owned by a member of the stockholder's family.

The Company also provides real estate management services to a company owned by the stockholder.

The Company leases facilities from the Company's stockholder. The leases expire annually. The rent paid under these related-party leases was approximately $95,000, $118,000, $115,000 and $41,000 for the years ended December 31, 1995 and 1996 and September 30, 1997 and the period from October 1, 1997 through January 30, 1998, respectively.

8. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, lines of credit, notes payable and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

9. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability, workers compensation and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

The Company is self-insured for medical claims up to $20,000 per year per covered individual. Claims in excess of these amounts are covered by a stop-loss policy. The Company has recorded reserves for its portion of self-insured claims based on estimated claims incurred through December 31, 1995 and 1996 or 1997.

10. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company did not have sales greater than 10 percent of total sales to any one customer during the years ended December 31, 1994, 1995 and 1996 or September 30, 1997 or the period from October 1, 1997 through January 30, 1998.

In addition, the Company grants credit, generally without collateral, to its customers located primarily in the Midwest region. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the Midwest. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Pollock Electric Inc.:

We have audited the accompanying balance sheets of Pollock Electric Inc., a Texas corporation, as of October 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pollock Electric Inc. as of October 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

POLLOCK ELECTRIC INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 302	$ 222	$ 347
Accounts receivable--			
Trade, net of allowance of $96, $178 and $175, respectively	2,204	4,030	4,536
Retainage	99	566	765
Other receivables	40	4	13
Inventories, net	--	--	18
Costs and estimated earnings in excess of billings on uncompleted contracts	399	202	767
Deferred tax asset	161	263	343
Prepaid expenses and other current assets	49	115	198
Total current assets	3,254	5,402	6,987
PROPERTY AND EQUIPMENT, net	280	341	379
Total assets	$ 3,534	$ 5,743	$ 7,366
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Notes payable and capital lease obligations	$ 28	$ 67	$ 167
Advances outstanding under line of credit	625	1,350	1,610
Accounts payable and accrued expenses	1,378	3,013	3,335
Income taxes payable	354	181	231
Billings in excess of costs and estimated earnings on uncompleted contracts	234	317	889
Unearned revenue and other current liabilities	14	13	146
Total current liabilities	2,633	4,941	6,378
CAPITAL LEASE OBLIGATIONS, net of current portion	75	75	71
DEFERRED TAX LIABILITY	20	20	21
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $1 par value, 1,000,000 shares authorized, 1,000 shares issued and outstanding	1	1	1
Additional paid-in capital	9	9	9
Retained earnings	796	697	886
Total stockholder's equity	806	707	896
Total liabilities and stockholder's equity	$ 3,534	$ 5,743	$ 7,366

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

POLLOCK ELECTRIC INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED OCTOBER 31, 1995	YEAR ENDED OCTOBER 31, 1996	ELEVEN MONTHS ENDED SEPTEMBER 30, 1996	ELEVEN MONTHS ENDED SEPTEMBER 30, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
			(UNAUDITED)			
REVENUES	$ 13,002	$ 15,816	$ 13,305	$ 17,780	$ 20,291	$ 8,984
COST OF SERVICES (including depreciation)	10,602	13,534	11,646	14,782	16,670	8,345
Gross profit	2,400	2,282	1,659	2,998	3,621	639
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,149	2,463	2,083	2,515	2,895	1,644
Income (loss) from operations	251	(181)	(424)	483	726	(1,005)
OTHER INCOME (EXPENSE):						
Interest expense	(77)	(104)	(87)	(155)	(172)	(67)
Other	--	156	154	1	3	24
Other income (expense), net	(77)	52	67	(154)	(169)	(43)
INCOME (LOSS) BEFORE INCOME TAXES	174	(129)	(357)	329	557	(1,048)
PROVISION (BENEFIT) FOR INCOME TAXES	82	(30)	(104)	140	214	(393)
NET INCOME (LOSS)	$ 92	$ (99)	$ (253)	$ 189	$ 343	$ (655)

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

POLLOCK ELECTRIC INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED OCTOBER 31, 1995	YEAR ENDED OCTOBER 31, 1996	ELEVEN MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	ELEVEN MONTHS ENDED SEPTEMBER 30, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$ 92	$ (99)	$ (253)	$ 189	$ 343	$ (655)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --						
Depreciation and amortization	64	107	83	107	131	111
Deferred income taxes	(141)	(103)	(146)	(78)	(35)	(76)
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	577	(2,257)	(1,492)	(714)	(1,479)	(587)
Inventories	--	--	--	(18)	(18)	--
Costs and estimated earnings in excess of billings on uncompleted contracts	(164)	197	(134)	(565)	(234)	343
Prepaid expenses and other current assets	(30)	(41)	(71)	(83)	(78)	83
Increase (decrease) in --						
Accounts payable and accrued expenses	(546)	1,635	815	323	1,143	(237)
Income taxes payable	170	(172)	(243)	49	120	(231)
Billings in excess of costs and estimated earnings on uncompleted contracts	9	83	636	572	19	281
Unearned revenue and other current liabilities	(31)	(1)	29	133	103	(146)
Net cash provided by (used in) operating activities	--	(651)	(776)	(85)	15	(1,114)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Additions of property and equipment	(77)	(154)	(112)	(133)	(175)	(29)
Net cash used in investing activities	(77)	(154)	(112)	(133)	(175)	(29)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Net borrowings under line of credit	241	725	609	343	484	800
Net cash provided by financing activities	241	725	609	343	484	800
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	164	(80)	(279)	125	324	(343)
CASH AND CASH EQUIVALENTS, beginning of period	138	302	302	222	23	347
CASH AND CASH EQUIVALENTS, end of period	$ 302	$ 222	$ 23	$ 347	$ 347	$ 4
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 77	$ 104	$ 88	$ 155	$ 171	$ 37
Income taxes	$ 21	$ 245	$ 245	$ 38	$ 38	$ --

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

POLLOCK ELECTRIC INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, October 31, 1994	1,000	$ 1	$ 9	$ 704	$ 714
Net income	--	--	--	92	92
BALANCE, October 31, 1995	1,000	1	9	796	806
Net loss	--	--	--	(99)	(99)
BALANCE, October 31, 1996	1,000	1	9	697	707
Net income (unaudited)	--	--	--	189	189
BALANCE, September 30, 1997	1,000	$ 1	$ 9	$ 886	$ 896
Net loss	--	--	--	(655)	(655)
BALANCE, January 30, 1998	1,000	$ 1	$ 9	$ 231	$ 241

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

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Pollock Electric Inc., a Texas corporation (the Company), provides electrical system installation, data and fiber optic cabling installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed-price contracts, with contract terms generally ranging from one to 12 months. The Company performs the majority of its work in the commercial and industrial markets in Harris County, Texas, and surrounding areas.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the eleven months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was approximately $64,000, $107,000, $131,000 and $111,000 for the years ended October 31, 1995 and 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reasonably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor and materials for the first year after installation of new electrical systems. The Company generally warrants labor for one year after servicing existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

Accounts receivable at October 31, 1995 and 1996 and September 30, 1997, include immaterial amounts of claims and unapproved change orders, however, the Company generally does not recognize change orders until they are approved.

The Company provides an allowance for doubtful accounts based upon a percentage of gross sales revenue. In addition, the Company reserves for specific accounts when collection of such accounts is no longer probable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred tax assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	4-5	$ 95	$ 132	$ 143
Machinery and equipment	5-7	221	267	331
Computer and telephone equipment	5	161	201	259
Leasehold improvements	5-39	71	107	119
Furniture and fixtures	5-7	15	24	24
		563	731	876
Less -- Accumulated depreciation and amortization		(283)	(390)	(497)
Property and equipment, net		$ 280	$ 341	$ 379

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 68	$ 96	$ 178
Additions to costs and expenses	59	108	26
Deductions for uncollectible receivables written off and recoveries	(31)	(26)	(29)
Balance at end of period	$ 96	$ 178	$ 175

Accounts payable and accrued expenses consist of the following (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 944	$ 2,553	$ 2,859
Accrued compensation and benefits	301	344	302
Other accrued expenses	133	116	174
	$ 1,378	$ 3,013	$ 3,335

Electrical system installation contracts in progress are as follows (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 1,300	$ 6,592	$ 9,484
Estimated earnings, net of losses	239	742	1,748
	1,539	7,334	11,232
Less -- Billings to date	(1,374)	(7,449)	(11,354)
	$ 165	$ (115)	$ (122)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 399	$ 202	$ 767
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(234)	(317)	(889)
	$ 165	$ (115)	$ (122)

========	========	========

5. LINE OF CREDIT:

The Company has a $2,500,000 line of credit with a bank. At October 31, 1995 and 1996 and September 30, 1997, unpaid borrowings were $625,000, $1,350,000 and $1,610,000, respectively. The line of credit expires February 28, 1998, and bears interest at the bank's prime lending rate plus 1 percent. The line of credit is personally guaranteed by Jon Pollock, sole stockholder and president of the Company, and is secured by all accounts, contract rights, chattel paper, instruments, general intangibles, rights to payments of any kind, all interest of the Company in any goods, and a blanket lien of all property and equipment. The borrowing base is limited to 75 percent of eligible accounts receivable that are outstanding less than 60 days from the invoice date.

Interest is computed monthly on the unpaid balance and is payable monthly. The Company has restrictive and various financial covenants with which the Company was in compliance at September 30, 1997.

6. LEASES:

The Company leases its office space from its sole stockholder and president under a lease agreement with a primary lease term of one year beginning November 15, 1991. At the expiration of the primary lease term, the Company exercised its option to extend the lease for an additional five-year period. Effective November 1, 1995, the lease agreement was modified to include additional office space. The basic rent was increased to $3,000 per month, and the expiration date was extended to November 30, 1998.

In addition to the basic lease cost, the Company must pay insurance, actual taxes, maintenance and other operating costs. The rent paid under this related-party lease was approximately $20,000, $36,000, $36,000 and $12,000 for the years ended October 31, 1995 and 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

Future minimum lease payments under this noncancelable operating lease are as follows (in thousands):

	OCTOBER 31,	SEPTEMBER 30,
1997	$ 36	$ --
1998	36	36
1999	3	6
	$ 75	$ 42

Certain vehicles and equipment have been leased under terms that constitute capital leases. Accordingly, the costs of the assets (the lower of the cash purchase price or the present value of the future minimum lease payments) were recorded as an addition to property and the related liabilities were recorded as lease obligations. The assets are amortized using the straight-line method, and interest expense is recorded on the basis of the outstanding lease obligation.

The net present value of future minimum lease payments under the capital leases as recorded in short-term and long-term debt at October 31, 1996 and September 30, 1997, are as follows (in thousands):

Year ending October 31--	
1997	$ 54
1998	51
1999	32
Total lease payments	137
Less -- Amounts representing interest	(16)
Present value of minimum lease payments	$ 121
Year ending September 30--	
1998	$ 71
1999	54
2000	20
2001	7
Total lease payments	152
Less -- Amounts representing interest	(19)
Present value of minimum lease payments	$ 133

7. INCOME TAXES:

Federal and state income taxes are as follows (in thousands):

	YEAR ENDED OCTOBER 31, 1995	YEAR ENDED OCTOBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Federal --				
Current	$ 259	$ 72	$ 318	$ (210)
Deferred	(187)	(99)	(122)	(137)
State --				
Current	35	10	39	--
Deferred	(25)	(13)	(21)	(46)
	$ 82	$ (30)	$ 214	$ (393)

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 35 percent to income (loss) for income taxes as follows (in thousands):

	YEAR ENDED OCTOBER 31, 1995	YEAR ENDED OCTOBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Income tax expense (benefit) at the statutory rate	$ 61	$ (45)	$ 194	$ (367)
Increase (decrease) resulting from --				
State income taxes, net of related tax effect	6	(2)	12	(31)
Nondeductible expenses	15	17	8	5
	$ 82	$ (30)	$ 214	$ (393)

Deferred income taxes result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Deferred income tax assets --			
Bad debt reserve	$ 42	$ 51	$ 53
Warranty reserve	28	44	49
Contracts	51	50	75
Accrued expenses	40	118	166
Total deferred income tax assets	161	263	343
Deferred income tax liabilities --			
Property and equipment	(17)	(17)	(52)
State taxes	(1)	(4)	(4)
Contracts	(116)	(103)	(208)
Total deferred income tax liabilities ..	(134)	(124)	(264)
Net deferred income tax assets	$ 27	$ 139	$ 79

The net deferred tax assets and liabilities are comprised of the following (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			

Current	$ 161	$ 263	$ 343
Long-term	--	--	--
Total	161	263	343
Deferred tax liabilities --			
Current	(114)	(104)	(243)
Long-term	(20)	(20)	(21)
Total	(134)	(124)	(264)
Net deferred income tax assets	$ 27	$ 139	$ 79

8. RELATED-PARTY TRANSACTIONS:

The Company leases its office space from its sole stockholder and president. Total payments made under this lease agreement were approximately $20,000, $36,000, $36,000 and $12,000 for the years ended October 31, 1995 and 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively. (See Note 6).

In 1995, the Company encouraged its employees to purchase personal computers by making the down payments for the purchases. The employees are repaying the Company through payroll deductions. The outstanding amounts are classified as accounts receivable, other in the accompanying balance sheets.

9. EMPLOYEE BENEFIT PLANS:

Stock Appreciation Plan

On May 4, 1994, the Company adopted a stock appreciation rights plan titled the Stock Unit Plan (the Plan). Under the Plan, stock rights or units were awarded to employees valued at the book value of the Company's stock at that date. Subsequent increases in the book value of the stock accrue to the benefit of the officer or employee, while decreases in the book value reduce accrued benefits. Payments of amounts accrued under the Plan are payable at retirement or resignation from the Company, except for cases of termination with cause, at which time the units and benefits are forfeited. Deferred compensation liability accrued under the Plan totaled $11,500, $17,435 and $17,435 at October 31, 1995 and 1996 and September 30, 1997, respectively. The change in the value of the stock appreciation rights under the Plan are recorded as compensation expense as the Company's net book value fluctuates.

Stock Purchase Agreement

The Company has entered into various agreements with certain of its officers to provide for business continuity in the event of the death of the Company's president and sole stockholder. The agreements provide for the purchase of life insurance on the Company's president through split-dollar arrangements and term insurance to provide funds for the officers of the Company to acquire the president's stock in the event of his death. All amounts advanced by the Company to pay premiums that are not subject to reimbursement from the officers shall be collectible by the Company from the net equity of the insurance policy or from the proceeds paid thereon.

Profit-Sharing and 401(k) Plan

Effective November 1, 1994, the Company established a defined contribution plan for its employees. Employees over the age of 21 are eligible to participate after one year of service with the Company. Under this plan, employees may elect to defer up to 15 percent of their salary, subject to Internal Revenue Code limits. The Company may make a discretionary match as well as a discretionary profit-sharing contribution. The Company's contribution for the years ended October 31, 1995 and 1996, totaled $16,970 and $22,466, respectively, and the Company has accrued approximately $21,500 at September 30, 1997, for contributions to be funded in the subsequent fiscal year.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, a line of credit and notes payable. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, workers' compensation, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 16 percent of total sales to one major customer during the years ended October 31, 1995 and 1996. During the year ended September 30, 1997, the Company had sales of approximately 11% and 10% of total sales to two major customers. During the period from October 1, 1997 through January 30, 1998, the Company had sales of approximately 25% and 12% of total sales to two major customers.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors located primarily in Harris County, Texas, and surrounding areas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial markets in this geographic region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Charles P. Bagby, Co., Inc.:

We have audited the accompanying balance sheets of Charles P. Bagby, Co., Inc., an Alabama S-Corporation, as of December 31, 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years ended December 31, 1996 and September 30, 1997 and for the nine months ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles P. Bagby, Co., Inc. as of December 31, 1996 and September 30, 1997, and the results of its operations and its cash flows for the years ended December 31, 1996 and September 30, 1997, and for the nine months ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

CHARLES P. BAGBY, CO., INC.

BALANCE SHEETS
(IN THOUSANDS)

ASSETS

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 624	$ 851
Accounts receivable --		
Trade, net of allowance of $42 and $48, respectively	1,186	1,289
Retainage	444	602
Notes receivable, related party	2	15
Costs and estimated earnings in excess of billings on uncompleted contracts	167	755
Prepaid expenses and other current assets	359	323
Total current assets	2,782	3,835
PROPERTY AND EQUIPMENT, net	221	246
Total assets	$ 3,003	$ 4,081

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 1,402	$ 1,821
Billings in excess of costs and estimated earnings on uncompleted contracts	66	366
Total current liabilities	1,468	2,187
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Common stock, $1 par value, 1,000 shares authorized and outstanding	1	1
Retained earnings	1,534	1,893
Total stockholder's equity	1,535	1,894
Total liabilities and stockholder's equity	$ 3,003	$ 4,081

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

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM, OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
		(UNAUDITED)			
REVENUES	$ 7,634	$ 5,105	$ 9,243	$ 11,772	$ 2,623
COST OF SERVICES (including depreciation)	6,412	4,419	7,927	9,920	2,417
Gross profit	1,222	686	1,316	1,852	206
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	680	364	824	1,140	(6)
Income from operations	542	322	492	712	212
OTHER INCOME (EXPENSE):					
Other	39	37	(4)	(2)	4
Other income (expense), net	39	37	(4)	(2)	4
NET INCOME	$ 581	$ 359	$ 488	$ 710	$ 216

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

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 581	$ 359	$ 488	$ 710	$ 216
Adjustments to reconcile net income to net cash provided by (used in) operating activities --					
Depreciation and amortization	21	15	17	23	6
Changes in operating assets and liabilities -- (Increase) decrease in --					
Accounts receivable	(764)	(159)	(274)	(879)	484
Costs and estimated earnings in excess of billings on uncompleted contracts	(15)	94	(588)	(697)	579
Prepaid expenses and other current assets	(136)	(183)	36	83	17
Increase (decrease) in --					
Accounts payable and accrued expenses	130	(582)	419	1,131	(1,097)
Billings in excess of costs and estimated earnings on uncompleted contracts	51	37	301	315	(259)
Other, net	30	20	2	12	19
Net cash provided by (used in) operating activities	(102)	(399)	401	698	(35)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions of property and equipment	(20)	(16)	(54)	(48)	(1)
Net cash used in investing activities	(20)	(16)	(54)	(48)	(1)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Short-term borrowings	--	--	230	230	650
Payments on short-term borrowings	--	--	(230)	(230)	--
Distributions to shareholders	(360)	(10)	(120)	(480)	(1,408)
Net cash used in financing activities	(360)	(10)	(120)	(480)	(758)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(482)	(425)	227	170	(794)
CASH AND CASH EQUIVALENTS, beginning of period	1,106	1,106	624	681	851
CASH AND CASH EQUIVALENTS, end of period	$ 624	$ 681	$ 851	$ 851	$ 57
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 1	$ 1	$ 10	$ 10	$ --

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

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1995	1,000	$ 1	$ 1,283	$ 1,284
Distributions to shareholder	--	--	(360)	(360)
Net unrealized gains	--	--	30	30
Net income	--	--	581	581
BALANCE, December 31, 1996	1,000	1	1,534	1,535
Distributions to shareholder	--	--	(120)	(120)
Net unrealized losses	--	--	(9)	(9)
Net income	--	--	488	488
BALANCE, September 30, 1997	1,000	1	1,893	1,894
Distributions to shareholders	--	--	(1,886)	(1,886)
Net Income	--	--	216	216
BALANCE, January 30, 1998	1,000	$ 1	$ 223	$ 224

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

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Charles P. Bagby, Co., Inc. (an Alabama S-Corporation), and its majority-owned subsidiary, Haymaker Electric, Ltd. (collectively, the "Company"), focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under cost-plus-fee contracts and fixed price contracts, with contract terms generally ranging from two to 18 months. The Company performs the majority of its work in the state of Alabama. All significant intercompany activity has been eliminated in consolidation.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents.

Supplemental Cash Flow Information (in thousands)

The Company had the following noncash investing and financing activities for the period from October 1, 1997 through January 30, 1998:

	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Property distributions	$ 176
Marketable securities distribution	265
Life insurance policy cash surrender value distribution	37

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was approximately $21,000, $23,000 and $6,000 for the years ended December 31, 1996 and September 30, 1997 and the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company is an Alabama sub-chapter S corporation and is not subject to federal income tax. The earnings of the Company are taxable to the individual stockholder.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5-6	$ 52	$ 84
Machinery and equipment	5-10	33	33
Buildings and leasehold improvements	40	208	208
Furniture and fixtures	3-10	83	93
		376	418
Less -- Accumulated depreciation and amortization		(155)	(172)
Property and equipment, net ...		$ 221	$ 246

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$22	$26
Additions to costs and expenses	20	22
Balance at end of period	$42	$48

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 685	$1,120
Accrued compensation and benefits	175	624
Other accrued expenses	542	77
	$1,402	$1,821

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 4,304	$ 5,937
Estimated earnings, net of losses	546	1,321
	4,850	7,258
Less -- Billings to date	(4,749)	(6,869)
	$ 101	$ 389
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 167	$ 755
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(66)	(366)
	$ 101	$ 389

5. LONG-TERM DEBT:

The Company had a $650,000 line of credit with a bank. The line of credit expired June 30, 1998, and bore interest at 1 percent over the prime lending rate. The line of credit was secured by a stockholder of a partner corporation. No borrowings were outstanding under this line of credit at December 31, 1996 or September 30, 1997. The line of credit was not renewed.

6. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan. The plan provides for the Company to match 3 percent of the gross salary of each employee subject to certain limitations. All participants are immediately fully vested. Total contributions by the Company under the plan were approximately $51,000, $106,000 and $23,000 for the years ended December 31, 1996 and September 30, 1997 and the period from October 1, 1997 through January 30, 1998, respectively.

7. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, a line of credit and short-term borrowings. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

8. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

9. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales comprising approximately 10%, 11% and 11% of total sales to three major customers during the years ended December 31, 1996 and September 30, 1997, respectively. The Company had sales comprising approximately 18%, 17%, 15% and 10% of total sales to four major customers during the period from October 1, 1997 through January 30, 1998.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Amber Electric, Inc.:

We have audited the accompanying balance sheets of Amber Electric, Inc., a Florida corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amber Electric, Inc. as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

AMBER ELECTRIC, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 83	$ 565	$ 988
Accounts receivable--			
Trade, net of allowance of $28, $40 and $51, respectively	1,159	1,382	2,365
Retainage	468	518	470
Inventories	39	28	25
Costs and estimated earnings in excess of billings on uncompleted contracts	25	151	119
Employee advances (Note 8)	2	29	4
Note receivable, related party (Note 8)	--	--	123
Deferred tax asset	36	65	63
Prepaid expenses and other current assets	22	--	54
Total current assets	1,834	2,738	4,211
PROPERTY AND EQUIPMENT, net	284	380	516
NOTE RECEIVABLE, related party (Note 8)	37	58	--
Total assets	$ 2,155	$ 3,176	$ 4,727

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 96	$ 133	$ 179
Line of credit	101	--	--
Accounts payable and accrued expenses	696	1,157	1,276
Income taxes payable	3	244	676
Billings in excess of costs and estimated earnings on uncompleted contracts	355	408	196
Note payable, related party (Note 8)	--	100	--
Other	129	97	122
Total current liabilities	1,380	2,139	2,449
LONG-TERM DEBT, net of current maturities	573	538	568
DEFERRED TAX LIABILITY	38	45	52
COMMITMENTS AND CONTINGENCIES (Note 11)			
STOCKHOLDER'S EQUITY:			
Common stock, $1 par value, 7,500 shares authorized, 1,100 shares issued and outstanding	1	1	1
Retained earnings	597	887	2,091
Treasury stock, 539 shares, at cost	(434)	(434)	(434)
Total stockholder's equity	164	454	1,658
Total liabilities and stockholder's equity	$ 2,155	$ 3,176	$ 4,727

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

AMBER ELECTRIC, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
REVENUES	$ 9,728	$13,878	$10,572	$13,080	$16,386	$ 6,677
COST OF SERVICES (including depreciation)	8,635	12,215	8,710	9,910	13,415	5,182
Gross profit	1,093	1,663	1,862	3,170	2,971	1,495
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	957	1,160	978	1,197	1,379	2,132
Income (loss) from Operations	136	503	884	1,973	1,592	(637)
OTHER INCOME (EXPENSE):						
Interest expense	(65)	(51)	(51)	(45)	(45)	(99)
Other	24	36	10	43	69	18
Other income (expense), Net	(41)	(15)	(41)	(2)	24	(81)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	95	488	843	1,971	1,616	(718)
PROVISION (BENEFIT) FOR INCOME TAXES	36	198	333	767	632	(276)
NET INCOME (LOSS)	$ 59	$ 290	$ 510	$ 1,204	$ 984	$ (442)

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

AMBER ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$ 59	$ 290	$ 510	$ 1,204	$ 984	$ (442)
Adjustments to reconcile net income (loss) to net cash Provided by (used in) operating activities--						
Depreciation and amortization	62	87	61	146	172	46
Bad debt expense	17	35	9	11	37	5
(Gain) Loss on sale of property and equipment	--	5	4	(1)	--	--
Increase in cash surrender value of life insurance Policy	(14)	--	--	--	--	--
Deferred income taxes	(41)	24	(31)	34	89	(24)
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	(299)	(308)	(112)	(946)	(1,142)	(1,633)
Inventories	15	11	3	3	11	(25)
Costs and estimated earnings in excess of billings on uncompleted contracts	(6)	(126)	(129)	32	35	(12)
Employee advances	14	(27)	(15)	25	13	4
Prepaid expenses and other current assets	(7)	22	(19)	(54)	(13)	41
Note receivable, related party	--	(21)	(21)	(65)	(65)	123
Increase (decrease) in --						
Accounts payable and accrued expenses	20	461	188	119	392	1,107
Billings in excess of costs and estimated earnings on uncompleted contracts	304	53	(171)	(212)	12	448
Income taxes payable	49	163	377	432	218	(295)
Other, net	4	1	--	(7)	(6)	--
Net cash provided by (used in) operating activities	177	670	654	721	737	(657)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	5	2	2	8	8	--
Additions of property and equipment	(155)	(190)	(157)	(290)	(323)	(142)
Net cash used in investing activities	(150)	(188)	(155)	(282)	(315)	(142)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Note payable, related party	--	100	--	(100)	--	--
Borrowings of line of credit	101	--	--	--	--	--
Payments of line of credit	(125)	(101)	(101)	--	--	--
Borrowings of long-term debt	104	131	95	200	236	707
Payments of long-term debt	(74)	(130)	(83)	(116)	(163)	(64)
Net cash provided by (used in) financing activities	6	--	(89)	(16)	73	643
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	33	482	410	423	495	(156)
CASH AND CASH EQUIVALENTS, beginning of period	50	83	83	565	493	988
CASH AND CASH EQUIVALENTS, end of period	$ 83	$ 565	$ 493	$ 988	$ 988	$ 832
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 65	$ 51	$ 51	$ 45	$ 45	$ 99
Income taxes	$ 27	$ 10	$ 8	$ 301	$ 303	$ 44

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

AMBER ELECTRIC, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK				
	SHARES	AMOUNT	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1994	1,100	$ 1	$ 538	$ (434)	$ 105
Net income	--	--	59	--	59
BALANCE, December 31, 1995	1,100	1	597	(434)	164
Net income	--	--	290	--	290
BALANCE, December 31, 1996	1,100	1	887	(434)	454
Net income (unaudited)	--	--	1,204	--	1,204
BALANCE, September 30, 1997	1,100	1	2,091	(434)	1,658
Net loss	--	--	(442)	--	(442)
BALANCE, January 30, 1998	1,100	$ 1	$ 1,649	$ (434)	$ 1,216

The accompanying notes are an integral part of these financial statements

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Amber Electric, Inc. (the Company), a Florida corporation, focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from two to 12 months. The Company performs the majority of its work in central Florida.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line and declining-balance methods over the estimated useful lives of the related assets. Leasehold improvements are capitalized and amortized over the estimated useful life of the asset. Depreciation and amortization expense was approximately $62,000, $87,000, $172,000 and $46,000 for the years ended December 31, 1995, 1996, and September 30, 1997, and for the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for one year after servicing of existing electrical systems.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and are measured using enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	3-7	$ 430	$ 541	$ 631
Machinery and equipment	3-7	101	78	99
Leasehold improvements	5-39	76	74	87
Furniture and fixtures	3-7	121	91	191
		728	784	1,008
Less -- Accumulated depreciation and amortization		(444)	(404)	(492)
Property and equipment, net		$ 284	$ 380	$ 516

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 17	$ 28	$ 40
Additions to costs and expenses	17	35	11
Deductions for uncollectible receivables written off and recoveries	(6)	(23)	--
Balance at end of period	$ 28	$ 40	$ 51

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 537	$ 882	$1,006
Accrued compensation and benefits	84	110	187
Other accrued expenses	75	165	83
	$ 696	$1,157	$1,276

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 1,912	$ 2,100	$ 1,582

Estimated earnings, net of losses	333	258	192
	2,245	2,358	1,774
Less -- Billings to date	(2,575)	(2,615)	(1,851)
	$ (330)	$ (257)	$ (77)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 25	$ 151	$ 119
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(355)	(408)	(196)
	$ (330)	$ (257)	$ (77)

5. LONG-TERM DEBT:

Long-term debt consists of notes payable to various banks. The debt is secured by certain equipment. The notes are payable in monthly installments including interest at rates ranging from 8 percent to 10.9 percent.

The Company has a note payable to a former stockholder payable in monthly installments of $4,333, including interest at 7.5 percent, due August 2004. The debt is guaranteed by the majority stockholder. The balance of such debt was approximately $330,000, $302,000 and $279,000 at December 31, 1995, 1996 and September 30, 1997, respectively.

The Company also has a note payable outstanding to an individual with a 5 percent stated interest rate and an 8.12 percent imputed interest rate. The note is payable in monthly installments of principal and interest of $1,893, collateralized by equipment and inventories, and is due February 2005. The balance of the note was approximately $168,000, $153,000 and $142,000 at December 31, 1995, 1996 and September 30, 1997, respectively.

The maturities of long-term debt as of September 30, 1997, are as follows (in thousands):

Year ending December 31 --	
1998	$ 179
1999	155
2000	115
2001	76
2002	70
Thereafter	152
	$ 747

At September 30, 1997 and December 31, 1996, the Company had a $500,000 line of credit with a bank, collateralized by accounts receivable and certain other assets. Interest is payable monthly at the bank's prime rate (8.5 percent at September 30, 1997). The agreement stipulates a minimum interest rate of 8 percent. Any amounts available are limited to 75 percent of eligible accounts receivable, as defined. At September 30, 1997 and December 31, 1996, the entire amount of the line remains available to be borrowed. The line of credit is subject to a continuing guarantee by the Company's majority stockholder. The line of credit is due on demand, but in no event no later than July 5, 1998.

At December 31, 1995, the maximum amount available under such line of credit was approximately $99,000 as the Company had a $200,000 line of credit with the bank.

6. LEASES:

The Company leases office space from the majority stockholder under a month-to-month operating lease. Rent expense incurred under this related-party lease was approximately $67,000, $81,000, $83,000 and $29,000 for the years ended December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

There are no future minimum lease payments under this operating lease.

7. INCOME TAXES (IN THOUSANDS):

Federal income taxes are as follows:

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Federal --				
Current	$ 1	$ 224	$ 510	$(251)
Deferred	30	(54)	32	8
State --				
Current	--	27	95	-
Deferred	5	1	(5)	(33)
	$ 36	$ 198	$ 632	$(276)

Actual income tax expense (benefit) differs from income tax expense (benefit) computed by applying the U.S. federal statutory corporate rate of 35 percent to income before provision for income taxes as follows:

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Provision at the statutory rate	$ 33	$ 171	$ 565	$(251)
Increase resulting from --				
State income taxes, net of related federal benefit	3	19	59	(25)
Permanent differences, primarily meals and entertainment	--	8	8	--
	$ 36	$ 198	$ 632	$(276)

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following:

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Allowance for doubtful accounts	$ 11	$ 17	$ 20
Other accrued expenses not deducted for tax purposes	25	48	43
Total	36	65	63
Deferred tax liabilities --			
Accounting for long-term contracts	(129)	(97)	(122)
Bases differences on property and equipment and capital lease accounting	(38)	(45)	(52)
Total	(167)	(142)	(174)
Net deferred income tax liabilities	$(131)	$ (77)	$(111)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Current	$ 36	$ 65	$ 63
Long-term	--	--	--
Total	36	65	63

Deferred tax liabilities --			
Current	(129)	(97)	(122)
Long-term	(38)	(45)	(52)
Total	(167)	(142)	(174)
Net deferred tax liability	$(131)	$ (77)	$(111)

8. RELATED-PARTY TRANSACTIONS:

During 1995, the Company transferred its interest in the cash surrender value of life insurance policies in exchange for a note receivable bearing annual interest of 4 percent to a partnership controlled by the majority stockholder of the Company. The entire principal and accrued interest is due August 2005. The Company continues to pay premiums for this policy, also increasing the receivable.

The Company had a note payable to the majority stockholder at December 31, 1996, which represented a bonus to the stockholder and was loaned to the Company without interest attached. The balance was subsequently paid to the stockholder.

The Company will advance money to employees on occasion. Advanced amounts are based on certain levels of employment and are repaid to the Company based on a variety of repayment plans.

9. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan. The plan provides for the Company to match, on a discretionary basis, one-half of the first 4 percent contributed by each employee. Total contributions by the Company under the plan were approximately $31,000, $44,000, $56,000 and $0 for the years ending December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively. The Company had accrued approximately $5,000 at September 30, 1997, for contributions to be funded in the subsequent fiscal year.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, employee advances, notes receivable, a line of credit, accounts payable, notes payable and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

The Company provides for workers' compensation insurance through a partially self-insured plan whereby the Company is responsible for certain incurred losses with a maximum of 125 percent of standard state-rated workers' compensation premiums. Estimated claims incurred during the years ended December 31, 1995, 1996 and September 30, 1997 were not material. Accordingly, the Company has not recorded any reserves for its portion of self-insurance claims. During 1997, the Company enrolled in a secured individual preferred dividend safety incentive program for workers' compensation with a maximum premium of 100 percent of the total normal state-rated premium. Employee health insurance is provided for under a fully insured medical plan consisting of HMO and POS programs.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 16 percent of total sales to one major customer for the year ended December 31, 1995, sales of approximately 15 and 13 percent of total sales to two major customers for the year ended December 31, 1996, sales of approximately 22 percent of total sales to one major customer during the year ended September 30, 1997, and sales of approximately 51, 23 and 18 percent of total sales to three customers during the period from October 1, 1997 through January 30, 1998.

In addition, the Company grants credit, generally without collateral, to its customers, which are real estate operations, general contractors, etc., located primarily in central Florida. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the central Florida region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Daniel Electrical Contractors, Inc. and
Daniel Electrical of Treasure Coast Inc.:

We have audited the accompanying combined balance sheets of Daniel Electrical Contractors, Inc., a Florida corporation, and Daniel Electrical of Treasure Coast Inc., a Florida corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related combined statements of operations, cash flows and stockholder's equity for the years then ended and for the nine months ended September 30, 1997, and for the period from October 1, 1997 through January 30, 1998. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., as of December 31, 1995 and 1996 and September 30, 1997, and the combined results of their operations and their cash flows for the years then ended and for the nine months ended September 30, 1997, and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 62	$ 411	$ 917
Investments	393	694	1,504
Accounts receivable --			
Trade, net of allowance of $68, $69 and $115, respectively	1,819	1,444	3,443
Retainage, net of allowance of $--, $12 and $12, respectively	815	1,353	1,294
Employee receivables (Note 7)	8	17	30
Inventories	103	84	23
Costs and estimated earnings in excess of billings on uncompleted contracts	119	719	510
Prepaid expenses and other current assets	24	35	166
Total current assets	3,343	4,757	7,887
PROPERTY AND EQUIPMENT, net	322	371	541
Total assets	$3,665	$5,128	$8,428

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 46	$ 34	$ 62
Accounts payable and accrued expenses	1,325	946	1,840
Billings in excess of costs and estimated earnings on uncompleted contracts	121	752	1,370
Deposit on contract in progress	--	500	--
Other current liabilities (Note 7)	477	114	81
Total current liabilities	1,969	2,346	3,353
LONG-TERM DEBT, net of current maturities	42	52	102
OTHER LONG-TERM LIABILITIES (Note 7)	483	483	483
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $1 and $0.01 par value, 7,500 and 2,000 shares authorized, 7,500 and 100 shares issued and outstanding at December 31, 1995, 1996, and September 30, 1997 for Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., respectively	8	8	8
Retained earnings	1,110	2,111	4,131
Unrealized gain on securities	53	128	351
Total stockholder's equity	1,171	2,247	4,490
Total liabilities and stockholder's equity	$3,665	$5,128	$8,428

The accompanying notes are an integral part of these combined financial statements.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED SEPTEMBER 30,	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30,
	1995	1996	1996	1997	1997	1998
			(UNAUDITED)			
REVENUES	$12,049	$12,585	$ 8,846	$14,670	$ 18,409	$ 9,132
COST OF SERVICES (including depreciation)	11,725	9,713	6,675	10,480	13,518	6,789
Gross profit	324	2,872	2,171	4,190	4,891	2,343
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,502	1,884	1,360	1,792	2,316	1,312
Income (loss) from operations	(1,178)	988	811	2,398	2,575	1,031
OTHER INCOME (EXPENSE):						
Interest expense	(46)	(73)	(58)	(45)	(60)	(20)
Other	71	86	48	62	100	16
Other income (expense), net	25	13	(10)	17	40	(4)
NET INCOME (LOSS)	$(1,153)	$ 1,001	$ 801	$ 2,415	$ 2,615	$ 1,027

The accompanying notes are an integral part of these combined financial statements.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income (loss)	$(1,153)	$ 1,001	$ 801	$ 2,415	$ 2,615	$ 1,027
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --						
Depreciation and amortization	113	125	100	116	141	57
Provision for bad debts	29	205	23	47	229	34
Loss on abandonment of leasehold improvements	--	--	--	34	34	--
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	423	(185)	(577)	(1,998)	(1,606)	(971)
Inventories	14	19	43	61	37	(190)
Costs and estimated earnings in excess of billings on uncompleted contracts	733	(600)	(436)	209	45	(11)
Prepaid expenses and other current assets	25	(11)	17	(130)	(158)	150
Increase (decrease) in --						
Accounts payable and accrued expenses	(567)	(379)	(151)	895	667	146
Deposits on contracts in progress	--	500	500	(500)	(500)	--
Billings in excess of costs and estimated earnings on uncompleted contracts	(92)	631	701	618	548	131
Other current liabilities	(42)	(87)	(8)	11	(68)	(81)
Net cash provided by (used in) operating activities	(517)	1,219	1,013	1,778	1,984	292
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of investments	(31)	(306)	(3)	(586)	(889)	(536)
Additions of property and equipment	(97)	(175)	(84)	(353)	(444)	(5)
Net cash used in investing activities	(128)	(481)	(87)	(939)	(1,333)	(541)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	350	17	--	154	171	4,062
Payments of long-term debt	(44)	(406)	(323)	(92)	(175)	(15)
Distributions to stockholders	--	--	--	(395)	(395)	(4,005)
Net cash provided by (used in) financing activities	306	(389)	(323)	(333)	(399)	42
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(339)	349	603	506	252	(207)
CASH AND CASH EQUIVALENTS, beginning of period	401	62	62	411	665	917
CASH AND CASH EQUIVALENTS, end of period	$ 62	$ 411	$ 665	$ 917	$ 917	$ 710
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION						
Cash paid for --						
Interest	$ 20	$ 113	$ 18	$ 7	$ 102	$ 17

The accompanying notes are an integral part of these combined financial statements.

DANIEL ELECTRICAL CONTRACTORS INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED	UNREALIZED GAIN (LOSS) ON	TOTAL STOCKHOLDER'S
	SHARES	AMOUNT	EARNINGS	SECURITIES	EQUITY
BALANCE, December 31, 1994	7,500	$ 8	$ 2,263	$ (13)	$ 2,258
Issuance of stock in Daniel Electrical of Treasure Coast Inc.	100	--	--	--	--
Change in unrealized gain on securities	--	--	--	66	66
Net loss	--	--	(1,153)	--	(1,153)
BALANCE, December 31, 1995	7,600	8	1,110	53	1,171
Change in unrealized gain on securities	--	--	--	75	75
Net income	--	--	1,001	--	1,001
BALANCE, December 31, 1996	7,600	8	2,111	128	2,247
Distributions to stockholders	--	--	(395)	--	(395)
Change in unrealized gain on securities	--	--	--	223	223
Net income	--	--	2,415	--	2,415
BALANCE, September 30, 1997	7,600	8	4,131	351	4,490
Change in unrealized gains on securities	--	--	--	33	33
Distributions to stockholders	--	--	(5,123)	(384)	(5,507)
Net income	--	--	1,027	--	1,027
BALANCE, January 30, 1998	7,600	$ 8	$ 35	$ --	$ 43

The accompanying notes are an integral part of these
combined financial statements.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., (collectively, the Company), both Florida corporations focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts with contract terms generally ranging from six to 18 months. The Company performs the majority of its work in Dade County, Florida.

The combined financial statements include the accounts of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc. These entities are related by virtue of common ownership. All material intercompany transactions and balances have been eliminated in combination.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Supplemental Cash Flow Information

The Company distributed certain net assets to a stockholder of the Company totaling approximately $1,469,000.

Investments

Investments in securities are classified as securities available for sale and consist of equity securities. Unrealized holding gains and losses on securities available-for-sale are reported as net amount as a separate component of stockholder's equity.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation and amortization expense was $113,000, $125,000, $141,000 and $57,000 for the years ended December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed, except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes. The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's combined financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairments would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the combined financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5	$ 446	$ 517	$ 597
Machinery and equipment	5	120	134	151
Computer and telephone equipment	5	92	114	141
Leasehold improvements	5	116	144	209
Furniture and fixtures	5	26	29	29
		800	938	1,127
Less -- Accumulated depreciation and amortization		(478)	(567)	(586)
Property and equipment, net ...		$ 322	$ 371	$ 541

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 47	$ 68	$ 87
Additions to costs and expenses	29	205	229
Deductions for uncollectible receivables written off and recoveries	(8)	(192)	(189)
Balance at end of period	$ 68	$ 81	$ 127

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$1,009	$ 686	$1,296
Accrued compensation and benefits	76	28	180
Other accrued expenses	240	232	364
	$1,325	$ 946	$1,840

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 6,197	$ 8,381	$ 11,760
Estimated earnings, net of losses	1,238	2,993	4,120
	7,435	11,374	15,880
Less -- Billings to date	(7,437)	(11,407)	(16,740)
	$ (2)	$ (33)	$ (860)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 119	$ 719	$ 510
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(121)	(752)	(1,370)
	$ (2)	$ (33)	$ (860)

5. LONG-TERM DEBT:

Long-term debt consists of installment obligations collateralized by certain transportation and computer equipment, and due in various monthly installments, including interest ranging from 6 percent to 11 percent.

The maturities of long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 62
1999	44
2000	36
2001	15
2002	7
	$ 164

The Company has a $400,000 open line of credit with a bank. The line of credit bears interest based upon the prime lending rate, which was 8.25% at September 30, 1997. The line of credit is secured by the Company's investment in securities and borrowings under such line of credit are due on demand. No borrowings were outstanding under this line of credit at September 30, 1997.

6. LEASES:

In February of 1997, the Company leased its Miami facility from a Limited Partnership which is controlled by the Company's stockholder. Prior to February 1997, the Company leased office space from a third party, and such lease expired January 1997. The rent paid under this lease was approximately $71,000 for December 31, 1996. The Company leases its Vero Beach facility from a company which is owned by the Company's stockholder and is leased on a month-to-month basis.

7. RELATED-PARTY TRANSACTIONS:

Related-Party Notes Payable

The Company has a $483,000 subordinated long-term note payable to the president of the Company at December 31, 1995, 1996 and at September 30, 1997. The Company also has a $175,000, $115,000 and $81,000 note payable due on demand to the president of the Company at the respective periods.

Related-Party Accounts Receivable

The Company has an $8,000, $8,000 and $18,000 account receivable due from the president of the Company at December 31, 1995, 1996 and at September 30, 1997, respectively. The Company also has a $9,000 and $12,000 employee receivable at December 31, 1996 and at September 30, 1997, respectively.

Related-Party Entertainment Expense

Costs related to related-party entertainment expense amounted to $15,000, $8,000, $4,000 and $0 for the years ended December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

Related-Party Compensation

The Company paid $58,000, $72,000, $72,000 and $0 for the years ended December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively to a related-party company for compensation.

8. EMPLOYEE BENEFIT PLAN:

The Company has a nonqualifying discriminatory pension plan for certain key executives. Contributions are subject to management's discretion. Total contributions by the Company under the plan were approximately $9,000, $14,000, $14,000 and $0 for the years ended December 31, 1995, 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

9. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, a line of credit, notes payable and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

10. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

The Company is self-insured for medical claims up to $14,000 per year in total for all covered individuals. Additionally, the Company is part of the state's workers' compensation plan and is responsible for claims up to $100,000 per accident with a maximum aggregate exposure for 24 months of $500,000. Claims in excess of these amounts are covered by a stop-loss policy. Under the state's policy, the Company has a $305,000 letter of credit which expires April 1, 1998. The Company has recorded reserves for its portion of self-insured claims based on estimated claims incurred through March 31, 1995 and 1996, December 31, 1996, and September 30, 1997.

11. INVESTMENTS AVAILABLE-FOR-SALE:

Investments in securities consist of equity securities and mutual funds with an aggregate market value of $393,000, $694,000 and $1,504,000 at December 31, 1995, 1996 and September 30, 1997, respectively, and unrealized holding gains of $66,000, $75,000 and $237,000 for the respective periods.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 32 percent and 21 percent of total sales to two major customers during the year ended December 31, 1995, sales of approximately 29 percent and 25 percent of total sales to two major customers during the year ended December 31, 1996, sales of approximately 30 percent and 38 percent of total sales to two major customers during the year ended September 30, 1997, and sales of approximately 35 percent, 21 percent and 21 percent of total sales to three major customers for the period from October 1, 1997 through January 30, 1998.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors located primarily in southern Florida. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the southern Florida region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Summit Electric of Texas, Incorporated:

We have audited the accompanying balance sheets of Summit Electric of Texas, Incorporated, a Texas corporation, as of March 31, 1997 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Electric of Texas, Incorporated as of March 31, 1997 and September 30, 1997, and the results of its operations and its cash flows for the years then ended and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

	MARCH 31, 1997	SEPTEMBER 30, 1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 57	$ 157
Accounts receivable--		
Trade, net of allowance of $112 and $122, respectively	2,270	2,543
Retainage	128	91
Receivable from stockholder	--	66
Other receivables	6	8
Deferred tax asset	69	69
Costs and estimated earnings in excess of billings on uncompleted contracts	239	178
Prepaid expenses and other current assets	25	27
Total current assets	2,794	3,139
NOTES RECEIVABLE FROM RELATED PARTIES	270	268
PROPERTY AND EQUIPMENT, net	223	180
OTHER ASSETS	49	50
Total assets	$3,336	$3,637

LIABILITIES AND STOCKHOLDER'S EQUITY

	MARCH 31, 1997	SEPTEMBER 30, 1997
CURRENT LIABILITIES:		
Short-term debt, including current maturities of long-term debt	$ 819	$ 808
Accounts payable and accrued expenses	974	1,494
Billings in excess of costs and estimated earnings on uncompleted contracts	436	182
Other current liabilities	3	19
Total current liabilities	2,232	2,503
LONG-TERM DEBT, net of current maturities	101	88
DEFERRED TAX LIABILITY	11	11
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY:		
Common stock, $1 par value, 10,000 shares authorized, 1,000 shares issued and outstanding	1	1
Retained earnings	991	1,034
Total stockholder's equity	992	1,035
Total liabilities and stockholder's equity	$3,336	$3,637

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	SIX MONTHS ENDED SEPTEMBER 30, 1996	SIX MONTHS ENDED SEPTEMBER 30, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
		(UNAUDITED)			
REVENUES	$ 10,565	$ 5,735	$ 6,165	$ 10,995	$ 3,735
COST OF SERVICES (including depreciation)	9,157	4,946	5,243	9,454	3,123
Gross profit	1,408	789	922	1,541	612
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,340	699	822	1,463	878
Income (loss) from operations	68	90	100	78	(266)
OTHER INCOME (EXPENSE):					
Interest expense	(56)	(19)	(42)	(79)	(34)
Other	25	13	11	23	8
Other expense, net	(31)	(6)	(31)	(56)	(26)
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	37	84	69	22	(292)
PROVISION (BENEFIT) FOR INCOME TAXES	23	28	26	21	(107)
NET INCOME (LOSS)	$ 14	$ 56	$ 43	$ 1	$ (185)

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	SIX MONTHS ENDED SEPTEMBER 30, 1996	SIX MONTHS ENDED SEPTEMBER 30, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
		(UNAUDITED)	(UNAUDITED)		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ 14	$ 56	$ 43	$ 1	$ (185)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization	72	38	41	75	34
Provision for doubtful accounts	--	--	10	10	--
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	316	452	(284)	(420)	(90)
Receivable from stockholder	56	48	(66)	(58)	(203)
Income tax receivable	--	--	--	--	(95)
Other receivables	32	25	35	42	5
Costs and estimated earnings in excess of billings on uncompleted contracts	(105)	1	61	(45)	(38)
Prepaid expenses and other current assets	(23)	(16)	(1)	(8)	23
Increase (decrease) in --					
Accounts payable and accrued expenses	(498)	(519)	520	541	(215)
Billings in excess of costs and estimated earnings on uncompleted contracts	48	(52)	(253)	(153)	(75)
Other, net	3	2	14	15	28
Net cash provided by (used in) operating activities	(85)	35	120	--	(811)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Payments on notes receivable from related parties	3	1	2	4	268
Additions to property and equipment	(191)	(35)	--	(156)	(9)
Net cash provided by (used in) investing activities	(188)	(34)	2	(152)	259
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings of long-term debt and notes payable	238	3	(9)	226	1,654
Payments of long-term debt	(19)	(8)	(13)	(24)	(1,212)
Net cash provided by (used in) financing activities	219	(5)	(22)	202	442
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54)	(4)	100	50	(110)
CASH AND CASH EQUIVALENTS, beginning of period	111	111	57	107	157
CASH AND CASH EQUIVALENTS, end of period	$ 57	$ 107	$ 157	$ 157	$ 47
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 56	$ 19	$ 42	$ 79	$ 2
Income taxes	$ 35	$ 19	$ 3	$ 19	$ 34

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, March 31, 1996	1,000	$ 1	$ 977	$ 978
Net income	--	--	14	14
BALANCE, March 31, 1997	1,000	1	991	992
Net income (unaudited)	--	--	43	43
BALANCE, September 30, 1997....	1,000	1	1,034	1,035
Net loss	--	--	(185)	(185)
BALANCE, January 30, 1998	1,000	$ 1	$ 849	$ 850

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Summit Electric of Texas, Incorporated (the Company), a Texas corporation, focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract duration generally ranging from two to eight months. The Company performs the majority of its work primarily in Houston, Texas.

On a limited basis, the Company provides auto repair and restoration services to its sole stockholder (the Stockholder) and third parties. The revenues and cost of services related to such activities have not been removed from the Company's results of operations for the year ended March 31, 1997 and September 30, 1997, as such amounts are not material.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a March to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the six months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Supplemental Cash Flow Information

During the period from October 1, 1997 through January 30, 1998, the Company's stockholder contributed approximately $268,000 in property and equipment in exchange for payment of the stockholder's receivable to the Company.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using an accelerated method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was $72,101, $75,358 and $34,000 for the years ended March 31, 1997 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective April 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	MARCH 31, 1997	SEPTEMBER 30, 1997
Transportation equipment	5	$ 450	$ 447
Machinery and equipment	7	11	11
Computer and telephone equipment	5	84	84
Leasehold improvements	31.5	52	52
Furniture and fixtures	7	43	43
		640	637
Less -- Accumulated depreciation and amortization		(417)	(457)
Property and equipment, net		$ 223	$ 180

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Balance at beginning of period	$112	$112
Additions to costs and expenses	--	10
Deductions for uncollectible receivables written off and recoveries	--	--
Balance at end of period	$112	$122

Accounts payable and accrued expenses consist of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Accounts payable, trade	$ 696	$1,175
Other accrued expenses	278	319
	$ 974	$1,494

Electrical system installation contracts in progress are as follows (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 6,482	$ 6,373
Estimated earnings, net of losses	2,122	1,818
	8,604	8,191
Less -- Billings to date	(8,801)	(8,195)
	$ (197)	$ (4)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 239	$ 178
Less-- Billings in excess of costs and estimated earnings on uncompleted contracts	(436)	(182)
Net liability	$ (197)	$ (4)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Note payable to bank bearing interest at 9.15%, payable in monthly installments of principal and interest of $2,612 through October 2001, secured by transportation equipment	$ 117	$ 106
Note payable to a financing company bearing interest at 7.9%, payable in monthly installments of principal and interest of $557 through January 1999, secured by transportation equipment	11	9
	128	115
Less -- Current portion	(27)	(27)
Long-term debt	$ 101	$ 88

The maturities of long-term debt are as follows (in thousands):

YEAR ENDED	MARCH 31,	SEPTEMBER 30,
1998	$ 27	$ 27
1999	29	28
2000	26	27
2001	28	28
2002	18	5
	$ 128	$ 115

The Company has a $1,000,000 line of credit with a bank. The line of credit expired September 30, 1997, and bears interest at 1 percent above the prime lending rate. The weighted average interest rate under this line of credit was 9.25 percent for fiscal 1997. The line of credit is secured by contracts receivable, equipment, furniture and fixtures, and the personal guarantee of the Stockholder. Outstanding borrowings under this line of credit at March 31, 1997, total $788,142.

On September 30, 1997, the Company negotiated an amendment to its existing bank line of credit (the Amended Line of Credit). The Amended Line of Credit has a $1,500,000 borrowing base and is due October 3, 1998. The Amended Line of Credit bears interest at 1 percent above the prime lending rate. Outstanding borrowings under this line of credit at September 30, 1997, total $779,458.

The bank line of credit requires the Company to maintain certain net worth and profitability covenants. At March 31, 1997 and September 30, 1997, the Company was in compliance with its line-of-credit covenants, as amended.

6. LEASES:

The Company leases a facility from a company which is owned by the Company's stockholder. The lease expires on November 30, 1998. The rent paid under this related-party lease was approximately $96,000 for each of the years ended March 31, 1997 and September 30, 1997 and $32,000 for the period from October 1, 1997 through January 30, 1998. The Company also leases two facilities from third parties. The rent paid under these leases were approximately $7,144, $15,051 and

$13,308 for the years ended March 31, 1997 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

Future minimum lease payments under these noncancelable operating leases are as follows (in thousands):

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997
1998	$ 99	$ 99
1999	66	26
2000	1	--
	--	--
Thereafter	-----	-----
	$ 166	$ 125
	=====	=====

7. INCOME TAXES:

Federal income taxes are as follows (in thousands):

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Current--			
Federal	$ 17	$ 19	$ (95)
State	6	2	(12)
	$ 23	$ 21	$(107)

Actual income tax expense (benefit) differs from income tax expense (benefit) computed by applying the blended U.S. federal and state statutory corporate rate of 28 percent to income before provision for income taxes as follows (in thousands):

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Provision at the statutory rate	$ 10	$ 6	$(103)
Increase resulting from--			
Permanent differences, primarily meals and entertainment	9	14	5
State income tax, net of benefit for federal deduction	4	1	(9)
	$ 23	$ 21	$(107)

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities result principally from the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Allowance for doubtful accounts	$ 40	$ 40
Warranty and contract allowances	29	29
Bases difference on property and equipment	(15)	(29)
Deferred tax assets	$ 54	$ 40

The net deferred tax assets and liabilities are comprised of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Deferred tax assets --		
Current	$ 69	$ 69
Long-term	--	--
Deferred tax assets	69	69
Deferred tax liabilities--		
Current	(4)	(18)
Long-term	(11)	(11)
Deferred tax liability	(15)	(29)
Net deferred tax assets	$ 54	$ 40

8. RELATED-PARTY TRANSACTIONS:

Notes receivable from related parties consist of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Note receivable from the Stockholder, bearing an interest rate of 7.07%, requiring monthly payments of interest, maturing November 1998	$250	$250
Note receivable from the spouse of the Stockholder, bearing an interest rate of 8%, requiring monthly installments of principal and interest of $480, maturing April 2001	20	18
	$270	$268

The receivable of $268,000 was subsequently repaid through a donation of property and equipment from the Stockholder.

The Company provides auto repair and restoration services to the Stockholder. The Stockholder reimbursed the Company $81,161, $122,979 and $27,958 for such services for the years ended March 31, 1997 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

9. EMPLOYEE BENEFIT PLAN:

The Company adopted a 401(k) savings and investment plan approved by the Internal Revenue Service effective January 1, 1996, covering all eligible Company employees. Contributions may be made to the plan by an employee at a percentage of salary but cannot exceed the maximum allowed by the Internal Revenue Code and may be matched by a discretionary Company contribution.

The Company's contributions to the plan for the years ended March 31, 1997 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, totaled $24,747, $24,660 and $8,751, respectively.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and short and long-term debt. The Company believes that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability, workers' compensation and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

For the years ended March 31, 1997 and September 30, 1997, revenues from no one individual customer exceeded 10 percent of total revenues.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily general contractors located in Houston, Texas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within Houston, Texas. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Thurman & O'Connell Corporation:

We have audited the accompanying balance sheets of Thurman & O'Connell Corporation, a Kentucky corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholders' equity for the years then ended and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thurman & O'Connell Corporation as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

THURMAN & O'CONNELL CORPORATION

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 860	$1,488	$1,160
Accounts receivable --			
Trade, net of allowance of $37, $10 and $17, respectively	1,078	315	538
Retainage	348	78	124
Other receivables	12	17	9
Inventories	1,072	273	213
Costs and estimated earnings in excess of billings on uncompleted contracts	--	22	52
Prepaid expenses and other current assets	4	13	15
Total current assets	3,374	2,206	2,111
PROPERTY AND EQUIPMENT, net	342	306	301
Total assets	$3,716	$2,512	$2,412

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 13	$ 6	$ 7
Accounts payable and accrued expenses	663	242	262
Dividends payable to stockholders	160	200	--
Billings in excess of costs and estimated earnings on uncompleted contracts	1,652	479	361
Total current liabilities	2,488	927	630
LONG-TERM DEBT, net of current maturities	96	93	88
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, no par value, 2,000 shares authorized, 200 shares issued and outstanding	300	300	300
Retained earnings	832	1,192	1,394
Total stockholders' equity	1,132	1,492	1,694
Total liabilities and stockholders' equity	$3,716	$2,512	$2,412

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

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
REVENUES	$ 4,729	$ 4,551	$ 3,741	$ 3,239	$ 4,049	$ 1,342
COST OF SERVICES	3,309	3,059	2,531	1,653	2,181	721
Gross profit	1,420	1,492	1,210	1,586	1,868	621
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	512	503	397	397	503	182
Income from operations	908	989	813	1,189	1,365	439
OTHER INCOME (EXPENSE):						
Interest expense	(13)	(8)	(6)	(4)	(6)	(3)
Other	36	65	46	51	70	111
Other income, net	23	57	40	47	64	108
INCOME BEFORE INCOME TAX EXPENSE	931	1,046	853	1,236	1,429	547
INCOME TAX EXPENSE	19	36	24	34	46	11
NET INCOME	$ 912	$ 1,010	$ 829	$ 1,202	$ 1,383	$ 536

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

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED SEPTEMBER 30,	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30,
	1995	1996	1996	1997	1997	1998
			(UNAUDITED)			
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 912	$ 1,010	$ 829	$ 1,202	$ 1,383	$ 536
Adjustments to reconcile net income to net cash provided by operating activities --						
Depreciation and amortization	53	49	37	39	51	26
Provision to (reduction in) allowance for doubtful accounts	13	10	(19)	7	36	3
Loss (gain) on sale of property and equipment	(1)	--	--	(1)	(1)	(96)
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Receivables	(506)	1,018	756	(268)	(6)	(140)
Inventories	(405)	799	678	60	181	(37)
Costs and estimated earnings in excess of billings on uncompleted contracts	68	(22)	(24)	(30)	(28)	12
Prepaid expenses and other current contracts	25	(9)	(2)	(2)	(9)	(3)
Increase (decrease) in --						
Accounts payable and accrued expenses	(1)	(421)	(236)	20	(165)	18
Billings in excess of costs and estimated earnings on uncompleted contracts	916	(1,173)	(785)	(118)	(506)	(71)
Net cash provided by operating activities	1,074	1,261	1,234	909	936	248
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	1	--	--	23	23	290
Additions of property and equipment	(42)	(13)	(7)	(56)	(62)	(6)
Net cash provided by (used in) investing activities	(41)	(13)	(7)	(33)	(39)	284
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	--	103	--	--	103	604
Payments of long-term debt	(63)	(113)	(7)	(4)	(110)	(2)
Distributions to stockholders	(620)	(610)	(610)	(1,200)	(1,200)	(1,894)
Net cash used in financing activities	(683)	(620)	(617)	(1,204)	(1,207)	(1,292)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	350	628	610	(328)	(310)	(760)
CASH AND CASH EQUIVALENTS, beginning of period	510	860	860	1,488	1,470	1,160
CASH AND CASH EQUIVALENTS, end of period	$ 860	$ 1,488	$ 1,470	$ 1,160	$ 1,160	$ 400
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 10	$ 8	$ 5	$ 4	$ 7	$ 2
Taxes	$ 6	$ 26	$ 23	$ 47	$ 50	$ 18

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

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	EARNINGS	EQUITY
BALANCE, December 31, 1994	200	$ 300	$ 580	$ 880
Distributions to stockholders	--	--	(660)	(660)
Net income	--	--	912	912
BALANCE, December 31, 1995	200	300	832	1,132
Distributions to stockholders	--	--	(650)	(650)
Net income	--	--	1,010	1,010
BALANCE, December 31, 1996	200	300	1,192	1,492
Distributions to stockholders (unaudited)	--	--	(1,000)	(1,000)
Net income (unaudited)	--	--	1,202	1,202
BALANCE, September 30, 1997	200	300	1,394	1,694
Distribution to stockholders	--	--	(1,894)	(1,894)
Net Income	--	--	536	536
BALANCE, January 30, 1998	200	$ 300	$ 36	$ 336

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

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Thurman & O'Connell Corporation (the Company), a Kentucky corporation, focuses on providing electrical system installation and repair services primarily to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from 12 to 24 months. The Company performs the majority of its work in Kentucky.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1997 and 1996, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its principal cash balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation expense was approximately $53,000, $49,000 and $51,000 and $26,000 for the years ended December 31, 1995 and 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems.

Income Taxes

The stockholders of the Company have elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. The provision for income taxes in the accompanying financial statements relates to income and other taxes incurred by the Company in those localities that do not permit the Company to report its net income with that of its stockholders (S Corporation treatment). The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings (as defined in Note 1).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment, at cost, consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Land	--	$ 25	$ 25	$ 25
Building	30	206	206	206
Machinery and equipment	7	39	39	42
Transportation equipment	5	239	241	257
Computer and telephone equipment	7	19	24	26
Furniture and fixtures	7	20	23	21
		548	558	577
Less -- Accumulated depreciation and amortization		(206)	(252)	(276)
		$ 342	$ 306	$ 301

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 24	$ 37	$ 18
Additions to costs and expenses	13	10	36
Deductions for uncollectible receivables written off and recoveries	--	(37)	(37)
Balance at end of period	$ 37	$ 10	$ 17

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 516	$ 130	$ 150
Accrued compensation and benefits	50	60	64
Accrued cost overruns	78	21	20
Accrued warranty costs	10	10	10
Other accrued expenses	9	21	18
	$ 663	$ 242	$ 262

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 2,159	$ 623	$ 1,844
Estimated earnings, net of losses	721	229	1,466
	2,880	852	3,310
Less -- Billings to date	(4,532)	(1,309)	(3,619)
	$(1,652)	$ (457)	$ (309)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ --	$ 22	$ 52
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(1,652)	(479)	(361)

$(1,652)	$ (457)	$ (309)
=======	=======	=======

5. LONG-TERM DEBT:

During 1996, the Company refinanced the note payable to a bank which was in place at December 31, 1995, with a variable rate note payable. The note is payable in monthly principal and interest payments of $1,051 through October 2004, at which time any unpaid principal and interest is due. The note is collateralized by a cash account at the bank, and the Company has agreed not to pay dividends in excess of the Company's net income for any fiscal year. Interest is based upon a variable rate of 1% above the rate being offered on the sweep account (6% as of December 31, 1996 and September 30, 1997).

At December 31, 1995, the Company had a note payable to a bank which required monthly principal payments of $1,051 plus interest at the prime rate (8.25% at December 31, 1995) through July 2008. Under the agreement, the Company agreed not to pay dividends in excess of the Company's net income for the year. The note was collateralized by the Company's land and building.

The approximate aggregate maturities of long-term debt as of September 30, 1997, are as follows (in thousands):

YEAR ENDING DECEMBER 31 --	
1997	$ 2
1998	7
1999	8
2000	8
2001	9
Thereafter	61
	$95

The Company has a $1,000,000 line of credit with a bank. The line of credit expires in April 1998 and bears interest at the prime lending rate. All receivables are pledged as collateral under the agreement, and the Company has agreed not to pay dividends in excess of net income for the year and to maintain its deposit accounts with the bank. There were no borrowings under this agreement at December 31, 1996 or September 30, 1997. In 1995, the Company had a $500,000 unsecured line of credit at prime with a bank, which expired in April 1996. There were no borrowings under this agreement during 1995 or 1996.

6. RELATED-PARTY TRANSACTIONS:

The Company earned revenue for electrical contracting services from companies owned by a stockholder of approximately $47,000, $40,000, $25,000 and $82,000 for the years ended December 31, 1995 and 1996, and September 30, 1997, respectively and the period from October 1, 1997 through January 30, 1998, with approximately $1,000, $2,000, $4,000 and $41,000 of the revenue being recorded as receivables at the respective balance sheet dates. In addition, the Company had a receivable from another stockholder in the amount of approximately $1,000, $2,000 and $5,000 as of December 31, 1995 and 1996 and September 30, 1997, respectively, related to travel expense advances.

7. EMPLOYEE BENEFIT PLAN:

During 1995, the Company adopted a defined contribution 401(k) savings plan covering employees meeting certain minimum service and age requirements, as defined. The plan provides for discretionary contributions on the part of the Company. For the years ended December 31, 1995 and 1996 and September 30, 1997, the Company elected to match 100% of the first 2 percent contributed by each employee. The contributions paid by the Company totaled approximately $9,000, $12,000, $8,000 and $2,000 for the years ended December 31, 1995 and 1996 and September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

8. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, a line of credit, and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

9. STOCKHOLDERS' AGREEMENT:

The Company has a right of first refusal on any stock voluntarily offered for sale by a stockholder subject to certain terms and conditions. The redemption price shall be as determined by the stockholders on an annual basis or by formula which is contained in the agreement if a value has not been established by the stockholders. Such redemption price is payable in not more than 10 equal quarterly installments with interest at the prime rate. As of September 30, 1997 and December 31, 1996, the redemption price was determined to be $5.141 per share.

Upon the death of any stockholder, the Company shall redeem the stock held by such stockholder provided that the redemption is requested in writing by the personal representative of the deceased stockholder within two months of the appointment of such representative or the Company elects to redeem such stock within the same two-month period. The redemption price pursuant to this paragraph is the same as described above. Such redemption price may be paid in full at the closing or in installments, the down payment being the greater of one-fifth of redemption price or any life insurance proceeds received by the Company resulting from the death of the stockholder with the balance payable in quarterly installments over not more than five years with interest at the prime rate. Coverage under the key-man term life insurance purchased by the Company totaled $1,000,000 as of December 31, 1995 and 1996 and September 30, 1997.

10. DIVIDENDS:

As long as the election made by the stockholders to report the operations of the Company on their individual federal and state income tax returns remains in effect, the board of directors of the Company is required to declare a dividend, subsequent to the close of the Company's tax year and prior to the date when payment of individual income taxes is required, to provide the stockholders sufficient cash to pay any applicable individual income taxes resulting from the inclusion of the Company's taxable income on their individual income tax returns. In addition, at the discretion of the Company's board of directors, an additional minimum dividend shall be authorized which, when combined with the dividend required to meet the tax obligations of the shareholders, shall equal not less than 50 percent of the net pretax income of the Company.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is not currently involved in any significant disputes or legal actions, however, such actions could arise in the ordinary course of business.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 25, 18, 12, 12 and 11 percent of total sales to five major customers during 1995, sales of approximately 48, 11 and 10 percent of total sales to three major customers during 1996, sales of approximately 26, 12 and 12 percent of total sales to three major customers during the year ended September 30, 1997 and sales of approximately 47 and 14 percent of total sales to two major customers during the period from October 1, 1997 through January 30, 1998.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors in the commercial and industrial construction markets in Kentucky. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial construction markets in this state. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Rodgers Electric Company, Inc.:

We have audited the accompanying balance sheet of Rodgers Electric Company, Inc., a Washington corporation, as of September 30, 1997, and the related statement of operations, cash flows and stockholders' equity for the year then ended and for the period from October 1, 1997 through January 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rodgers Electric Company, Inc. as of September 30, 1997, and the results of its operations and its cash flows for the year then ended and for the period from October 1, 1997 through January 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
September 11, 1998

RODGERS ELECTRIC COMPANY, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

	SEPTEMBER 30, 1997
CURRENT ASSETS:	
Cash and cash equivalents	$ 818
Accounts receivable --	
Trade, net of allowance of $15	571
Retainage	37
Other receivables	5
Costs and estimated earnings in excess of billings on uncompleted contracts	20
Deferred tax asset	39
Prepaid expenses and other current assets	29
Total current assets	1,519
PROPERTY AND EQUIPMENT, net	393
OTHER ASSETS	175
Total assets	$2,087
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Short-term debt, including current maturities of long-term debt	$ 36
Accounts payable and accrued expenses	488
Billings in excess of costs and estimated earnings on uncompleted contracts	109
Other liabilities	213
Total current liabilities	846
LONG-TERM DEBT, net of current maturities	58
DEFERRED TAX LIABILITY	75
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock, $100 par value, 500 shares authorized, 150 shares issued and outstanding	15
Retained earnings	1,093
Total stockholders' equity	1,108
Total liabilities and stockholders' equity	$2,087

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

RODGERS ELECTRIC COMPANY, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
REVENUES	$ 3,325	$ 1,600
COST OF SERVICES (including depreciation)	1,621	967
Gross profit	1,704	633
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,238	431
Income from operations	466	202
OTHER INCOME (EXPENSE):		
Interest expense	(7)	(1)
Other	36	7
Other income, net	29	6
INCOME BEFORE PROVISION FOR INCOME TAXES	495	208
PROVISION FOR INCOME TAXES	178	73
NET INCOME	$ 317	$ 135

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

RODGERS ELECTRIC COMPANY, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 317	$ 135
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization	47	18
Distribution of property and equipment	--	94
Provision for doubtful accounts	11	10
Changes in operating assets and liabilities --		
(Increase) decrease in --		
Accounts receivable	(275)	(429)
Costs and estimated earnings in excess of billings on uncompleted contracts	(20)	16
Deferred taxes, net	(34)	8
Other	14	4
Increase (decrease) in --		
Accounts payable and accrued expenses	355	(262)
Income taxes payable	--	(113)
Other liabilities	211	--
Billings in excess of costs and estimated earnings on uncompleted contracts	109	(74)
Net cash provided by (used in) operating activities	735	(593)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments on notes receivable from related parties	2	--
Additions to property and equipment	(170)	(7)
Proceeds from disposal of property and equipment	--	54
Net cash provided by (used in) investing activities	(168)	47
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt and notes payable	70	10
Payments of long-term debt	(23)	(30)
Net cash provided by (used in) financing activities	47	(20)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	614	(566)
CASH AND CASH EQUIVALENTS, beginning of period	204	818
CASH AND CASH EQUIVALENTS, end of period	$ 818	$ 252
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for --		
Interest	$ 7	$ 2
Income taxes	$ 180	$ 176

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

RODGERS ELECTRIC COMPANY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
BALANCE, September 30, 1996 ..	150	$ 15	$ 776	$ 791
Net income	--	--	317	317
BALANCE, September 30, 1997 ..	150	15	1,093	1,108
Net income	--	--	135	135
BALANCE, JANUARY 30, 1998	150	$ 15	$ 1,228	$ 1,243

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

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Principles of Presentation

Rodgers Electric Company, Inc. is a Washington corporation. The Company provides electrical contracting services to commercial and industrial customers in Western Washington. Most of the Company's revenue is from partnering with customers and providing engineering services for design-build projects on a time and material basis with a guaranteed not-to-exceed price.

On January 30, 1998, concurrent with the closing of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by Integrated Electrical Services, Inc. (IES), the Company was acquired by IES. All outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. The Company has changed from a calendar to a September fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The financial statements for the period from October 1, 1997 through January 30, 1998 are presented for purposes of complying with certain reporting requirements of the Securities and Exchange Commission's Staff Accounting Bulletin No. 80 and are not necessarily indicative of the results to be expected for the entire year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using a straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was approximately $47,000 and $18,000 for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expensed or some other measure of progress. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets

and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective April 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	SEPTEMBER 30, 1997
Transportation equipment	10	$ 434
Machinery and equipment	10	53
Leasehold improvements	10-25	33
Furniture and fixtures	10	96
		616
Less -- Accumulated depreciation and amortization		(223)
Property and equipment, net		$ 393

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Accounts payable and accrued expenses consist of the following (in thousands):

	SEPTEMBER 30, 1997
Accounts payable, trade	$106
Payroll, profit sharing and related items	363
Other accrued expenses	19
	$488

Contracts in progress (in thousands):

	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 321
Estimated earnings, net of losses	472
	793
Less-Billings to date	(882)
	$ (89)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 20
Less-Billings in excess of costs and estimated earnings on uncompleted contracts	(109)
Net liability	$ (89)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	SEPTEMBER 30, 1997
Notes payable to financing companies with interest rates ranging from 3.9% to 9.75%, payable in monthly installments of principal and interest through March 2002, secured by transportation equipment	94
Less -- Current portion	(36)
Long-term debt	$ 58

The maturities of long-term debt are as follows (in thousands):

	YEAR ENDED SEPTEMBER 30, 1997

1998	$	36
1999		27
2000		18
2001		10
2002		3
	$	94

6. RELATED PARTY TRANSACTIONS:

The Company is located in a building owned by the sole stockholder which is leased to the Company with monthly lease payments of $2,200 per month.

7. INCOME TAXES:

Federal income taxes are $178,000 and $73,000 for the fiscal year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998, respectively.

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 35 percent to income before provision for income taxes as follows (in thousands):

	YEAR ENDED SEPTEMBER 30, 1997	PERIOD FROM OCTOBER 1, 1997 THROUGH JANUARY 30, 1998
Provision at the statutory rate	$ 173	$ 72
Increase resulting from--		
Permanent differences, mainly meals and entertainment	5	1
	$ 178	$ 73

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets result principally from the following (in thousands):

	SEPTEMBER 30, 1997
Allowance for doubtful accounts and other	$ 39
Bases difference on property and equipment	(75)
Net deferred tax liabilities	$ (36)

9. EMPLOYEE BENEFIT PLAN:

The Company has a profit sharing plan which covers substantially all qualified employees. The profit sharing contribution is made at the discretion of the Directors. Benefits payable under the profit sharing plan are limited to contributions made and earnings therein. Company contributions for the year ended September 30, 1997 and for the period from October 1, 1997 through January 30, 1998 were $192,000 and $105,000, respectively.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and short and long-term debt. The Company believes that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is periodically involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales greater than 10% of total sales to three major customers comprising approximately 25%, 22% and 13% of sales during the year ended September 30, 1997 and total sales to four major customers comprising approximately 34%, 15%, 15% and 10% of sales during the period from October 1, 1997 through January 30, 1998.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily commercial and industrial companies located in the North Puget Sound area of Western Washington. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors in that area, including cyclical changes in the aerospace industry. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

INDEPENDENT AUDITORS' REPORT

Mr. Mark Henderson, President
Mark Henderson, Inc.
Decatur, Georgia

We have audited the consolidated balance sheets of Mark Henderson, Inc., a Georgia corporation, and Subsidiaries as of September 30, 1997 and February 28, 1997 and the related consolidated statements of income, retained earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mark Henderson, Inc. and Subsidiaries as of September 30, 1997 and February 28, 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 13 to the financial statements, the Company has made a change in reporting entity. The financial statements include the accounts of Holland Electrical Systems, Inc. a 45%-owned subsidiary.

Bradshaw, Pope & Franklin, LLP

Norcross, Georgia
December 19, 1997

MARK HENDERSON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS

	February 28, 1997	September 30, 1997	June 30, 1998 (Unaudited)
CURRENT ASSETS			
Cash and cash equivalents	$ 4,081	$ 215	$ --
Accounts receivable	8,587	10,068	11,438
Retainage receivable	2,022	3,069	3,545
Costs and estimated earnings in excess of billings	1,157	2,596	136
Prepaid expenses	53	7	543
Other receivables	17	21	11
TOTAL CURRENT ASSETS	15,917	15,976	15,673
PROPERTY AND EQUIPMENT			
Office equipment and furniture	156	185	80
Automobiles and trucks	655	601	876
Equipment	114	175	235
Leasehold improvements	77	155	177
	1,002	1,116	1,368
Less accumulated depreciation	545	573	665
NET PROPERTY AND EQUIPMENT	457	543	703
TOTAL ASSETS	$ 16,374	$ 16,519	$ 16,376

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 28, 1997	September 30, 1997	June 30, 1998 (Unaudited)
CURRENT LIABILITIES			
Notes Payable and Current Maturities of LT Debt	$ 340	$ 236	$ 946
Accounts payable	3,791	4,531	3,615
Accrued expenses	1,170	638	1,027
Billings in excess of costs and estimated earnings	3,350	2,102	2,709
Income taxes payable	1,810	73	139
Deferred income taxes	46	58	6
TOTAL CURRENT LIABILITIES	10,507	7,638	8,442
LONG-TERM DEBT	144	117	1,320
MINORITY INTEREST	196	258	258
STOCKHOLDERS' EQUITY			
Common stock	1	1	1
Additional paid in capital	58	58	58
Retained earnings	5,468	8,447	6,297
TOTAL STOCKHOLDERS' EQUITY	5,527	8,506	6,356
TOTAL LIABILITIES STOCKHOLDERS' EQUITY	$ 16,374	$ 16,519	$ 16,376

The accompanying notes are an integral part of these statements.

MARK HENDERSON, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands)

	Year ended February 28, 1997	Year ended September 30, 1997 (Unaudited)	Seven months ended September 30, 1997	Nine months ended June 30, 1997 (Unaudited)	Nine months ended June 30, 1998 (Unaudited)
CONTRACT REVENUES EARNED	$ 44,369	$ 55,541	$ 36,502	$ 37,984	$ 47,985
COST OF REVENUES EARNED	37,903	46,938	31,677	32,939	42,669
GROSS PROFIT	6,466	8,603	4,825	5,045	5,316
GENERAL AND ADMINISTRATIVE EXPENSE	2,230	3,267	1,272	2,485	2,216
INCOME FROM OPERATIONS	4,236	5,336	3,553	2,560	3,100
OTHER INCOME (EXPENSES)					
Interest income	129	165	89	151	35
Gain (loss) on sale of property and equipment	5	13	9	6	(5)
Interest expense	(41)	(52)	(34)	(30)	(36)
Contributions	(32)	--	(8)	--	20
Other	(437)	(423)	(230)	(441)	--
TOTAL OTHER INCOME (EXPENSES)	(376)	(297)	(174)	(314)	14
NET INCOME BEFORE INCOME TAXES	3,860	5,039	3,379	2,246	3,114
PROVISION FOR INCOME TAXES	1,484	853	51	777	546
INCOME BEFORE MINORITY INTEREST	2,376	4,186	3,328	1,469	2,568
MINORITY INTEREST	73	(62)	(62)	0	0
NET INCOME	$ 2,449	$ 4,124	$ 3,266	$ 1,469	$ 2,568

The accompanying notes are an integral part of these statements.

MARK HENDERSON, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(In Thousands)

	Twelve months ended February 28, 1997	Seven months ended September 30, 1997	Nine months ended June 30, 1998
			(Unaudited)
RETAINED EARNINGS - Beginning of the year	$ 3,019	$ 5,468	$ 8,447
ADD:			
Net income	2,449	3,266	2,568
LESS:			
Shareholder distributions	-0-	287	(4,718)
RETAINED EARNINGS - End of the year	$ 5,468	$ 8,447	$ 6,297

The accompanying notes are an integral part of these statements.

MARK HENDERSON, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year ended February 28, 1997	Year ended September 30, 1997 (Unaudited)	Seven months ended September 30, 1997	Nine months ended June 30, 1997 (Unaudited)	Nine months ended June 30, 1998 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 2,449	$ 4,124	$ 3,266	$ 1,469	$ 2,568
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	190	168	89	84	134
(Gain) loss on sale of property and equipment	(5)	(13)	(9)	(6)	5
Minority interest	(73)	62	61	--	--
(Increase) decrease in:					
Accounts receivable	(1,624)	(3,683)	(1,513)	(266)	(1,370)
Retainage receivable	(210)	(1,543)	(1,011)	(1,149)	(476)
Earnings in excess of billings	(177)	(1,608)	(1,439)	708	2,460
Prepaid expenses	(6)	3	46	(95)	(536)
Other receivables	51	449	(8)	(38)	10
Increase (decrease) in:					
Accounts payable	(225)	2,652	778	1,394	(916)
Accrued expenses	403	177	(539)	361	389
Billings in excess of earnings	1,576	(2,293)	(1,247)	(2,994)	607
Income taxes payable	1,521	(686)	(1,729)	(610)	66
Deferred income taxes	(696)	(681)	12	(661)	(52)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,174	(2,872)	(3,243)	(1,802)	2,889
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash inflows:					
Sales of property and equipment	29	20	42	10	--
Cash outflows:					
Investment in Spectrol, Inc.	(85)	--	--	--	--
Purchases of property and equipment	(150)	(254)	(135)	(52)	(299)
NET CASH (USED) BY INVESTING ACTIVITIES	(206)	(234)	(93)	(42)	(299)

The accompanying notes are an integral part of these statements.

MARK HENDERSON, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
CONTINUED
(In Thousands)

	Year ended February 28, 1997	Year ended September 30, 1997 (Unaudited)	Seven months ended September 30, 1997	Nine months ended June 30, 1997 (Unaudited)	Nine months ended June 30, 1998 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Cash inflows:					
Proceeds from loans	244	--	--	--	1,913
Cash outflows:					
Loans to related company	--	--	(38)	--	--
Payments on shareholder loans	(90)	--	--	--	--
Principle payments on debt	(288)	(157)	(204)	(288)	--
Shareholder distributions	--	(287)	(288)	(88)	(4,718)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(134)	(444)	(530)	(376)	(2,805)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,834	(3,550)	(3,866)	(2,220)	(215)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,247	3,765	4,081	3,765	215
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,081	$ 215	$ 215	$ 1,545	$ 0
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Cash paid during the year for:					
Interest	$ 41	$ 52	$ 18	$ 30	$ 36
Income taxes	$ 700	$ 1,764	$ 1,764	$ 1,438	$ 184
Additional property and equipment acquired through financing	$ 28	$ 73	$ 73	$ --	$ --
Purchase of subsidiary net of cash received (Note 4)	$ 85	$ --	$ --	$ --	$ --

The accompanying notes are an integral part of these statements.

MARK HENDERSON, INC.
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1997 AND FEBRUARY 28, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

Mark Henderson, Inc. and Subsidiaries are electrical contractors, performing contracts for commercial construction projects in the Southeast.

Principles of consolidation

The consolidated financial statements include the accounts of Mark Henderson, Inc. for the short year beginning March 1, 1997 and ending September 30, 1997 and year ended February 28, 1997; its 75%-owned subsidiary, Spectrol, Inc. for the short year beginning May 1, 1997 and ending September 30, 1997 and six months ended April 30, 1997; and its 45%-owned subsidiary, Holland Electrical Systems, Inc for the seven months beginning March 1, 1997 and ending September 30, 1997 and year ending February 28, 1997. All material intercompany transactions have been eliminated.

Effective March 1, 1997, Mark Henderson, Inc. and its 75%-owned subsidiary Spectrol, Inc. have changed their fiscal year to end September 30 for both financial and tax reporting purposes. Holland Electrical Systems, Inc. retained its February 28 year end.

In June, 1998, the Company and its stockholders entered into a definitive agreement with Integrate Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock was exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have initial term of two-five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

The interim financial statements for the nine months ended June 30, 1998 and 1997, and the year ended September 30, 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Revenue recognition

Mark Henderson, Inc. and Subsidiaries record revenue from contracts on the percentage of completion method which recognizes revenue as work on a contract progresses. The revenue recognized is that percentage of the estimated total revenue that incurred costs to date bear to total estimated costs, after giving effect to Company estimates of costs to complete based upon the most recent information. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near future.

The application of this method results in "costs and estimated earnings in excess of billings" (current asset) with respect to certain contracts and "billings in excess of costs and estimated earnings" (current liability) with respect to other contracts.

Cost of revenues earned includes all direct material, labor, and subcontract costs and those indirect costs related to contract performance, such as indirect labor, insurance, and depreciation.

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful amounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed using accelerated and straight-line depreciation methods over estimated service lives for financial reporting purposes. Principal service lives are:

Office equipment and furniture	3 - 7 years
Automobiles and trucks	5 - 7 years
Equipment	5 years
Leasehold improvements	31.5 years

MARK HENDERSON, INC.
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED
SEPTEMBER 30, 1997 AND FEBRUARY 28, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Expenditures for major renewals and betterments which extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Cash and cash equivalents

For purposes of the statements of cash flows, the Company considers all investments purchased with a maturity of three months or less to be cash equivalents.

Use of estimates

Generally accepted accounting principles require management to estimate some amounts reported in the financial statements; actual amounts could differ.

Compensated absences

Employees are entitled to paid vacations depending on job classification, length of service, and other factors. The amount of compensation for future absences cannot be reasonably estimated, and, accordingly, no liability has been recorded in the accompanying financial statements.

Income taxes

Mark Henderson, Inc., with the consent of its shareholders, has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code effective March 1, 1997. Under those provisions, the Company does not pay income taxes on their proportionate share of the Company's taxable income.

Spectrol, Inc. and Holland Electrical Systems, Inc. are taxable corporations, and the financial statements include a provision for taxes on their earnings and losses.

Holland Electrical Systems, Inc. reports income on long-term contracts on the basis of the "completed contract" method of accounting for income tax purposes while the aforementioned "percentage of completion" method of accounting is used for financial reporting. Under the "completed contract" method, billings and costs are accumulated during the period of construction, but no profits are recognized until completion and acceptance of the work. The current liability of deferred income taxes results from the deferral of gross profit on uncompleted contracts. Deferred income taxes are reduced by the alternative minimum tax that will be allowed as a credit in future years.

Spectrol, Inc. and Holland Electrical Systems, Inc. also incur deferred income taxes as a result of timing differences between the recognition of depreciation for income tax reporting and financial reporting. Accelerated depreciation is used for tax reporting, and straight-line depreciation is primarily used for financial statement reporting.

MARK HENDERSON, INC.
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED
SEPTEMBER 30, 1997 AND FEBRUARY 28, 1997

NOTE 2 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS (in thousands):

	February 28, 1997	September 30,1997
Total contracts	$ 68,792	$ 91,911
Estimated costs -		
Costs to date	24,027	43,806
Costs to complete	35,455	35,685
Total estimated costs	59,482	79,491
Estimated gross profit	$ 9,310	$ 12,420
Amount billed to date	$ 30,335	$ 50,117
Costs and estimated earnings in excess of billings	1,157	2,596
Billings in excess of costs and estimated earnings	3,350	2,102
Contract revenues earned	28,142	50,611
Costs to date	24,027	43,806
Gross profit earned	$ 4,115	$ 6,805

NOTE 3 - LONG-TERM DEBT

Long-term debt is summarized below: (in thousands)

	February 28, 1997	September 30,1997
Line of credit with Wachovia Bank of Georgia, interest at prime plus 0.25%, payable on demand, $2,000 unused at September 30, 1997 and February 28, 1997	$ -0-	$ -0-
Line of credit with Wachovia Bank, interest at prime plus 1.0% adjusted daily. Secured by all assets of the Company, $146 unused at September 30, 1997	200	104
Various notes payable to bank and finance companies, interest ranging from 2.9% to 11.9%, principle and interest due monthly of $17, maturing through February 2001, secured by vehicles and equipment	283	249
	483	353
Less current portion	340	236
Long term debt	$ 143	$ 117

MARK HENDERSON, INC.
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED
SEPTEMBER 30, 1997 AND FEBRUARY 28, 1997

NOTE 3 - LONG-TERM DEBT (continued)

Scheduled minimum maturities of the current and long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 236
1999	74
2000	33
2001	8
2002	2
	$ 353

NOTE 4 - INVESTMENT IN SUBSIDIARIES

On October 21, 1996 Mark Henderson, Inc. purchased 300 shares of the outstanding common stock of Spectrol, Inc. for $100,000. The purchase method was used to account for the acquisition. The purchase price was allocated as follows (in thousands):

Cash	$ 15
Accounts receivable	659
Earnings in excess of billings	30
Employee receivables	3
Property and equipment	--
Deferred credit	(3)
Accounts payable	(302)
Accrued liabilities	(25)
Billings in excess of earnings	(4)
Deferred taxes	(2)
Notes payable	(222)
Minority interest	(49)
	$ 100

The accompanying financial statements for February 28, 1997 include operations for Spectrol, Inc. for the six months ended April 30, 1997. Because the two companies have different fiscal years, some intercompany transactions were not eliminated in the consolidation. In the intervening period, Spectrol, Inc. had $376,367 in billings to Mark Henderson, Inc. of which $247,538 is included in accounts receivable at their fiscal year end.

Mark Henderson, Inc. acquired 45% of Holland Electrical Systems, Inc. in August, 1994. Holland Electrical Systems, Inc. is engaged in substantially the same business as Mark Henderson, Inc.

NOTE 5 - RELATED PARTY TRANSACTIONS

Mark Henderson, Inc. leases its business premises at 5322 Snapfinger Park Drive from stockholders on a month-to-month basis for $3,273 per month. Rent expense under the lease for the short year ended September 30, 1997 was $22,911 and for the year ended February 28, 1997 was $39,276. Mark Henderson, Inc. is a guarantor on the mortgage for this property. The rent increased to $6,475 per month starting October 1, 1997.

MARK HENDERSON, INC.
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED
SEPTEMBER 30, 1997 AND FEBRUARY 28, 1997

NOTE 5 - RELATED PARTY TRANSACTIONS (continued)

Holland Electrical Systems, Inc. leases its office facilities from Mike Holland, who owns 21% of its common stock. Total lease expense for the period ended September 30, 1997 was $10,850 and for the year ended February 28, 1997 was $18,550.
The lease is currently on a month to month basis.

NOTE 6 - RETIREMENT PLAN

Mark Henderson, Inc. and Holland Electric Systems, Inc. sponsor 401(K) profit sharing plans for all eligible employees who have completed one year of service and attained the age of 21. Under the plan, employees may elect to defer a percentage of their compensation each year subject to Internal Revenue Service limits. The Company may make discretionary matching contributions equal to a percentage of the amount of salary reductions elected. The Company may also make a discretionary contribution equal to a percentage of eligible employees' compensation.

The Company contribution to the plans for the period ended September 30, 1997 was $230,397, and for the year ended February 28, 1997 was $449,502.

NOTE 7 - INCOME TAXES

Mark Henderson, Inc. with the consent of its shareholder, has elected under the Internal Revenue Code to be an S-corporation effective beginning March 1, 1997. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Spectrol, Inc. and Holland Electrical Systems, Inc. will continue to be taxed as C-corporations.

The components of the provision for income taxes are as follows (in thousands):

	February 28, 1997	September 30, 1997
Current income tax	$ 2,180	$ 39
Deferred income tax	(696)	12
Total	$ 1,484	$ 51

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109. (SFAS 109) is based on the assumption that tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains, and losses. Therefore, differences arise between the amount of taxable income and pretax financial income for a year, and the tax bases of assets or liabilities differ from the amounts reported in financial statements. Since Holland Electrical Systems, Inc. uses the completed contract method of accounting for income tax purposes, the primary temporary differences between tax and financial statements is the unrecognized profit on jobs in progress.

NOTE 8 - DEPRECIATION

The Company recognized $89,417 in depreciation of its property and equipment during the period ended September 30, 1997 and $190,265 during the year ended February 28, 1997.

MARK HENDERSON, INC.
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED
SEPTEMBER 30, 1997 AND FEBRUARY 28, 1997

NOTE 9 - LEASE COMMITMENTS

Mark Henderson, Inc. leases facilities at 2406 - 2408 Park Central Boulevard under operating leases. The lease expires on September 30, 1999. The monthly rent is $3,016 for the first two years and $3,267 for the third year. Rental expense for the year ended September 30, 1997 was $15,080.

Mark Henderson, Inc. also leases facilities in Raleigh, North Carolina under an operating lease that expires July, 2000. The lease commenced March 15, 1997 with a monthly rental of $2,010. Rental expense for the short year ended September 30, 1997 was $13,756.

The Company leases several vehicles and a copier under noncancelable operating leases.

Future minimum lease payments under the above leases are as follows (in thousands):

1998	$ 156
1999	151
2000	115
2001	48
2002	-
	$ 470

Spectrol, Inc. leases its office and some of its equipment on a month to month basis.

NOTE 10 - STOCK BONUS PLAN

Under certain circumstances, an officer of Holland Electrical Systems, Inc. has the option to purchase shares of common stock of Holland Electrical Systems, Inc. for amounts based upon the book value of the shares at the time of exercise.

NOTE 11 - OFF-BALANCE-SHEET RISK AND CONCENTRATION OF CREDIT RISK

In March 1990, the Financial Accounting Standards issued Statement of Financial Accounting Standards No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk. The pronouncement requires disclosure of information about financial instruments for which risk could exceed amounts reflected in the financial statements and information about significant geographic, industry, or other concentrations of credit risk for all financial instruments.

The Company has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by FDIC.

Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company has not experienced significant losses related to receivables from individual customers or groups of customers in a particular industry or geographic area. Due to these factors, management believes no additional credit risk beyond amounts provided for collection losses is inherent in the Company's accounts receivable.

MARK HENDERSON, INC.
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED
SEPTEMBER 30, 1997 AND FEBRUARY 28, 1997

NOTE 12 - COMPONENTS OF COMMON STOCK

Mark Henderson, Inc. $1 par value; 100,000 shares authorized; 1,000 shares issued and outstanding.

Spectrol, Inc. $100 par value; 5,000 shares authorized; 400 shares issued and outstanding.

Holland Electrical Systems, Inc. $1 par value; 100,000 shares authorized; 1,000 shares issued and outstanding.

NOTE 13 - CHANGE IN REPORTING ENTITY

The consolidated financial statements for September 30, 1997 and February 28, 1997 include the accounts of Holland Electrical Systems, Inc., a 45%-owned subsidiary. Holland Electrical Systems, Inc. had previously been accounted for under the equity method.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
DAVIS ELECTRICAL CONSTRUCTORS, INC.
Greenville, South Carolina

We have audited the accompanying balance sheet of DAVIS ELECTRICAL CONSTRUCTORS, INC. as of September 30, 1997, and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DAVIS ELECTRICAL CONSTRUCTORS, INC. as of September 30, 1997 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Elliott, Davis & Company, L.L.P.

Greenville, South Carolina
December 2, 1997

DAVIS ELECTRICAL CONSTRUCTORS, INC.
BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE DATA)

	September 30, 1997	June 30, 1998 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,203	$ 3,652
Accounts receivable	11,079	10,240
Costs and estimated earnings in excess of billings on uncompleted contracts	769	2,459
Other assets	86	54
Total current assets	18,137	16,405
PROPERTY AND EQUIPMENT	1,320	1,171
OTHER ASSETS		
Cash value of life insurance	2,373	2,529
Deposit	771	771
Other assets	312	312
	3,456	3,612
	$22,913	$21,188
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 872	$ 1,434
Dividends payable	3,572	--
Accrued salaries and wages	2,142	1,089
Billings in excess of costs and estimated earnings on uncompleted contracts	1,130	360
Accrued expenses and other liabilities	1,851	1,843
Total current liabilities	9,567	4,726
DEFERRED COMPENSATION	2,742	2,907
STOCKHOLDERS' EQUITY		
Common stock, par value $1 per share; authorized 500,000 shares; issued and outstanding 62,500 shares	62	62
Additional paid-in capital	130	130
Retained earnings	10,412	13,363
	10,604	13,555
	$22,913	$21,188

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

DAVIS ELECTRICAL CONSTRUCTORS, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS
(IN THOUSANDS)

	Year Ended September 30, 1997	Nine months Ended June 30, 1997	Nine months Ended June 30, 1998
		(Unaudited)	
CONTRACT REVENUE EARNED	$ 100,020	$ 78,808	$64,756
COSTS OF EARNED REVENUE	82,101	64,982	56,653
Gross profit	17,919	13,826	8,103
GENERAL AND ADMINISTRATIVE EXPENSES	14,196	5,962	5,254
Income from operation	3,723	7,864	2,849
OTHER INCOME:			
Interest Income	290	179	102
Interest Expense	(2)	(1)	--
Net income	4,011	8,042	2,951
RETAINED EARNINGS, BEGINNING OF YEAR	10,798	10,798	10,412
DIVIDENDS	(4,397)	(600)	--
RETAINED EARNINGS, END OF YEAR	$ 10,412	$ 18,240	$13,363

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

DAVIS ELECTRICAL CONSTRUCTORS, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year ended September 30, 1997	Nine months ended June 30, 1997	Nine months ended June 30, 1998 (Unaudited)
OPERATING ACTIVITIES			
Net income	$ 4,011	$ 8,042	$ 2,951
Adjustments to reconcile net income to net cash provided by operating activities			
(Gain) loss on sale of equipment	29	--	--
Depreciation	532	266	267
Changes in deferred and accrued amounts			
Accounts receivable	3,061	3,033	839
Costs and estimated earnings in excess of billings on uncompleted contracts	(188)	(834)	(1,690)
Deposits	(378)	20	32
Other assets	--	(378)	--
Accounts payable	(578)	(937)	562
Dividends payable	(2,598)	(2,598)	(3,572)
Accrued salaries and wages	818	(183)	(1,053)
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,581)	(2,469)	(770)
Accrued expenses and other liabilities	(2)	221	(8)
Deferred compensation	203	152	165
Net cash provided by operating activities	2,329	4,335	(2,277)
INVESTING ACTIVITIES			
Proceeds from sale of equipment	18	--	--
Purchase of equipment	(403)	(269)	(118)
Increase in cash value of life insurance	(254)	(166)	(156)
Net cash used for investing activities	(639)	(435)	(274)
FINANCING ACTIVITIES			
Dividends	(825)	(600)	--
Net cash used for financing activities	(825)	(600)	--
Net increase in cash and cash equivalents	865	3,300	(2,551)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,338	5,338	6,203
CASH AND CASH EQUIVALENTS, END OF YEAR	6,203	8,638	3,652
CASH PAID FOR			
Interest	$ 2	$ 1	$ --
Income taxes	$ --	$ --	$ --

NONCASH INVESTING AND FINANCING ACTIVITIES

The Company accrued $3,571,483 in 1997, for dividends on common stock.

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

DAVIS ELECTRICAL CONSTRUCTORS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 31, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

The Company is a national industrial electrical contractor. The Company extends credit to its customers who are concentrated primarily in the Southeastern region of the United States. The home office is located in Greenville, South Carolina with branch offices in Midland, Michigan operating as Davis Constructors Division and in Baton Rouge, Louisiana operating as Davis International Division.

In September, 1998, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of Company's common stock was exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of three to five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

INTERIM FINANCIAL INFORMATION

The interim financial statements for the nine months ended June 30, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

REVENUE AND COST RECOGNITION

The Company reports contract revenues from firm-price and guaranteed maximum contracts on the percentage-of-completion method, measured by the percentage of costs incurred to date, to the total estimated costs for each contract. Revisions in contract revenues and cost estimates are reflected in the period in which the facts that require the revisions become known. Revenues from cost-plus-percentage and cost-plus-fixed fee contracts are reported as the costs are incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses become known.

Contract costs include all direct material, labor and sub-contract costs and those indirect costs related to contract performance, such as indirect labor, equipment repairs, equipment rent, tools and supplies. General and administrative costs are charged to expense as incurred.

PROPERTY AND EQUIPMENT

Property and equipment, including permanent improvements to existing facilities, are carried at cost. Maintenance, repairs and other expenses not resulting in improvements are charged to expense as incurred. Depreciation is calculated using accelerated methods over the estimated useful lives of the respective assets.

INCOME TAXES

The Company, with the consent of its stockholders, has elected to be taxed as an S corporation effective October 1, 1995. Earnings and losses after that date are included in the personal income tax returns of the stockholders. Accordingly, the Company will not incur income tax obligations, and the financial statements will not include a provision for income taxes, except for provision of taxes in those states that do not recognize the S corporation election.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company considers all liquid, nonequity investments with an original maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the FDIC insurance limits.

ESTIMATES

The financial statements include estimates and assumptions that affect the Company's financial position and results of operations and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

NOTE 2 - ACCOUNTS RECEIVABLE

	September 30, 1997
The following summarizes accounts receivable:	
Contract receivables	9,517
Contract retainages	1,432
Officers and employees	130
	11,079

NOTE 3 - CONTRACTS IN PROGRESS

	September 30, 1997
The following summarizes uncompleted contracts:	
Firm price contracts	
Costs	$ 23,159
Estimated earnings	6,322
	29,481
Less billings	30,213
	(732)
Unbilled costs on cost-plus contracts	371
	$ (361)
Included in current assets as:	
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 769
Included in current liabilities as:	
Billings in excess of costs and estimated earnings on uncompleted contracts	1,130
	$ (361)

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 1997 consists of the following:

	Cost	Accumulated Depreciation	Net
Automobiles and trucks	1,359	739	620
Construction and related equipment	2,357	1,828	529
Office furniture and equipment	818	689	129
Leasehold improvements	273	231	42
	4,807	3,487	1,320

NOTE 5 - NOTE PAYABLE

The Company has an unsecured $4,000,000 line of credit with a bank which is partially guaranteed by the majority stockholder of the Company with his guaranty limited to $2,000,000. The line bears interest at Libor plus 185 basis points and expires January 28, 1998. At September 30, 1997, $1,300,000 of the line has been used under letters of credit which expire March 1, 1998 and April 1, 1998, leaving $2,700,000 available for additional draws. At September 30, 1996, $1,250,000 of the line has been used under letters of credit which expire March 1, 1997 and April 1, 1997, leaving $2,750,000 available for additional draws. Letters of credit issued in connection with the lines of credit are secured by the cash surrender value of life insurance on the life of the majority stockholder of the Company. The provisions of the lines of credit contain various covenants requiring the Company to maintain certain ratios and to perform or not perform other actions. At September 30, 1997 and 1996, the Company was in compliance with these provisions.

NOTE 6 - ACCRUED EXPENSES AND OTHER LIABILITIES

	September 30, 1997
Accrued expenses and other liabilities are summarized as follows:	
Payroll taxes withheld and accrued	$ 655
Workers' compensation and general liability insurance	829
State sales and use tax	27
Other liabilities	340
	$ 1,851

NOTE 7 - EMPLOYEE BENEFITS

The Company provides deferred compensation to key employees under the Davis Electrical Constructors, Inc. Incentive Plan. The plan provides for the award of units to participants that are equivalent in value to one share of the Company's stock at book value. Effective October 1, 1996, the Company elected to suspend the Davis Electrical Constructors, Inc. Incentive Plan. The effect of this election was to cease the appreciation in the book value of the unit as compared to the initial value per unit defined by the plan on the date of award. All other terms of the plan are still in effect. The present value of deferred compensation under the plan since inception is computed as follows:

	September 30, 1997
Deferred compensation from appreciation of units awarded to participants	$ 5,277
Discounted at 8 percent for the time value of money until the dates of estimated future payouts	$ 2,535
Present value of deferred compensation	$ 2,742

For the years ended September 30, 1997 and 1996, $203,550 and $188,047 was charged to operations under the Plan, respectively. The compensation deferred under the plan is currently 60 percent vested to the participants. Vesting under the plan begins after the fifth year of participation and increases twenty percent per year until fully vested. Provisions for full vesting of benefits under the plan are also provided upon the death or disability of the participant, termination of the plan and certain other events related to the majority stockholder.

NOTE 7 - EMPLOYEE BENEFITS, CONTINUED

The participants shall receive payment of plan benefits upon termination of employment or upon specific actions by the board of directors. Upon termination of a participant's employment, the participant shall receive payment of the value of his share units over such period of time (not to exceed ten years) as the board shall determine in its absolute discretion.

The Company also provides an executive bonus plan whereby the Company shall pay bonuses for each fiscal year to each identified executive in an amount equal to a specified percentage of Company's net profits for such fiscal year.

NOTE 8 - LEASE COMMITMENTS

At September 30, 1997 and 1996, the Company was obligated under several noncancellable operating leases on certain property and equipment that had an initial or remaining term of more than one year. Lease payments charged to operations under such leases were approximately $551,745 for the year ended September 30, 1997 and $558,000 for the year ended September 30, 1996, respectively. Future minimum lease payments under such operating leases that have initial or non-cancelable terms in excess of one year are as follows:

	September 30, 1997
1997	
1998	371
1999	167
2000	138
2001	90
2002 and thereafter	315
	1,081

NOTE 9 - INCOME TAXES

The provision for income taxes for the year ended September 30, 1996 consists of the following components:

State income taxes currently payable	$ 132
Reversal of prior years' deferred tax asset	878
Total	$ 1,010

NOTE 9 - INCOME TAXES, CONTINUED

As discussed in Note 1, the Company has elected S corporation status effective as of October 1, 1995. Accordingly, the deferred tax asset of $878,593 as of the date the election for the change was filed has been eliminated through the deferred tax provision.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Company is self insured on major medical coverage which it provides to its employees. Specific and aggregate excess reinsurance is carried by the Company to limit potential costs under the self insured plan. Amounts due for claims submitted by covered employees and the related charges to operations are accounted for in the period the underlying occurrence or incident for the claim occurs. Claims payable are processed by an administrator designated by the Company.

NOTE 10 - COMMITMENTS AND CONTINGENCIES, CONTINUED

The Company is insured for workers compensation claims in certain states under policies with high deductible provisions generally totaling $250,000 per incident. Specific and aggregate excess reinsurance is carried by the Company to limit potential costs.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Company leases offices, warehouses and certain equipment from stockholders and partnerships in which the stockholders are partners. For the years ended September 30, 1997 and 1996, approximately $630,556 and $422,000 was charged to operations under such operating leases, respectively.

NOTE 12 - MAJOR CUSTOMERS AND RISK CONCENTRATION

The Company had sales of approximately 27.9 percent of total sales to two major customers during 1997. In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors in the industrial construction markets. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the industrial construction markets. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Florida Industrial Electric, Inc.

We have audited the accompanying balance sheet of Florida Industrial Electric, Inc. as of December 31, 1997, and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Industrial Electric, Inc. as of December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

SAPP & SAPP, P.A.

Winter Park, Florida
February 11, 1998

FLORIDA INDUSTRIAL ELECTRICAL, INC.

BALANCE SHEET
(in thousands)

ASSETS

	December 31, 1997	March 31, 1998 (unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,311	$ 641
Contract receivables	4,268	5,450
Costs and estimated earnings in excess of billings on uncompleted contracts	663	650
Deposits	5	7
Prepaid expenses and other current assets	7	43
Total current assets	6,254	6,791
PROPERTY AND EQUIPMENT, NET:	487	554
OTHER ASSETS:		
Cash surrender value of life insurance policies	71	71
Deposits	2	
Total other assets	73	71
Total Assets	$ 6,814	$ 7,416

BALANCE SHEET
(in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1997	March 31, 1998 (unaudited)
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 81	$ 79
Accounts payable	1,441	2,191
Payables to related parties	15	--
Billings in excess of costs and estimated earnings on uncompleted contracts	718	789
Income tax currently payable	236	255
Deferred income tax	730	530
Other accrued expenses	242	122
Total current liabilities	3,463	3,966
LONG-TERM LIABILITIES:		
Long-term debt less current maturities	565	550
STOCKHOLDERS' EQUITY:		
Common stock, $5 par value. Authorized 100 shares; issued 100 shares	1	1
Additional paid-in capital	20	20
Retained earnings	3,030	3,144
	3,051	3,165
Treasury stock, at cost: 43 shares	(265)	(265)
Total stockholders' equity	2,786	2,900
Total Liabilities and Stockholders' Equity	$ 6,814	$ 7,416

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

FLORIDA INDUSTRIAL ELECTRICAL, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS
(in thousands)

	Year Ended December 31, 1997	Three Months Ended March 31, 1997	1998
		(unaudited)	
CONTRACT REVENUES EARNED	$ 22,679	$ 4,124	$ 5,341
COST OF REVENUES EARNED	18,194	3,254	4,736
GROSS PROFIT	4,485	850	605
GENERAL AND ADMINISTRATIVE EXPENSES	2,492	511	466
OTHER INCOME (EXPENSE):			
Interest Expense	--	(22)	--
Interest and dividend income	45	3	21
Net gain (loss) on sale of property and equipment	45	--	9
Recovery of bad debts	25	--	--
Other	9	5	--
INCOME BEFORE INCOME TAXES	2,117	325	169
PROVISION FOR INCOME TAXES	810	124	55
NET INCOME	1,306	201	114
RETAINED EARNINGS, BEGINNING BALANCE	1,724	1,724	3,030
RETAINED EARNINGS, ENDING BALANCE	$ 3,030	$ 925	$ 3,144

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

FLORIDA INDUSTRIAL ELECTRICAL, INC.
STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended December 31, 1997	Three Months Ended March 31, 1998	1998
		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	1,306	201	114
Depreciation and amortization	126	29	34
Net gain on sale of property and equipment	(45)	--	(9)
Deferred income tax expense	323	--	(200)
Other non-cash items	(15)		
Changes in assets and liabilities:			
(Increase) decrease in contract receivables	(930)	(667)	(1,182)
(Increase) decrease in receivables from related parties	1	4	--
(Increase) decrease in other receivables	3	--	--
Costs and estimated earnings in excess of billings on uncompleted contracts	153	816	13
(Increase) decrease in other current assets	(3)	(3)	(38)
(Increase) decrease in other assets	--	3	2
Increase (decrease) in accounts payable and accrued expenses	316	(215)	630
Increase (decrease) in payables to related parties	(21)	(36)	(15)
Billings in excess of costs and estimated earnings on uncompleted contracts	250	(469)	71
Increase (decrease) in income taxes currently payable	165	52	19
Total adjustments	323	(486)	(675)
Net cash provided (used) by operating activities	1,629	(285)	(561)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	49	--	--
Capital expenditures for property and equipment	(100)	(19)	(92)
Net cash provided (used) by investing activities	51	(19)	(92)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term notes	200	269	--
Principal payments on short-term notes	(450)	--	(17)
Principal payments on long-term debt	164	--	--
Net cash provided (used) by financing activities	(414)	269	(17)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,164	(35)	(670)
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	147	148	1,311
CASH AND CASH EQUIVALENTS, ENDING BALANCE	$ 1,311	$ 113	$ 641
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 88	$ --	$ --
Income taxes paid	323	72	36
Noncash investing and financing activities:			
Long-term debt incurred related to acquisition of property and equipment	$ 138	$ --	$ --

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

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

The Company is a special trade contractor primarily engaged in nonresidential electrical work.

Work is performed primarily under fixed-price contracts and unit-price contracts. Occasionally, cost-plus contracts are entered into.

In May 1998, the Company and its stockholders entered into a definitive agreement with Integrate Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock was exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

The interim financial statements for the three months ended March 31, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the period reported. Actual results could differ from those estimates.

Revenue and Cost Recognition

Contract revenues and costs on all significant long-term contracts are recognized using the percentage of completion method of accounting for each contract. The percentage of completion method recognizes

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

revenue and cost as the work progresses. It takes into account the estimate of total contract revenue and cost expected to be realized at completion.

Under the percentage of completion method, revenue is recognized based on the percentage that cost to date bears to total estimated cost, based on current estimates of cost to complete. No percentage of completion is recognized in the early stages of a contract (usually less than 5% complete) and any cost to date is not recognized.

As contracts can extend over one or more years, revisions in estimates of cost and earnings during the course of the work are reflected in the accounting period in which the facts which require the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Revenues from cost-plus contracts are recognized on the basis of costs incurred plus profit earned during the period.

Contract revenue includes approved change orders, unpriced change orders initiated by the customer to the extent of cost incurred and known unit-price variances. Claims are recognized only when realization is probable and the amount can be reliably estimated.

Contract cost includes all direct materials, labor, subcontract and other costs, and indirect costs identifiable with or allocable to the contract. Beginning August 1, 1996, the Company began allocating the cost of all owned equipment used for contracts directly to contract cost. Unallocated indirect and warranty costs are charged to expense as incurred and are included in cost of revenues earned. Unallocated material discounts earned are treated as a reduction of cost of revenues earned. General and administrative costs are charged to expense as incurred.

The current assets, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed and costs incurred on contracts with no percentage of completion recognized. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Cash and Cash Equivalents

The Company considers the following to be cash or cash equivalents: all cash on hand; demand

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

deposits, savings accounts, money market accounts and certificates of deposit with financial institutions; brokerage houses' cash funds; mutual funds' cash funds; and other highly liquid debt instruments purchased with a maturity of three months or less.

Receivables

Receivables are stated at net realizable value.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed by both the straight-line and accelerated methods over the estimated useful lives of the assets.

Expenditures for maintenance and repairs are expense as incurred. Replacements and betterments which increase the value or materially extend the life of the related asset are capitalized. When assets are sold or retired, the cost and accumulated depreciation is removed from the accounts and any gain or loss is included in income.

Intangibles

Intangibles are amortized on a straight-line basis over five years.

Income Taxes

The Company accounts for certain income and expense items differently for financial reporting and income tax purposes. Deferred income taxes reflect the estimated impact of these temporary timing differences by applying currently enacted tax laws. The nature of significant timing differences is described in the note entitled, "Income Taxes."

Financial Instruments and Risk Concentration

The Company is a minority business enterprise and operates throughout the southeastern United States, primarily in Florida.

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and contract receivables.

The Company places cash and temporary cash investments with high quality financial institutions. At times, such investments may be in excess of the FDIC insurance limit.

The Company provides credit, in the normal course of business, for construction contracts with both governmental and private entities. Significant contracts normally require payment and performance bonds. To reduce credit risk, the Company performs a credit evaluation before entering into a contract for which no bond is required.

Historically, the Company has not incurred any significant credit related losses. In management's opinion, the Company's exposure to concentrations of credit risk is limited.

NOTE B - CONTRACT RECEIVABLES

	1997
Completed contracts, including retainage	$ 1,034
Contracts in progress:	
Progress billings	2,335
Retainage	899
	$ 4,268

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE C - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

	1997
Costs incurred on uncompleted contracts	$ 20,012
Estimated gross profit earned	4,264
	24,276
Less: Billings to date	24,331
	$ (55)
Included in accompanying balance sheet under the following captions:	
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 663
Billings in excess of costs and estimated earnings on uncompleted contracts	(718)
	$ (55)

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE D - PROPERTY AND EQUIPMENT

	1997
Automotive equipment	797
Communication equipment	8
Construction equipment	101
Leasehold improvements	44
Office furniture and equipment	114
	1,064
Less: Accumulated depreciation	577
Property and equipment, net	$ 487

The principal lives (in years) used in determining depreciation are as follows:

Automotive equipment	5
Communication equipment	10
Construction equipment	3 - 10
Leasehold improvements	3 - 40
Office furniture and equipment	3 - 10

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE E - LONG-TERM DEBT

	1997
Secured:	
Installment notes, payable in monthly installments of $5,958, secured by automotive equipment, including interest at 8.54% to 9.54%	$148
Installment note, payable in monthly installments of $267, secured by office equipment, including interest at 21%	4
Unsecured:	
Note payable - stockholder, due 12-31-00, interest 8%	20
Note payable - stockholder, due 12-17-01, interest 8%	12
Note payable - stockholder, due 03-29-00, interest 8%	75
Note payable - stockholder, due 07-19-00, interest 8%	50

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE E - LONG-TERM DEBT - CONTINUED

	1997
Note payable - former stockholder, due 12-17-01, interest 8%	57
Note payable - former stockholder, due 03-29-00, interest 8%	75
Note payable - former stockholder, due 07-19-00, interest 8%	50
Installment note, payable to former stockholder for treasury stock in annual installments on December 31 of $19,409, plus interest at prime	155
Total long-term debt	646
Less: current maturities	81
Total long-term portion	$ 565

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

Future maturities are as follows:

The amount of long-term debt maturing in each of the next five years and thereafter:

Current maturities	$ 82
Second year	61
Third year	329
Fourth year	96
Fifth year	21
Thereafter	58
Total long-term debt	$ 647

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE F - OPERATING LEASES

Future minimum rental payments required under non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 1997:

Year ending December 31:	
1998	$ 146
1999	115
2000	30
Total future minimum rental payments	$ 291

The operating lease agreements are for automotive equipment and office and warehouse space and require additional payment for taxes, insurance and maintenance (see Note I).

Rental expense, including short-term rentals, was as follows:

	1997
Minimum rentals under noncancelable operating leases	$ 133
Contingent rentals	--
Short-term rental agreements	737
Total rental expense	$ 870

NOTE G - EMPLOYEE BENEFIT PLAN

The Company has a contributory profit sharing plan for the employees. Annual discretionary contributions have been made to the profit sharing trust to provide funds with which to pay benefits at retirement. Employees may also make voluntary contributions. The Company employee benefit plan contribution was $106,417 for 1997.

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE H - INCOME TAXES

Provision for income taxes is comprised of the following components:

	1997
Current:	
Federal	$ 417
State	70
	487
Deferred:	
Federal	276
State	47
	323
Total provision	$ 810

Significant temporary differences and carryforwards that give rise to deferred income taxes relate to the use of the completed contract method of accounting for long-term contracts for regular tax purposes. The tax effects of these differences and carryforwards are as follows:

	1997
Deferred tax liabilities	$ 1,444
Deferred tax assets	714
Net deferred tax	$ 730

The net current and noncurrent components of deferred income taxes included in the balance sheet are as follows:

	1997
Net current liabilities	$ 730

FLORIDA INDUSTRIAL ELECTRICAL, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1997

(IN THOUSANDS)

NOTE H - INCOME TAXES - CONTINUED

The Company had available, at December 31, 1997, Federal alternative minimum tax credit carryforwards of approximately $644,000 which are available to reduce future Federal regular income tax over an indefinite period.

In addition, the Company had state alternative minimum tax credit carryforwards of approximately $69,000 which are available to reduce future state income tax over an indefinite period.

The tax benefits of these credit carryforwards are reflected in the deferred tax assets.

NOTE I - RELATED PARTY TRANSACTIONS

Assets and liabilities with officers and stockholders consist of the following:

	1997
Payables to related parties	15
Long-term debt (Note F)	157

Interest expense on long-term debt was $ 16,986 for 1997

The Company leases office and warehouse space from a stockholder and former stockholder for $4,815 per month including sales tax (see Note F). Rent expense was $57,780 for 1997.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Galbraith Acquisition Company, Inc.
Abilene, Texas

We have audited the accompanying consolidated balance sheets of Galbraith Acquisition Company, Inc. and its subsidiary, as of December 31, 1997, and the related consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Galbraith Acquisition Company, Inc. and its subsidiary, as of December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Wolfe and Company, P.C.

Abilene, Texas
February 27, 1998

GALBRAITH ACQUISITION COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, except share data)

ASSETS

	December 31, 1997	March 31, 1998 (Unaudited)
CURRENT ASSETS:		
Cash	$ 362	$ 52
Contracts receivable, net of allowance of $4,157 in 1997	1,248	1,396
Accounts receivable - other	32	1
Costs and estimated earnings in excess of billings on uncompleted contracts	80	100
Inventory	2	--
Prepaid expenses	22	56
Total current assets	1,746	1,605
PROPERTY AND EQUIPMENT, net	331	267
TOTAL ASSETS	$2,077	$1,872

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1997	March 31, 1998 (Unaudited)
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 213	$ 35
Accounts payable	419	443
Accrued liabilities	149	137
Billings in excess of costs and estimated earnings on uncompleted contracts	390	509
Federal income taxes payable	172	--
Total current liabilities	1,343	1,124
NONCURRENT LIABILITIES:		
Long-term debt, net of current maturities	142	133
Deferred Federal income taxes	22	22
Total noncurrent liabilities	164	155
STOCKHOLDERS' EQUITY:		
Common stock, no par value; 1,000,000 shares authorized; 1,000 shares issued and outstanding	1	1
Retained earnings	569	592
Total stockholders' equity	570	593
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,077	$1,872

The accompanying notes are an integral part of the consolidated financial statements.

GALBRAITH ACQUISITION COMPANY, INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(In Thousands)

	Three Months Ended		
	December 31 1997	March 31 1997	March 31 1998
		(unaudited)	
REVENUES EARNED	$ 6,061	$ 956	$ 1,567
COST OF REVENUES EARNED	4,848	782	1,341
GROSS PROFIT FROM CONSTRUCTION	1,213	174	226
GENERAL AND ADMINISTRATIVE EXPENSES	619	128	109
OTHER INCOME (EXPENSE):			
Interest income	1	--	1
Interest expense	(59)	(9)	(5)
Recovery of bad debt and miscellaneous income	2	3	6
Gain (loss) on sale of assets	(1)	1	--
Net other income (expense)	(57)	(5)	2
INCOME BEFORE FEDERAL INCOME TAXES	537	41	119
PROVISION FOR FEDERAL INCOME TAXES:			
Current	186	9	35
Deferred (benefit) expense	1	--	--
Total provision for Federal income taxes	187	9	35
NET INCOME	$ 350	$ 32	$ 84
RETAINED EARNINGS, Beginning of year	$ 219		$ 569
DIVIDENDS	--		(61)
RETAINED EARNINGS, End of year	$ 569		$ 592

The accompanying notes are an integral part of the consolidated financial statements.

GALBRAITH ACQUISITION COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	December 31 1997	Three Months Ended March 31 1997	March 31 1998
		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 350	$ 32	$ 84
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	59	12	12
(Gain) loss on sales of assets	1	(1)	--
Deferred Federal income taxes	1	--	--
Changes in assets and liabilities:			
(Increase) decrease in:			
Contracts receivable	164	606	(148)
Accounts receivable - other	(17)	13	31
Costs and estimated earnings in excess of Billings on uncompleted contracts	(18)	31	(20)
Inventory	12	(3)	2
Prepaid expenses	(1)	(49)	(34)
Increase (decrease) in:			
Accounts payable	(57)	(266)	24
Accrued liabilities	109	49	(12)
Billings in excess of costs and estimated Earnings on uncompleted contracts	82	(55)	119
Federal income taxes payable	169	--	(172)
Total adjustments	504	337	(198)
Net cash provided by operating activities	854	369	(114)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(36)	--	--
Proceeds from sales of property and equipment	12	66	52
Net cash provided by (used in) investing activities	(24)	66	52
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital Contribution	--	199	--
Dividends	--	--	(61)
Line of credit, net	(395)	(292)	(187)
Proceeds from borrowings on notes payable	--	15	--
Payment of debt on stockholder loan	(30)	--	--
Payment of debt on notes payable	(108)	(395)	--
Net cash (used in) financing activities	(533)	(473)	(248)
NET INCREASE (DECREASE) IN CASH	297	(38)	(310)
CASH, Beginning of period	65	65	362
CASH, End of period	$ 362	$ 27	$ 52
Supplementary disclosures:			
Cash paid during the year for interest	$ 64	$ 9	$ 5
Cash paid during the year for income taxes	$ 17	$ 8	$ 207

The accompanying notes are an integral part of the consolidated financial statements.

GALBRAITH ACQUISITION COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Galbraith Acquisition Company, Inc. (the Corporation) was incorporated under the laws of the state of Texas on September 17, 1994. The Corporation was formed as a holding company for the purpose of acquiring its wholly owned subsidiary, Galbraith Electric Company. Galbraith Electric Company, Inc. was founded in 1941 and is an electrical contractor whose principal activity is electrical installation on new and existing commercial buildings. The work is performed under fixed-price and modified fixed-price contracts. Most projects are located in the central Texas area. The length of the contracts vary but are typically less than one year.

In May, 1998, the Company and its stockholders entered into a definitive agreement with Integrate Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock was exchanged for cash. In addition, the key executives of the Company entered into employment agreements with the Company and IES which generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

The interim financial statements for the three months ended March 31, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Galbraith Acquisition Company, Inc. (a holding company) and its wholly owned subsidiary. Galbraith Electric Company, Inc. is the acquisition company's only subsidiary. All significant intercompany transactions are eliminated in the consolidation.

REVENUE AND COST RECOGNITION

Revenues from construction contracts are recognized on the "percentage-of-completion" method, measured by the percentage of costs incurred to date to the total estimated costs for each contract. That method is used because management considers total cost to be the best available measure of progress on the contracts. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term.

GALBRAITH ACQUISITION COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

Contract costs include all direct material, labor costs, and those other costs related to contract performance such as indirect labor and insurance costs. Selling, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders, and settlements, are accounted for as changes in estimates in the current period.

The asset, costs and estimated earnings in excess of billings on uncompleted contracts, represents revenues recognized in excess of amounts billed. The liability, billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

INVENTORY

Inventory consists principally of materials and are valued at the lower of cost, first-in, first-out method, or market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at historical cost, net of accumulated depreciation. Depreciation is computed using the straight-line method and amounted to $59,178 and $60,408, including the depreciation for the excess cost over net assets attributable to equipment, for the years ended December 31, 1997 and 1996, respectively. The excess of cost over net assets attributable to equipment is being depreciated using the straight-line method over the estimated remaining useful lives of the assets and amounted to $8,663 for each of the years ended December 31, 1997 and 1996. Estimated lives used in calculating depreciation are summarized by major asset category as follows:

Category	Useful Life
Building and improvements	31 to 40 years
Construction equipment	7 to 10 years
Vehicles	5 years
Furniture and office equipment	5 to 10 years

Maintenance, repairs, and minor replacements are charged to expense as incurred; major replacements and betterments are capitalized. The cost of assets, which are sold or retired, and the related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting gain or loss is reflected in income for the period.

FEDERAL INCOME TAXES

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due, plus deferred taxes resulting from timing differences in the recognition of expense items for financial accounting and tax purposes. The principal timing differences relate to depreciation and bad debt

GALBRAITH ACQUISITION COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

expense. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

CASH EQUIVALENTS

For the purpose of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's long-term debt approximates fair value based on management's best estimate of interest rates that would be available to the Company for similar debt obligations at December 31, 1997.

NOTE 2: CONTRACTS RECEIVABLE

Contracts receivable consisted of the following at December 31, 1997:

	1997
Billed on completed contracts	$ 114
Billed on uncompleted contracts	864
Retainages on uncompleted contracts	274
Total	1,252
Less allowance for doubtful amounts	4
Net contracts receivable	$1,248

Receivables from Faulkner Construction Co. on the Grand Courts job ($268,730), Vratsinas Construction Co. on the Winn Dixie job ($157,000), Templeton Construction Co. on the ADAL Dorms job ($126,570), and Archer-Western Contractors, Ltd on the Wichita Falls Claims Processing Center job ($89,656) represent over 51% of total contracts receivable at December 31, 1997.

NOTE 3: COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

	December 31, 1997
Costs incurred on uncompleted contracts	$2,652
Estimated earnings	531
Total	3,183
Less applicable progress billings	3,493
Net	$ (310)

GALBRAITH ACQUISITION COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

The aforementioned amounts are included in the accompanying balance sheet under the following captions:

	December 31, 1997
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 80
Billings in excess of costs and estimated earnings on uncompleted contracts	(390)
Net	$(310)

NOTE 4: PROPERTY AND EQUIPMENT

The following is a summary of property and equipment (at cost), less accumulated depreciation at December 31, 1997:

Buildings and improvements	$139
Construction equipment	283
Vehicles	90
Furniture and office equipment	69
Total property and equipment	581
Less accumulated depreciation	250
Net property and equipment	$331

NOTE 5: NOTE PAYABLE

The subsidiary company's bank provides $750,000 on a revolving line of credit, of which $-0- had been drawn at December 31, 1997 and $395,000 had been drawn at December 31, 1996. The current line of credit was renewed on April 30, 1997 and matures on April 30, 1998, with interest tied to the bank's base rate. The line of credit is secured by the Company's accounts receivable, contract rights, and personal guaranties by certain directors of the Company. There are no compensating balance requirements or commitment fees.

NOTE 6: LONG-TERM DEBT

Long-term debt consisted of the following, at December 31, 1997:

GALBRAITH ACQUISITION COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

	1997
Note payable to bank, payable in monthly installments of $618 including interest at 2.75% above Wall Street Journal prime rate, matures March 19, 2012, secured by all assets of the Company and a personal guaranty by an officer of the Company.	$ 52
Note payable to bank, payable in monthly installments of $2,424, including interest at 2.75% above Wall Street Journal prime rate, matures March 19, 1999, secured by all assets of the Company and a personal guaranty by an officer of the Company.	33
Note payable to bank, payable in monthly installments of $864, including interest at 2.75% above Wall Street Journal prime rate, matures January 12, 2014, secured by deed of trust on real estate and personal guaranty by an officer of the Company.	77
Vehicle notes payable to a bank and vehicle financing company, payable in monthly installments ranging from $264 to $461, including interest at rates from 7.9% to 9.5%, maturity dates from January 10, 1997 to March 26, 2001, secured by vehicles.	13
Note payable to bank, payable in monthly installments of $7,800 including interest at the bank's base rate plus 1%, matures September 13, 1998, secured by commercial pledge of subsidiary stock, inventory, equipment, receivables, and commercial guaranties of stockholders.	150
Note payable to stockholder, interest is payable in semi-annual installments at NationsBank in Temple, Texas prime plus 1%, matures September 9, 1998, unsecured.	30
Total	355
Less current maturities	213
Net long-term debt	$ 142

GALBRAITH ACQUISITION COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

Principal payments on long-term debt are due as follows:

Year Ending	
December 31, 1998	$ 213
December 31, 1999	14
December 31, 2000	8
December 31, 2001	6
December 31, 2002	5
Thereafter	108
Total	$ 354

NOTE 7: RETIREMENT PLAN

The Company has a 401(k) retirement plan that covers substantially all employees. Under the plan, employees may contribute up to 15% of their compensation. The Company matches 50% of the employee contributions with a maximum contribution up to 2.5% of the employees compensation. The total Company contributions including administrative costs for the years ended December 31, 1997 and 1996 were $14,343 and $8,495, respectively.

Independent Auditor's Report

To the Board of Directors and Stockholders
Arc Electric, Incorporated
Chesapeake, Virginia

We have audited the accompanying balance sheet of Arc Electric, Incorporated as of December 31, 1997 and the related statements of income, cash flows, and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arc Electric, Incorporated at December 31, 1997, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Edmondson, LedBetter & Ballard, L.L.P.

Norfolk, Virginia
August 27, 1998

ARC ELECTRIC, INCORPORATED

BALANCE SHEETS
(In Thousands, Except Share Amounts)

ASSETS

	December 31, 1997	June 30, 1998
		(Unaudited)
CURRENT ASSETS		
Cash and cash equivalents	$1,612	$2,081
Accounts receivable		
Trade, net of allowance of $104 in 1997	2,127	3,977
Retainage	346	
Stockholder	35	
Affiliate	5	
Other receivables	6	
Inventory	49	76
Costs and estimated earnings in excess of billings on uncompleted contracts	659	68
Prepaid expense	21	41
TOTAL CURRENT ASSETS	4,860	6,243
PROPERTY AND EQUIPMENT, net	480	443
OTHER ASSETS		
Cash value of life insurance, net of $34 loan in 1997	31	65
Deposits	4	4
TOTAL OTHER ASSETS	35	69
TOTAL ASSETS	$5,375	$6,755

See Accompanying Notes to Financial Statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1997	June 30, 1998 (Unaudited)
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 115	$ 121
Accounts payable and accrued expenses	1,407	1,657
Billings in excess of costs and estimated earnings on uncompleted contracts	171	517
Deferred income taxes	389	389
Income taxes payable	50	296
Other current liabilities	89	--
TOTAL CURRENT LIABILITIES	2,221	2,980
LONG-TERM DEBT, net of current maturities	93	107
DEFERRED INCOME TAXES	33	32
TOTAL LIABILITIES	2,347	3,119
STOCKHOLDERS' EQUITY		
Common stock, par value $1 per share, authorized 50,000 shares, 111 shares issued and outstanding	--	--
Additional paid-in capital	152	143
Retained earnings	2,876	3,493
TOTAL STOCKHOLDERS' EQUITY	3,028	3,636
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5,375	$6,755

See Accompanying Notes to Financial Statements

ARC ELECTRIC, INCORPORATED

STATEMENTS OF INCOME
(In Thousands)

	For The Year Ended December 31, 1997	Six Months Ended June 30, 1997	Six Months Ended June 30, 1998
		(Unaudited)	
Contracting Revenues Earned	$ 19,004	$ 9,032	$ 7,196
Cost of Revenues Earned	13,497	6,694	5,496
GROSS PROFIT	5,507	2,338	1,700
General and Administrative Expense	2,763	1,274	814
Income from Operations	2,744	1,064	886
Other Income (Expense)			
Interest expense	(24)	(10)	(15)
Other	103	37	15
OTHER INCOME, NET	79	27	--
INCOME BEFORE PROVISION FOR INCOME TAXES	2,823	1,091	886
Provision For Income Taxes	1,095	423	269
NET INCOME	$ 1,728	$ 668	$ 617

See Accompanying Notes to Financial Statements

ARC ELECTRIC, INCORPORATED

STATEMENTS OF CASH FLOWS
(In Thousands)

	For the Year Ended December 31, 1997	Six Months Ended June 30, 1997	Six Months Ended June 30, 1998
		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,728	$ 668	$ 617
Adjustments to reconcile net income to net cash provided by operating activities--			47
Depreciation and amortization	118	28	
(Gain) loss on disposal of assets	(3)	--	--
Provision for uncollectable accounts	43	--	--
Increase in cash value of life insurance	(10)	--	(34)
Deferred income taxes	530	--	(1)
Increase (decrease) in operating assets			
Accounts receivable	(1,031)	(2,658)	(1,458)
Inventory	2	9	(27)
Costs and estimated earnings in excess of billings on uncompleted contracts	(544)	11	591
Prepaid expense	(9)	(31)	(20)
Deposits and Other	(2)	(36)	--
Increase (decrease) in operating liabilities			
Accounts payable and accrued expenses	663	1,643	250
Billings in excess of costs and estimated earnings on uncompleted contracts	(123)	374	346
Income taxes payable	(69)	234	246
Other current liabilities	86	(19)	(89)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,379	223	468
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	(312)	(130)	(10)
Proceeds from sale of equipment	6	--	--
NET CASH USED BY INVESTING ACTIVITIES	(306)	(130)	(10)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	152	93	20
Principal payments on long-term debt	(76)	--	--
Redemption of common stock	(109)	--	(9)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(33)	93	11
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,040	186	469
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	572	572	1,612
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,612	$ 758	$ 2,081
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for --			
Interest	$ 16	$ 0	$ 0
Income taxes	$ 63	$ 189	$ 50

See Accompanying Notes to Financial Statements

ARC ELECTRIC, INCORPORATED

STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands, Except Share Amounts)

	Shares	Amount	Paid-in Capital	Retained Earnings	Total Stock-holders' Equity
BALANCE, January 1, 1997	126	$ --	$ 170	$ 1,239	$ 1,409
Reacquired shares	(15)	--	(18)	(91)	(109)
Net income	--	--	--	1,728	1,728
BALANCE, December 31, 1997	111	--	152	2,876	3,028
Other (unaudited)	--		(9)	--	(9)
Net Income (unaudited)	--	--	--	617	617
BALANCE, June 30, 1998 (unaudited)	111	$ --	$ 143	$ 3,493	$ 3,636

See Accompanying Notes to Financial Statements

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

NATURE OF BUSINESS

Arc Electric, Incorporated, a Virginia Corporation, is an electrical contractor headquartered in Chesapeake, Virginia. The Company specializes in hospital, industrial and office structures. The Company also installs industrial controls consisting of pneumatic, electrical and computer-based systems. The Company performs the majority of its contract work under fixed price contracts, with contract duration generally ranging from five to nine months. Arc Electric is a regional subcontractor operating from Richmond and southwestern Virginia through South Carolina.

In September 1998, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock were exchanged for cash and shares of IES common stock. In addition, the key executives of the Company have entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

The interim financial statements for the six months ended June 30, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES   The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used. Reference is made to the "Revenue Recognition" section below for discussion of significant estimates reflected in the Company's financial statements.

REVENUE RECOGNITION   The Company recognizes revenue from long-term contracts on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation. Provisions for the total estimated losses, if any, on uncompleted contracts are made in the year in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income, and their effects are recognized in the year in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon the completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at the balance sheet date will be collected within the subsequent fiscal year.

The current asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed. The current liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized.

(Continued on Next Page)

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued from preceding page)

WARRANTY COSTS For certain contracts, the Company warrants labor and materials for the first year after installation of new electrical systems. The Company charges warranty costs to operations in the year costs are incurred.

CASH EQUIVALENTS The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

ACCOUNTS RECEIVABLE The Company provides an allowance for doubtful accounts receivable, based upon an analysis and aging of the accounts. The provision for uncollectible accounts charged to operations was $43,349 in 1997.

INVENTORY Inventory is valued at the lower of cost or market, using the first-in, first-out method.

PROPERTY AND EQUIPMENT Depreciable assets are recorded at cost and depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the estimated useful life of the asset. Depreciation and amortization expense charged to operations was $118,100 in 1997.

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

INCOME TAXES The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial and tax bases of assets and liabilities and are measured using enacted tax rates and laws.

PROPERTY AND EQUIPMENT

Property and equipment, at cost, consists of the following (in thousands) as of December 31, 1997:

	Estimated Useful Lives	Cost
Automobiles and trucks	5 years	$ 509
Construction equipment	5-12 years	288
Furniture and office equipment	5-7 years	181
Leasehold improvements	5-39 years	67
		1,045
Less accumulated depreciation and amortization		(565)
Net property and equipment		$ 480

(Continued on Next Page)

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands) during the year ended December 31, 1997:

Balance at beginning of year	$ 66
Additions to costs and expenses	43
Deductions for uncollectible accounts written off	(5)
Balance at end of year	$ 104

Accounts payable and accrued expenses consist of the following (in thousands) as of December 31, 1997:

Accounts payable, trade	$ 560
Accrued compensation	744
Other accrued expenses	103
Total	$ 1,407

Contracts in progress are as follows (in thousands) as of December 31, 1997:

Costs incurred on contracts in progress	$ 5,974
Estimated earnings, net of losses	3,433
	9,407
Less - Billings to date	(8,919)
Net asset	$ 488
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 659
Less - Billings in excess of costs and estimated earnings on uncompleted contracts	(171)
Net asset	$ 488

LINE OF CREDIT

The Company had an unused $250,000 line of credit available at December 31, 1997 with a bank. Bank advances on the credit line are payable on demand, with interest at prime plus one-half percent. The credit line is secured by a blanket security agreement on inventory, furniture, fixtures, and equipment. The net book value of pledged assets is approximately $480,000. The line of credit expired on June 30, 1998.

(Continued on Next Page)

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

LONG-TERM LIABILITIES

Long-term notes and capital leases payable at December 31, 1997 are summarized as follows (in thousands except description amounts):

Description	Principal Balance	Current Portion	Net Book Value of Pledged Assets
Notes Payable			
Term notes to a bank, payable $7,188 monthly including interest from 8% to 8.3%, expiring in various amounts through October 2000, secured by fifteen vehicles	$ 157	$ 76	$ 223
Term notes to a bank, payable $896 monthly including interest at 7.49%, through April 1999, secured by two vehicles	14	10	24
Capital Leases			
Payable $325 monthly including interest at 6.75% through March 1999, secured by equipment	7	4	4
Payable $1,151 monthly including interest at approximately 13.88% through April 1998, with a balloon payment of $11,648 due April 1998, then $383 monthly including interest at 13.43% through February 1999, with a balloon payment of $5,902 due March 1999, secured by three vehicles	24	19	24
Payable $814 quarterly without interest through September 1998, secured by equipment	2	2	4
Payable $329 monthly including interest at 10% through December 1998, secured by equipment	4	4	7
	208	$ 115	
Less current portion	(115)		
Total long-term liabilities	$ 93		

Maturities of long-term notes and capital leases payable in each of the next five years are (in thousands):

1998	1999	2000	2001	2002
$115	$72	$21	$ --	$ --

(Continued on Next Page)

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

LONG-TERM LIABILITIES (Continued from preceding page)

A portion of the notes payable totaling $157,489 at December 31, 1997 are under the Company's equipment guidance facility. This guidance facility had a $200,000 limit less amounts outstanding covered by individual notes secured by equipment. The unused portion of the guidance facility both expired and was renewed on June 30, 1998. The new note has a $400,000 limit with the same terms and expires June 30, 1999.

The Company is contingently liable for a note in the name of Equipment Leasing Company, a related party. At December 31, 1997, the note had a balance of $602,090. This note is secured by real estate owned by Equipment Leasing Company with a net book value of $440,000 and guaranteed by Arc Electric, Incorporated.

In 1997, interest charged to operations was $23,949.

In 1998, additional long-term debt in the amount of $58,672 has been obtained for the purchase of vehicles. This debt will be payable $1,679 monthly including interest at 1.9% through July 2001. This commitment is not included in the five-year maturities presented on the preceding page.

OPERATING LEASES

Facilities are leased from Equipment Leasing Company, an affiliated partnership partially owned by the Company's president, on a five-year lease expiring December 2000. Rent expense paid or accrued to the affiliate was $56,195 in 1997. In addition, a van is leased from Equipment Leasing Company on a month-to-month basis. Rent expense for this vehicle was $8,245 for 1997.

The Company leases its Richmond facilities on a three-year lease expiring January 31, 2001. Two vehicles are leased under two-year operating leases expiring January 1998 and November 1999. The Company also leases equipment as needed on a temporary basis for specific jobs, for which no long-term commitments exist.

Total rent expense for office and warehouse space was $58,556 for 1997. Total rent expense for vehicles and equipment was $356,376 for 1997.

Minimum future annual rent commitments under these agreements for the next five years are (in thousands):

1998	1999	2000	2001	2002	Total
$91	$93	$88	$69	$ --	$341

In 1998, the Company leased two additional vehicles under operating leases expiring April and December 2000. These leases are not included in the minimum future rent commitments disclosed above.

EMPLOYEE BENEFIT PLANS

The Company has a profit-sharing plan with a 401(k) elective deferral feature which covers substantially all of its employees. Contributions to the profit-sharing plan and contributions to match employee deferrals are made at the discretion of the Board of Directors. Contributions to the profit-sharing plan for the year ended December 31, 1997 were $50,000 and employer matching contributions were $27,911 for the year then ended.

(Continued on Next Page)

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

INCOME TAXES (in thousands)

The provision for income taxes is accounted for the year ended December 31, 1997, as follows:

Taxes currently paid or payable	$ 565
Deferred income taxes	530
Total	$ 1,095

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 34 percent to income before provision for income taxes as follows:

Provision at the statutory rate	$ 960
Increase resulting from -	
State income taxes, net of related federal benefits	112
Permanent differences, primarily officer life insurance and meals and entertainment	23
Total	$ 1,095

Deferred income taxes result from temporary differences in the recognition of income and expense for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following:

	As of December 31, 1997
Deferred tax assets -	
Allowance for doubtful accounts	$ 40
Other accrued expenses not deducted for tax purposes	286
Total asset	326
Deferred tax liabilities -	
Accounting for joint venture contract	715
Bases differences on property and equipment	33
Total liabilities	748
Net deferred income tax liabilities	$ 422

The net deferred tax liabilities are comprised of the following:

Deferred tax liabilities -	
Current	$ 389
Long-term	33
Net deferred tax liabilities	$ 422

(Continued on Next Page)

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JOINT VENTURE

The Company formed a joint venture partnership with another electrical contractor to perform a large industrial contract. The partners are each responsible for performance of a specific phase of the contract. Each partner advanced $5,000 to fund the partnership, is responsible for funding its direct and indirect contract costs, and is responsible for maintaining job cost records for its portion of the job. The profit on the joint venture will be allocated based on job cost records. The Company's investment in the construction joint venture is accounted for by the pro rata combination method. At December 31, 1997, the financial statements include the following amounts related to Arc Electric, Incorporated's portion of the joint venture (in thousands):

Construction billings receivable	$ 780
Retainage receivable	141
Advances to the joint venture	5
Costs and estimated earnings in excess of billings on uncompleted contracts	605
Total	$ 1,531
Contracting revenues earned	$ 3,428
Cost of revenues earned	1,545
Gross profit	$ 1,883

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and short- and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

CONTINGENCIES

Litigation

The Company is involved in disputes and legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

In 1998, the Company is resolving disputed contract billings of $241,845 through arbitration. At December 31, 1997, no revenue had been recognized for costs and estimated earnings on this disputed change order work.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability, workers' compensation and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

(Continued on Next Page)

ARC ELECTRIC, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

MAJOR CUSTOMERS AND RISK CONCENTRATION

The Company had sales of approximately 25 percent of total sales to two major customers during the year ended December 31, 1997.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily general contractors located from Richmond and southwestern Virginia through South Carolina. Consequentially, the Company is subject to potential credit risk related to changes in business and economic factors within those areas. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brink Electric Construction Co.
Rapid City, South Dakota

We have audited the accompanying balance sheet of BRINK ELECTRIC CONSTRUCTION CO. (the Company) as of March 31, 1998, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRINK ELECTRIC CONSTRUCTION CO. as of March 31, 1998, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

KETEL THORSTENSON, LLP

Rapid City, South Dakota
May 28, 1998

BRINK ELECTRIC CONSTRUCTION CO.

BALANCE SHEETS
(In Thousands)

ASSETS	MARCH 31, 1998	JUNE 30, 1998 (unaudited)
CURRENT ASSETS		
Cash	$ 2,931	$ 2,205
Receivables:		
Contracts (Notes 2 and 5)	4,134	5,119
Other	34	-
Notes	45	-
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts (Note 3)	830	507
Prepaid Expenses and Other	134	82
Investment in Joint Venture (Note 11)	226	-
Deferred Income Taxes (Note 8)	120	-
TOTAL CURRENT ASSETS	8,454	7,913
PROPERTY AND EQUIPMENT (Note 5)	3,193	3,154
OTHER	-	35
TOTAL ASSETS	$ 11,647	$ 11,102

The accompanying notes are an integral part of these statements.

BRINK ELECTRIC CONSTRUCTION CO.

BALANCE SHEETS
(In Thousands)

	March 31 1998	June 30 1998 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 2,864	$ 1,620
Current Portion Note Payable (Note 6)	126	126
State and Federal Income Taxes Payable	30	161
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts (Note 3)	2	319
Other	66	52
TOTAL CURRENT LIABILITIES	3,088	2,278
NOTE PAYABLE, Net of Current Portion (Note 6)	377	377
DEFERRED INCOME TAXES (Note 8)	199	79
COMMITMENTS (Notes 5, 6, 7, 9, 10 and 11)		
STOCKHOLDERS' EQUITY		
Capital Stock:		
Common Stock; $1 Par Value; Authorized 1,000,000 Shares; 446,248 issued at March 31, 1998	446	446
Additional Paid-In Capital	2,448	2,448
Retained Earnings	6,149	6,520
	9,043	9,414
Less Stockholders' Notes Receivable (Note 4)	32	18
Less Treasury Stock at Cost, 63,712 Shares at March 31, 1998 (Note 6)	1,028	1,028
	7,983	8,368
Total Liabilities and Stockholders' Equity	$ 11,647	$ 11,102

BRINK ELECTRIC CONSTRUCTION CO.

STATEMENTS OF INCOME
(IN THOUSANDS)

	Year Ended March 31, 1998	Three Months Ended June 30, 1997	Three Months Ended June 30, 1998
		(unaudited)	(unaudited)
Construction Contract Revenue Earned	$ 21,464	$ 5,725	$ 6,404
Cost of Revenue Earned	16,119	4,569	4,985
Gross Profit	5,345	1,156	1,419
General and Administrative Expenses	3,661	889	956
Operating Income	1,684	267	463
Nonoperating Income (Expense)			
Interest Income	121	12	28
Other, Net	(72)	-	-
Interest Expense	(67)	(10)	(18)
Gain on Sale of Property and Equipment	62	-	-
	44	2	10
Income Before Income Taxes	1,728	269	473
Income Tax Expense (Note 8)	654	60	102
Net Income	$ 1,074	$ 209	$ 371

The accompanying notes are an integral part of these statements.

BRINK ELECTRIC CONSTRUCTION CO.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	Common Stock Issued $1 Par	Additional Paid-In Capital	Retained Earnings	Stockholder Notes Receivable (Note 4)	Treasury Stock $1 Par	Total
BALANCE -- March 31, 1997	$ 442	$ 2,378	$ 5,075	$ (51)	$ (1,028)	$ 6,816
Common Stock Issued	5	82	-	-	-	87
Payments Received on Stockholder Notes	-	-	-	6	-	6
Repurchase of Stock	(1)	(12)	-	13	-	-
Net Income	-	-	1,074	-	-	1,074
Balance -- March 31, 1998	$ 446	$ 2,448	$ 6,149	$ (32)	$ (1,028)	$ 7,983
Payments Received on Stockholders notes (unaudited)	-	-	-	14	-	14
Net Income (unaudited)	-	-	371	-	-	371
Balance - June 30, 1998 (unaudited)	$ 446	$ 2,448	$ 6,520	$ (18)	$ (1,028)	$ 8,368

The accompanying notes are an integral part of these statements.

BRINK ELECTRIC CONSTRUCTION CO.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	1998	Three Months Ended June 30, 1997	Three Months Ended June 30, 1998
		(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 1,074	$ 209	$ 371
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	915	227	215
Gain on Sale of Property and Equipment	(62)	--	--
Deferred Income Tax Expense (Benefit)	126	--	--
Working Capital Changes Increasing (Decreasing) Cash:			
Receivables	(750)	(394)	(906)
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	92	(1,007)	323
Prepaid Expenses and Other	(33)	(19)	3
Investment in Joint Venture	585	--	226
Accounts Payable and Accrued Expenses	1,079	(312)	(1,244)
State and Federal Income Taxes Payable	(121)	(60)	131
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	(304)	(92)	317
Net Cash Flows Provided by (Used in) Operating Activities	2,601	(1,448)	(564)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Property and Equipment	(858)	(256)	(176)
Proceeds from Sale of Property and Equipment	43	--	--
Net Cash Flows Used in Investing Activities	(815)	(256)	(176)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Issuance of Common Stock	93	--	32
Purchase of Common Stock	--	--	(18)
Borrowing (Repayment) of Note Payable	(126)	526	--
Net Cash Flows Provided by (Used in) Financing Activities	(33)	526	14
NET INCREASE (DECREASE) IN CASH	1,753	(1,178)	(726)
CASH -- BEGINNING OF PERIOD	1,178	1,178	2,931
CASH -- END OF PERIOD	$ 2,931	$ --	$ 2,205
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash Paid During the Year For:			
Interest	$ 69	$ 10	$ 18
Federal and State Income Taxes	648	60	102

The accompanying notes are an integral part of these statements.

BRINK ELECTRIC CONSTRUCTION CO.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998 AND 1997

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

a. NATURE OF BUSINESS AND ORGANIZATION

Brink Electric Construction Co. (the Company) is engaged in the construction of electric power transmission lines and substations in the western United States. During the year ended March 31, 1998, the transmission and substation divisions accounted for 28 percent and 72 percent of total revenues and 41 percent and 59 percent of gross profit, respectively. Work is generally performed under unit-price contracts. The length of the majority of the contracts is less than two years.

In August, 1998, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock was exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have initial terms of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

b. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements for the three months ended June 30, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Revenue and Cost Recognition

Revenues from construction contracts are recognized on the percentage-of-completion method, measured by the percentage of costs to date to estimated costs to complete for each contract. This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Revenue from cost-plus-fee contracts is recognized on the basis of costs incurred during the period plus the fee earned. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that the completion costs for contracts in progress at March 31, 1998, will be revised significantly in the near term.

Contract costs include all direct material, direct labor, and subcontract costs and those indirect costs related to contract performance, such as labor, supplies, tools, repairs, and depreciation costs. The costs of uninstalled materials specifically produced or fabricated for a project and delivered to a job site are included in the contract costs used to measure the extent of progress. General and administrative costs are charged to expense as incurred. Provisions for estimated costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

BRINK ELECTRIC CONSTRUCTION CO.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998 AND 1997

The asset, "Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts," represents billings in excess of revenues recognized.

3. Property and Equipment

Equipment and leasehold improvements are stated at cost. Depreciation expense is computed principally by the straight-line method based on the following estimated useful lives:

	Years
Equipment and Vehicles	4-10
Office Furniture and Equipment	5-10
Leasehold Improvements	5-15

4. Investment in Joint Venture

The investment in joint venture is accounted for by the equity method and includes contract receivables relating to the Company's billings to the joint venture. The Company's share of the gross joint venture revenue, cost of revenue and operating income is included in the statement of income.

(2) CONTRACTS RECEIVABLE, BILLED

Billed contracts receivable consist of the following at March 31:

	1998
Completed Contracts	$ 487
Uncompleted Contracts	3,148
Retainage	499
	$ 4,134

(3) UNCOMPLETED CONTRACTS

Costs, estimated earnings, and billings on uncompleted contracts consist of the following at March 31:

	1998
Costs Incurred on Uncompleted Contracts	$ 5,006
Estimated Earnings	1,190
	6,196
Less Billings to Date	5,368
	$ 828

Included in accompanying balance sheets under the following captions:

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	$ 830
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	(2)
	$ 828

BRINK ELECTRIC CONSTRUCTION CO.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998 AND 1997

(4) STOCKHOLDERS' NOTES RECEIVABLE

Stockholder notes receivable represent Company financing of employee purchases of Company stock. The notes bear interest at prime rate adjusted quarterly and are due in August 1998. No principal or interest payments are required until maturity. The notes are secured by the stock purchased.

(5) SHORT-TERM BANK BORROWINGS/REVOLVING LINE OF CREDIT

At March 31, 1998 and 1997, the Company had available a revolving line of credit with First Bank of South Dakota. Under the credit agreement, the available line is the lesser of $2.5 million or a calculated asset borrowing base. There were no amounts outstanding at March 31, 1998 and 1997. Interest is payable monthly at the high Wall Street Journal Prime Rate, and the note is secured by receivables and equipment. The credit agreement contains certain covenants, the most restrictive of which include a requirement to maintain a minimum book tangible net worth of $5,000,000 and a maximum debt-to-tangible net worth ratio not to exceed 1.5 to 1.0. The line of credit matures August 1998.

(6) NOTE PAYABLE

During the year ended March 31, 1997, the Company purchased 63,712 shares of its common stock for $1,028,216. The stock purchase agreement requires the Company to pay $400,000 in cash with the remaining $628,216 being financed over five years. The agreement requires annual principal payments of $125,643 plus annual interest payments at the rate of 2 percent below prime rate. The shares purchased by the Company are held in escrow until satisfaction of the stock purchase agreement and, accordingly, have been classified as treasury stock in the accompanying financial statements. Interest expense under this note totaled $58,033 and $9,816 during the years ended March 31, 1998 and 1997, respectively.

(7) LEASE ARRANGEMENTS

The Company leases property and equipment used in its operations under various agreements which are substantially month-to-month operating leases. The total rental expense included in the statements of income for the years ended March 31, 1998 and 1997, was $571,100 and $535,306, respectively. Included in these amounts are payments to a partnership affiliated with the Company through common ownership:

	Year Ended March 31, 1998
Partnership	
Frank Brink & Sons	$ 150

(8) INCOME TAXES

Income tax expense (benefit) for the years ended March 31, consists of:

	March 31, 1998 Current	Deferred	Total
Federal	$ 459	$ 126	$ 585
State	69	-	69
	$ 528	$ 126	$ 654

BRINK ELECTRIC CONSTRUCTION CO.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998 AND 1997

The effective rate differs from the federal statutory rate of 34 percent primarily due to state taxes and certain nondeductible expenses for tax purposes.

Deferred income taxes are provided on temporary differences between financial statement and taxable income. At March 31, 1998, there are temporary differences that relate principally to the use of accelerated depreciation for tax, the deferral of taxable income on contracts less than 10 percent complete, joint venture contracts, and accrued stockholder bonuses. Deferred tax assets total $120,000 and $111,000 at March 31, 1998 and 1997, respectively, while deferred tax liabilities total $199,430 and $64,000 at March 31, 1998 and 1997, respectively.

(9) BACKLOG

Following is a reconciliation of the backlog of signed contracts:

Balance of signed but unperformed work at March 31, 1997	$ 7,033
New contracts and change orders during the year ended March 31, 1998	18,030
Less contract revenues earned during the year ended March 31, 1998	(21,464)
Balance of signed but unperformed work at March 31, 1998	$ 3,599

In addition, from April 1, 1998 through May 28, 1998, the Company signed additional contracts with revenues totaling approximately $8,785,000.

(10) 401(k) PROFIT-SHARING PLAN

The Company sponsors a 401(k) Profit-Sharing Plan (the Plan) which covers all enrolled employees with at least one year of service. Contributions to the Plan consist of a discretionary profit-sharing provision and a matching provision as set forth in the Plan. Plan contributions charged to operations were $146,016 and $150,543 for the years ended March 31, 1998 and 1997, respectively.

(11) JOINT VENTURE

The Company is a party to an agreement with an unrelated company to perform certain design-build construction contracts on a joint venture basis. The agreement requires profits and losses be shared equally, and there is a commitment to provide financing to the joint venture as needed. At March 31, 1998 and 1997, the total contract price of joint venture contracts in progress was $1,543,248 and $6,943,765, respectively.

The Company has recognized revenues, costs and gross profit under this agreement during the years ended March 31, as follows:

	1998
Revenues	$ 2,913
Cost of Revenues	2,192
Gross Profit	$ 721

The following amounts are included in the investment in joint venture:

Contract Receivables	$ 86
Costs and Estimated Earnings in Excess of Billings	140
	$ 226

All the work performed by the joint venture is for one customer.

BRINK ELECTRIC CONSTRUCTION CO.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1998 AND 1997

(12) MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 25 percent of total sales to two major customers during 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors in the transmission line and substation markets in the United States. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial construction markets in this state. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

Independent Auditor's Report

Board of Directors
Goss Electric Company, Inc.
Decatur, Alabama

We have audited the accompanying balance sheet of Goss Electric Company, Inc. as of December 31, 1997 and the related statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goss Electric Company, Inc. at December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The 1997 financial statements were reviewed by us, and our report thereon, dated April 1, 1998, stated that we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Wear, Howell, Strickland & Quinn, L.L.C.

Decatur, Alabama
August 25, 1998

BALANCE SHEET
GOSS ELECTRIC COMPANY, INC.
(In Thousands)

ASSETS

	December 31, 1997	June 30, 1998 (Unaudited)
CURRENT ASSETS		
Cash and cash equivalents	$ 773	$ 154
Investments	3,621	--
Accounts receivable:		
Trade	2,616	3,085
Retainage	416	--
Employees	54	--
Inventories	45	45
Costs and estimated earnings in excess of billings on uncompleted contracts	738	639
Prepaid and other	--	39
TOTAL CURRENT ASSETS	8,263	3,962
PROPERTY AND EQUIPMENT, net	412	435
OTHER ASSETS		
Cash surrender value of life insurance	446	493
Note receivable, related party	110	270
TOTAL OTHER ASSETS	556	763
TOTAL ASSETS	$9,231	$5,160

BALANCE SHEET
GOSS ELECTRIC COMPANY, INC.
(In Thousands)

	December 31, 1997	June 30, 1998 (Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and Accrued expenses	$ 694	$ 639
Note payable	3,300	--
Billings in excess of costs and estimated earnings on uncompleted contracts	733	--
TOTAL CURRENT LIABILITIES	4,727	639
STOCKHOLDERS' EQUITY		
Common stock $1.00 par value, 100,000 authorized shares, 1,000 issued and outstanding shares	1	1
Paid in capital	43	43
Retained earnings	4,460	4,477
TOTAL STOCKHOLDERS' EQUITY	4,504	4,521
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,231	$5,160

The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES AND RETAINED EARNINGS
GOSS ELECTRIC COMPANY, INC.
(In Thousands)

	Year Ended December 31, 1997	Six Months Ended June 30, 1997 (unaudited)	Six Months Ended June 30, 1998 (unaudited)
Revenues	$ 16,385	$ 8,559	$ 8,104
Cost of services (including depreciation)	12,776	6,499	6,396
GROSS PROFIT	3,609	2,060	1,708
Administrative and general expenses	844	443	442
INCOME FROM OPERATIONS	2,765	1,617	1,266
Other income (expenses):			
Gain on sale of assets	1	--	--
Interest and dividend income	93	1	40
Increase in cash value of life insurance	32	--	--
Bad debt expense	(134)	--	--
Interest expense	(4)	(4)	--
TOTAL OTHER INCOME (EXPENSES)	(12)	(3)	40
NET INCOME	2,753	1,614	1,306
Retained earnings, beginning of period	3,287	3,287	4,460
	6,040	4,901	5,766
Less distributions	1,580	451	1,289
RETAINED EARNINGS, END OF PERIOD	$ 4,460	$ 4,450	$ 4,477

STATEMENT OF CASH FLOWS
GOSS ELECTRIC COMPANY, INC.
(In Thousands)

	Year Ended December 31, 1997	Six Months Ended June 30, 1997 (unaudited)	Six Months Ended June 30, 1998 (unaudited)
Cash flows from operating activities:			
Net income	$ 2,753	$ 1,614	$ 1,306
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in cash value of life insurance	(32)	--	
Depreciation	95	47	66
Gain on sale of assets	(1)	--	--
Changes in operating assets-(increase) decrease:			
Accounts receivable	110	857	1
Inventories	(17)	(32)	--
Costs and estimated earnings in excess Of billings on uncompleted contracts	(406)	(268)	99
Changes in liabilities-increase (decrease):			
Accounts payable and accrued expenses	(46)	(373)	(55)
Billings in excess of costs and estimated Earnings on uncompleted contracts	307	155	(733)
Other	(1)	263	(86)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,762	2,263	598
Cash flows from investing activities:			
Purchase of property and equipment	(194)	(88)	(89)
Net (increase) decrease in note Receivable-related parties	240	--	(160)
Proceeds from sale of assets	1	--	--
Increase (decrease) in investments	(1,493)	2,200	3,621
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,446)	2,112	3,372

STATEMENT OF CASH FLOWS
GOSS ELECTRIC COMPANY, INC.
(In Thousands)

	Year Ended December 31, 1997	Six Months Ended June 30, 1997 (unaudited)	Six Months Ended June 30, 1997 (unaudited)
Cash flows from financing activities:			
Distributions to shareholders	(1,580)	(451)	(1,289)
Short term borrowings	3,300	--	--
Payments on short term borrowings	(2,500)	(2,500)	(3,300)
NET CASH USED IN FINANCING ACTIVITIES	(780)	(2,951)	(4,589)
NET INCREASE IN CASH AND CASH EQUIVALENTS	536	1,424	(619)
Cash and cash equivalents, beginning of year	237	237	773
CASH AND CASH EQUIVALENTS END OF YEAR	$ 773	$ 1,661	$ 154
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 4	$ 4	$ --

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
GOSS ELECTRIC COMPANY, INC.
December 31, 1997

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Company's activities and operating cycle - The Company is engaged in a single industry: the construction of industrial electric systems. The work is performed under cost-plus-fee contracts, fixed-price contracts, and fixed-price contracts modified by incentive and penalty provisions. Construction projects are located in the southeastern part of the United States.

In September, 1998, the Company and its stockholders entered into a definitive agreement with Integrate Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock was exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

The interim financial statements for the six months ended June 30, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

B. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned. Revenues from fixed-price and modified fixed-price construction contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenue recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenue recognized.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at the balance sheet date will be collected within the subsequent fiscal year.

NOTES TO FINANCIAL STATEMENTS
GOSS ELECTRIC COMPANY, INC.
December 31, 1997

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Property and equipment - Property and equipment is valued at cost less accumulated depreciation. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to income as incurred. Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of related assets. Assets are generally depreciated over periods ranging from 3 to 10 years. For income tax purposes, accelerated methods of depreciation are generally used.

D. Inventories - Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market, determined by the first-in-first-out (FIFO) method.

E. Allowance for doubtful accounts - The Company's receivables are deemed collectible. No allowance for doubtful accounts is provided.

F. Investments - Investments in securities are classified as securities available for sale.

G. Cash and Cash Equivalents - The Company considers cash on hand and in demand deposits, as well as those investments which are generally part of its short-term management activities, to be cash and cash equivalents.

H. Income Taxes - The Company, with the consent of its stockholders, has elected under the Internal Revenue Code and the Code of Alabama to be an S Corporation. In lieu of corporate income taxes, the stockholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for income taxes has been included in the financial statements.

I. Use of Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

J. New Accounting Pronouncement - Effective November 1, 1996, the Company adopted Statement of Financial Accounting Standards SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

NOTES TO FINANCIAL STATEMENTS
GOSS ELECTRIC COMPANY, INC.
For the year ended December 31, 1997

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 1997:

Assets:	
Construction equipment	$220
Transportation equipment	650
Office furniture	99
TOTAL ASSETS	969
Accumulated depreciation	557
NET PROPERTY AND EQUIPMENT	$412

Depreciation expense of $94,637 for the year ended December 31, 1997 was charged as follows:

Cost of services	$85
Administrative and general expense	10
TOTAL	$95

NOTE 3 - INVESTMENTS - AVAILABLE FOR SALE

Investments in securities at December 31, 1997, consist of U. S. Treasury Bills with a face value of $3,300,000, and municipal bonds and equities with a fair market value of $321,232.

NOTE 4 - COST AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs incurred on contracts in progress	$3,897
Estimated earnings, net of losses	136
	4,033
Less billings to date	4,028
	$ 5
Cost and estimated earnings in excess of billings on uncompleted contracts	739
Less billings in excess of costs and estimated earnings on uncompleted contracts	734
	$ 5

NOTE 5 - NOTE PAYABLE

The Company has a loan of $3,300,000 secured by U. S. Treasury Bills with a face value of $3,300,000. The note bears interest at the bank's base rate and matures on January 2, 1998.

NOTES TO FINANCIAL STATEMENTS
GOSS ELECTRIC COMPANY, INC.
For the year ended December 31, 1997

NOTE 6 - RELATED PARTY TRANSACTIONS

A. The Company is the beneficiary of life insurance policies totaling $1,100,000 on the life of the Shareholder. The cash surrender value of these policies was $445,833 at December 31, 1997, and is shown under other assets.

B. The Company leases building space from the Shareholder on a month to month basis. Total rent expense for the year ended December 31, 1997, was $48,000.

C. The Company has an unsecured note receivable of $110,000 from a relative of the Shareholder.

D. The Company received full payment on a note receivable from the Shareholder during the year, including interest income of $31,881.

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Company has a defined contribution profit-sharing plan and an elective 401(k) plan covering all eligible employees. The Company contributions for the year ended December 31, 1997, was $124,531.

NOTE 8 - MAJOR CUSTOMERS AND RISK CONCENTRATION

The Company has accounts receivable from mainly large manufacturing companies located in the Southeastern United States. The Company performs ongoing credit evaluations of its customers financial conditions and management believes its policies are adequate to minimize the potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

The Company had sales comprising approximately 30% and 14% of total sales to two customers during the year.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

NOTES TO FINANCIAL STATEMENTS
GOSS ELECTRIC COMPANY, INC.
For the year ended December 31, 1997

NOTE 10 - FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, marketable securities, accounts payable, and short-term borrowings. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

INDEPENDENT AUDITORS' REPORT

To Board of Directors and Stockholders
of Mid-States Electric Company, Inc.

We have audited the balance sheet of Mid-States Electric Company, Inc. as of December 31, 1997, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mid-States Electric Company, Inc. as of December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

PHILHOURS, RICH & FLETCHER, P.L.L.C.

Jackson, Tennessee
April 1, 1998

MID-STATES ELECTRIC COMPANY, INC.
BALANCE SHEET
(In Thousands)

	December 31, 1997	June 30, 1998 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 444	$ 1,534
Contracts receivable	1,533	1,854
Contracts receivable-retainage	527	360
Accounts receivable-miscellaneous	464	133
Costs and estimated earnings in excess of billings on uncompleted contracts	209	93
Inventories	6	6
Prepaid expenses	35	11
Total Current Assets	3,218	3,991
PROPERTY, PLANT, AND EQUIPMENT ASSETS:		
Property, plant and equipment	1,120	1,145
Less: Accumulated depreciation	667	709
Total Property, Plant, and Equipment Assets	453	436
OTHER ASSETS:		
Deferred expenses	13	19
Deferred taxes	8	-
Total Other Assets	21	19
TOTAL ASSETS	$ 3,692	$ 4,446

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1997	June 30, 1998
		(unaudited)
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 1,093	$ 940
Billings in excess of costs and estimated earnings on uncompleted contracts	614	638
Current portion of long-term debt	126	60
Total Current Liabilities	1,833	1,638
LONG-TERM LIABILITIES:		
Long-term debt, less current portion	67	97
STOCKHOLDERS' EQUITY:		
Common stock, no par value, 1,000 shares authorized, 730 shares issued, and 364.44 and 601.48 shares outstanding, respectively	15	15
Retained earnings	3,953	4,872
Cost of 365.56 shares of common stock held by the company	(2,176)	(2,176)
Total Stockholders' Equity	1,792	2,711
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,692	$ 4,446

MID-STATES ELECTRIC COMPANY, INC.
STATEMENTS OF OPERATIONS
(In Thousands)

	Year Ended December 31, 1997	Six Months Ended June 30, 1997 (Unaudited)	Six Months Ended June 30, 1998 (Unaudited)
REVENUES			
Revenue from contracts	$ 10,786	$ 5,056	$ 5,631
Sales of merchandise and labor	1,973	798	952
Other income	20	-	-
Interest income	109	79	38
Gain on sale of equipment	2	-	-
Total Revenues	12,890	5,933	6,621
COSTS AND EXPENSES			
Contract Costs	9,645	3,963	4,157
Cost of merchandise and labor sales	705	546	593
Operating and administrative expense	1,347	645	673
Interest	18	9	7
Total Costs and Expenses	11,715	5,163	5,430
INCOME BEFORE INCOME TAXES	1,175	770	1,191
INCOME TAX PROVISION	72	46	72
NET INCOME	$ 1,103	$ 724	$ 1,119

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

MID-STATES ELECTRIC COMPANY, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share data)

	COMMON STOCK OUTSTANDING SHARES	COMMON STOCK OUTSTANDING AMOUNT	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
Balance at January 1, 1997	$ 602	$ 15	$ 4,562	$ (250)	$ 4,327
Dividends paid			(1,712)		(1,712)
Treasury Stock Acquired	(237)			(1,926)	(1,926)
Net income for year ended December 31, 1997			1,103		1,103
Balance at December 31, 1997	365	$ 15	$ 3,953	$ (2,176)	$ 1,792
Dividends (unaudited)	-	-	(200)	-	(200)
Net income (unaudited)	-	-	1,119	-	1,119
Balance at June 30, 1998 (unaudited)	365	$ 15	$ 4,872	$ (2,176)	$ 2,711

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

MID-STATES ELECTRIC COMPANY, INC.
STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 1997	Six Months Ended June 30, 1997 (Unaudited)	Six Months Ended June 30, 1998 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,103	$ 724	$ 1,119
Adjustments to reconcile net income to net cash Provided by operating activities:			
Depreciation	89	43	42
Loss on sale of equipment	(2)	--	--
(Increase) decrease in:			
Contracts receivable	973	1,165	142
Retainage receivable	132	47	167
Accounts receivable	(254)	210	(133)
Costs and estimated earnings in excess of billings on uncompleted contracts	(55)	(67)	116
Prepaid expenses	13	21	24
Deferred charges	3		
Other	6	1	(12)
Increase (decrease) in:			
Accounts payable and accrued expenses of costs and estimated earnings on uncompleted contracts	(647)	(775)	(138)
Billings in excess	124	(243)	24
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,485	1,126	1,351
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of property, plant, and equipment	2	--	--
Purchase of property, plant and equipment	(134)	(25)	(25)
NET CASH USED IN INVESTING ACTIVITIES	(132)	(25)	(25)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment on notes payable	(49)	(37)	(36)
Dividends paid	(1,712)	(1,311)	(200)
Purchase of treasury stock	(1,926)	--	--
NET CASH USED IN FINANCING ACTIVITIES	(3,687)	(1,348)	(236)
NET INCREASE (DECREASE) IN CASH	(2,334)	(247)	1,090
CASH BALANCE AT BEGINNING OF YEAR	2,778	2,778	444
CASH BALANCE AT END OF YEAR	$ 444	$ 2,531	$ 1,534

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

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) BUSINESS ACTIVITY. The Company is engaged as a licensed electrical contractor in several states and is based in Jackson, Tennessee. The work is performed under fixed-price contracts and fixed-price contracts modified by incentive provisions. The Company also manages, for a fee, construction projects of others.

In July, 1998, the Company and its stockholders entered into a definitive agreement with Integrate Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock was exchanged for cash and shares of IES common stock. In addition, the key executive of the Company entered into employment agreements with the Company and IES which have initial term of three years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

The interim financial statements for the six months ended June 30, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

REVENUE AND COST RECOGNITION. Revenue from fixed-price and modified fixed-price construction contracts are recognized on the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. Management considers total cost to be the best available measure of progress on the contracts.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation. Selling, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts", represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts", represents billings in excess of revenues recognized.

(2) INVENTORIES. Various electrical supplies are stated at cost using the first in, first out method or market value, whichever is less.

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

(3) PROPERTY, PLANT AND EQUIPMENT. Properties and equipment are recorded at acquisition cost. Depreciation and amortization are computed based on the estimated useful lives of the individual assets and/or the life of the leases, respectively. Accelerated depreciation methods are used to depreciate certain equipment and automotive equipment. All building assets are depreciated or amortized using the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred.

(4) INCOME TAXES. The Corporation's stockholders have elected "S" corporation status. No provision has been made for federal taxes since such taxes represent the personal liability of the individual stockholders.

State income taxes have been provided for all items included in the statement of income, regardless of the period reflected for state income tax purposes. The Company uses the percentage of completion method to recognize contract income for both financial statement and tax purposes. Prior to the year ended December 31,1993, the company used the completed contracts method of income recognition for income tax reporting.

Under Internal Revenue Code Section 481 the Company was allowed to recognize revenues and costs previously deferred over a four year period ending December 31, 1996. For financial statement purposes, the accrued salary to a more than five-percent stockholder is deducted as an expense but it cannot be claimed for tax purposes until the amount is actually paid in the subsequent year. Deferred taxes are reflected for timing differences which are composed of contract revenues and costs previously deferred for tax reporting and the recording of accrued salary to a more than five-percent stockholder.

(5) CASH AND CASH EQUIVALENTS. Cash and cash equivalents include all cash accounts and temporary investments with an original maturity of three months or less.

(6) USE OF ACCOUNTING ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE B - LONG-TERM CONTRACTS:

Long-term contracts in process at December 31, 1997, are as follows:

	December 31, 1997
Expenditures on uncompleted contracts	$ 4,781
Estimated earnings on uncompleted contracts	1,110
	5,891
Less: Billings to date	6,296
Total	$ (405)
Included in accompanying balance sheet as costs and estimated earnings in excess of billings on uncompleted contracts	$ 209
Included in accompanying balance sheet as billings in excess of costs and estimated earnings on uncompleted contracts	(614)
Total	$ (405)

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE C - PROPERTY, PLANT, AND EQUIPMENT ASSET:

Property, plant and equipment assets are summarized by major classification as follows:

	December 31, 1997
Land	$ 72
Building	199
Automotive	392
Aircraft	337
Machinery and equipment	68
Furniture and fixtures	52
Total cost	1,120
Less accumulated depreciation	667
Net book value	$ 453

NOTE D - LONG-TERM DEBT:

Long-term debt of the Corporation consists of the following:

	December 31, 1997
Note payable to First Tennessee Bank of Jackson, 7.25%. See following for details	$ 79
Note payable to former owner of the Company for purchase of land and building. See following for details	95
Capital lease of a lift truck from Caterpillar Financial Services, Inc. 7.112%, 60 equal monthly payments of $395.42 with a final payment of $1	19
	193
Less portion due within one year included in current liabilities	126
	$ 67

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE D - LONG-TERM DEBT (CONTINUED):

The note payable to First Tennessee Bank carries a fixed interest rate of 7.25%. The principal is to be paid at $6,125 per quarter. The remaining balance is due on April 1, 1998. The collateralization consists of a pledge of all assets of the Corporation, exclusive of the above assets pledged on the installment purchases. In addition, the personal guaranties of the individual stockholders secure the debt. The Company has a $600,000 line of credit with First Tennessee Bank which is unsecured. The Company also has a $500,000 line of credit with First Bank that is secured by personal guaranty of stockholder. This line expires November 18, 1998. At December 31, 1997 and 1996, there were no outstanding borrowings against either line.

The Company entered into an agreement with the former owner of the Company to purchase the real estate located at 117 North Conalco Drive, for a price of $200,000. Principal and interest are payable in monthly installment of $4,150 with interest accruing at 9%. The agreement extends until January 1, 2000, when the entire balance of unpaid principal and all accrued interest shall be due and payable. There are no assets or stockholder guarantees pledged as collateral against the note.

Maturity of long-term debt is summarized as follows:

Year Ended December 31,	Amount
1998	$ 126
1999	51
2000	8
2001	5
2002	3
Total	$ 193

NOTE E - INCOME TAXES:

As previously stated in the notes to the financial statements, the Company is an "S" corporation. The federal income taxes will be paid by the individual stockholders. The income tax provided is state income tax. The state income tax consists of the following:

	Year Ended December 31, 1997
Currently due	$ 66
Deferred tax - current	6
Income Tax Expense	$ 72

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE E - INCOME TAXES (CONTINUED):

The deferred tax liability results from a change in the method of recognition of revenue and costs on contracts and the accrual of salary for a more than five-percent stockholder. Contract revenues and costs previously deferred under the completed contract method of income recognition will be included in income for tax purposes, in equal amounts, over the four years ended December 31, 1996. The recognition of the deferred amounts is in accordance with Internal Revenue Service Code section 481. The accrued salary is deducted for financial statements when accrued but not deducted for income tax purposes until it is actually paid in the subsequent year.

State taxes currently payable at December 31, 1997, amounted to $118,260.

NOTE F - RELATED PARTY TRANSACTIONS:

In February, 1990, the sole stockholder sold his stock to the present stockholders. The Company entered into an agreement on February 1, 1990, with the former stockholder to lease certain real estate located at 117 North Conalco Drive, Jackson, Tennessee. The lease term was for five years and provides for monthly rental of $2,500 plus all maintenance to the premises and improvements. The Company purchased the real estate on February 1, 1995, for $200,000. See Note "D".

During the year ended December 31, 1997, the Company purchased specialized electrical components from a company controlled by the majority shareholder. These components were resold to construction customers at terms and rates similar to other items obtained from outside vendors.

Dollar volume purchases, amounts due from and amounts due to the related vendor for the year ended December 31, 1997, are as follows:

	Year Ended December 31, 1997
Purchases	$ 96
Sales	$ 47
Accounts Receivable	$ 0
Accounts Payable	$ 0

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE F - RELATED PARTY TRANSACTIONS (CONTINUED):

Effective for the year ended December 31, 1992, the Company is to pay the President a bonus of 8% of net income. The bonus amounted to $113,850 for the year ended December 31, 1997.

NOTE G - CASH FLOW INFORMATION:

Cash paid for interest and income taxes for the year ended December 31, 1997 are as follows:

	Year Ended December 31, 1997
Interest	$ 19
Income Taxes	$ 174

NOTE H - CONCENTRATION OF RISK:

The Company, in connection with its construction activities grants credit to customers, that involves, to varying degrees, elements of credit risk. Such risk is reduced by the Company's ability to obtain lien rights on the constructed property. The maximum accounting loss from credit risk in connection with the Company's construction operations is limited to the amounts that are recognized in the accompanying balance sheet as contracts, retainage and accounts receivable at December 31, 1997.

At December 31, 1997, the Company maintained cash deposits with a regional financial institution that exceeded regulatory insurance by approximately $36,611. If the financial institution failed to completely perform under the terms of the financial instruments, the exposure for credit loss would be the amount on deposit in excess of regulatory insurance.

At December 31, 1997, the Company maintained approximately $39,000 in overnight purchase of securities with the intention of resale with First Tennessee Bank. These funds are used to purchase a Federal Home Loan Mortgage Corporation REMIC on an overnight basis. The market value of this security was approximately $40,000 as of December 31, 1997. In the event First Tennessee failed to completely perform under the terms of the agreement, the Company's exposure to credit loss would be offset by the value of the underlying security.

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE H - CONCENTRATION OF RISK (CONTINUED):

At December 31, 1997, the Company maintained approximately $247,000 in overnight purchase of securities with intent to resale with First Bank. These funds are used to purchase a Federal National Mortgage Association bond on an overnight basis. The market value of this security is approximately $995,000 as of December 31, 1997. In the event First Bank failed to completely perform under the terms of the agreement, the Company's exposure to loss would be offset by the value of the underlying security.

NOTE I - LEASE COMMITMENTS:

In February 1995, the Company entered into a capital lease obligation for a copier. The lease term is 36 months with two months payment in advance.

In March 1996, the Company entered into a lease agreement for an automobile. The lease term is 30 months. In August 1997, the Company entered into a lease agreement for an automobile, with a lease term of 24 months. Lease expense for 1997 amounted to $12,768.

Future required lease payments are as follows:

1998	$ 20
1999	9
TOTAL	$ 29

NOTE J - TREASURY STOCK:

During the year, the Company purchased 237.04 shares of stock for $1,926,396 from two stockholders. This represented 39.4% of the total shares outstanding at the time of the purchase.

NOTE K - EMPLOYEE BENEFITS PLAN:

The Company maintains a 401(k) savings plan for all employees who are 21 and have one year of service. Employer contributions to the plan are determined annually by the Board of Directors. The plan was effective January 1, 1997. The Company has made no contributions to the plan.

MID-STATES ELECTRIC COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

NOTE L - MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 75 percent of total sales to four major customers during 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors in the commercial and industrial construction markets in the continental United States. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial construction markets in this state. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

INDEPENDENT AUDITORS' REPORT

T & H Electrical Corporation
Wilson, North Carolina

We have audited the accompanying balance sheet of T & H Electrical Corporation as of September 30, l997, and the related statements of income and retained earnings and cash flows for the year then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of T & H Electrical Corporation as of September 30, l997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Dees, Jackson, Watson & Associates, P.A.

Smithfield, North Carolina

December 18, 1997

T & H ELECTRICAL CORPORATION

BALANCE SHEETS

ASSETS
(in Thousands)

	September 30, 1997	June 30, 1998 (unaudited)
CURRENT ASSETS		
Cash on hand and in banks	$ 84	$ 452
Accounts receivable		
Contract receivables	3,426	2,103
Officers	177	13
Employees	6	--
Costs and estimated earnings in excess of billings on uncompleted contracts	418	1,014
Inventories	336	432
Prepaid expenses	29	336
Bid deposits	1	--
Corporate income tax deposits	--	--
Total Current Assets	4,477	4,350
PROPERTY AND EQUIPMENT (AT COST)		
Office equipment	252	269
Automobile and trucks	1,302	1,441
Construction equipment	636	1,270
Leasehold improvements	3	3
	2,193	2,983
Less accumulated depreciation	(1,618)	(1,792)
Total Property and Equipment	575	1,191
OTHER ASSETS		
Cash surrender value of life insurance	85	84
Total Other Assets	85	84
Totals	$5,137	$ 5,625

T & H ELECTRICAL CORPORATION
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY
(In Thousands)

	September 30, 1997	June 30, 1998 (Unaudited)
CURRENT LIABILITIES		
Notes payable	$ 32	$ 32
Dividends payable	25	--
Accounts payable		
Trade	1,134	630
Employee withholding taxes	119	75
Billings in excess of costs and estimated earnings on uncompleted contracts	505	415
Accrued expenses		
Salaries and wages	114	312
Payroll taxes	12	--
Profit sharing	120	75
Deferred income taxes	115	115
Corporate income taxes payable	287	306
Total Current Liabilities	2,463	1,960
LONG-TERM DEBT		
Notes payable	93	563
Total Liabilities	2,556	2,523
STOCKHOLDERS' EQUITY		
Common stock - $10.00 par value; 10,000 shares authorized; 30 shares issued and outstanding	--	--
Paid-in capital	109	109
Retained earnings	2,472	2,993
Total Stockholders' Equity	2,581	3,102
Totals	$5,137	$5,625

See the accompanying notes and accountants' report.

T & H ELECTRICAL CORPORATION

STATEMENTS OF INCOME AND RETAINED EARNINGS
(IN THOUSANDS)

	Year Ended September 30, 1997	Nine Months Ended June 30, 1997 (unaudited)	Nine Months Ended June 30, 1998 (unaudited)
CONTRACT REVENUES EARNED	$ 13,166	$ 9,085	$8,570
COST OF REVENUES EARNED	10,110	7,041	5,922
Gross Profit	3,056	2,044	2,648
OPERATING EXPENSES	2,429	1,341	1,827
OPERATING INCOME	627	703	821
OTHER INCOME			
Interest	5	(27)	8
Miscellaneous	4	(2)	--
Gain on sale of fixed assets	1	2	--
	637	676	829
CORPORATE INCOME TAXES			
Current	(376)	190	308
Deferred	124	--	--
NET INCOME	385	486	521
RETAINED EARNINGS - BEGINNING	2,111	2,111	2,472
DIVIDENDS	(25)	--	--
RETAINED EARNINGS - ENDING	$ 2,471	$ 2,597	$2,993

See the accompanying notes and accountants' report.

T & H ELECTRICAL CORPORATION

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended September 30, 1997	Nine months Ended June 30, 1997 (unaudited)	Nine Months Ended June 30, 1998 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 385	$ 486	$ 521
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation	287	140	174
Loss on sale of fixed assets	(2)	--	--
Cash value of life insurance	(25)	--	1
(Increase) decrease in assets			
Accounts receivable	(1,232)	(334)	1,493
Costs and estimated earnings in excess of billings on uncompleted contracts	521	369	(596)
Inventory	(78)	(313)	(96)
Prepaid expenses	54	(20)	(288)
Deposits	20	--	1
Increase (decrease) in liabilities			
Accounts payable	106	(716)	(548)
Billings in excess of costs and estimated earnings on uncompleted contracts	31	(116)	(90)
Accrued expenses	22	--	141
Income taxes payable	287	--	19
Other	3	21	(44)
Deferred income taxes	(124)	16	--
Net Cash Provided By (Used In) Operating Activities	255	(467)	688
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(150)	(117)	(790)
Proceeds from the sale of fixed assets	2	--	--
Net Cash Used By Investing Activities	(148)	(117)	(790)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes issued	--	565	470
Repayment of notes issued	(33)	(16)	--
Dividends paid	(25)	--	--
Net Cash Provided By (Used By) Financing Activities	(58)	549	470
INCREASE (DECREASE) IN CASH	49	(35)	368
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	35	35	84
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 84	$ --	$ 452

See the accompanying notes and accountants' report.

T & H ELECTRICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company's Activities and Operating Cycle

The Company is engaged in the business of electrical construction contracting. The length of the Company's contracts varies but typically extends less than two years. The Company has therefore used the operating cycle concept in classifying all contract-related assets and liabilities as current on the balance sheet.

In September, 1998, the Company and its stockholders entered into a definitive agreement with Integrate Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock was exchanged for cash and shares of IES common stock. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

The interim financial statements for the nine months ended June 30, 1998 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Revenue and Cost Recognition

Revenues from construction contracts through September 30, 1996 have been recognized on the percentage of completion method for financial accounting purposes and on the completed contract method for tax purposes. To qualify for the completed contract method for tax purposes the Company's gross revenues must not exceed $10 million for the preceding three years. For the three year period ending September 30, 1996 the Company's average yearly gross revenues exceeded this threshold. Therefore, all contracts entered into after September 30, 1996 are being accounted for using the percentage of completion method for both tax purposes and for financial accounting purposes.

The percentage of completion method is computed using the cost to cost method. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized.

The Company has several "Time-and-Materials" fee type jobs in process at September 30, l997 and 1996. Management refers to these jobs as "Open Ended Cost Plus Contracts", since these jobs do not have a fixed contract price as with Fixed Price Contracts. The total contract amount is determined by the amount of work ultimately performed. The amount under total contract price in the schedule of Contracts In Progress for these contracts is management's best estimate of the total that will be billed on these jobs.

Property and Equipment

Depreciation on such assets is being computed for both financial accounting reporting purposes and income tax reporting purposes under the modified accelerated cost recovery system. For the years ended September 30, l997 and l996, depreciation under this method totaled $287,297 and $290,187, respectively.

Inventory Valuation

Inventories are valued at the lower of cost (first-in, first-out) or market prices.

Use of Estimates

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

At year end, the Company had on deposit with a bank an amount in excess of FDIC insurance limits. The Company has not experienced any losses in such account and believes it is not exposed to any significant credit risk to cash.

Deferred Income Taxes

Deferred income taxes are provided for differences in timing in reporting income for financial statement and tax purposes arising from differences in the methods of accounting for construction contracts. For the year ended September 30, 1997, the Company had earnings before income taxes of $1,214,383 for income tax purposes and $637,340 for financial statement reporting purposes. Income tax expense for the year ended September 30, 1997 totaled $251,922 with $375,635 currently payable and a decrease in deferred of $123,713. A credit for prior year alternative minimum tax of $129,862 was available and used during the year ended September 30, 1997. For the year ended September 30, 1996, the Company had earnings before income taxes of $90,892 for income tax purposes and $258,042 for financial statement reporting purposes. Income tax expense for the year ended September 30, 1996 totaled $100,419 with $67,127 currently payable and $33,292 deferred. Alternative minimum tax for the year ended September 30, 1996 totaled $47,378.

T & H ELECTRICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

CONTRACT RECEIVABLES

	Year Ended September 30, 1997
Contract receivables on the balance sheet consist of the following:	
Receivable on completed contracts	$ 919
Receivable on contracts in progress	1,715
Retainage	792
Total Contract Receivables	$ 3,426

COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

	Year Ended September 30, 1997
Costs incurred on uncompleted contracts	$ 9,534
Estimated earnings	2,078
	11,612
Less billings to date	11,699
	$ (87)
Included in accompanying balance sheet under the following headings:	
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 418
Billings in excess of costs and estimated earnings on uncompleted contracts	505
	$ (87)

T & H ELECTRICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS

The Company leases a warehouse and administrative office facility in Wilson, N.C. from T.H.E. Associates, a partnership owned by the shareholders of the Company. The lease term is from month-to-month in the amount of $6,500. Rental expenses for the years ended September 30, l997 and l996 totaled $78,000 and $67,000, respectively.

As of September 30, 1996 loans to officers/stockholders totaled $127,091. During the year ended September 30, 1997 additional loans to officers/stockholders were made in the amount of $50,000 and no amounts were repaid. The balance receivable from officer/stockholders at September 30, 1997 totaled $177,091.

The Company contracted the grading of the office lot to PLT Construction Company, Inc. which is co-owned by a principle of the Company. The contract price was $8,373, all of which was due and payable at September 30, 1996.

NOTES PAYABLE

	Current	Long-Term	Total
Banks			
Prime plus .25% note due at a total of $2,648.20 per month plus interest, collateralized by liens on vehicles and equipment.	$ 32	$ 93	$ 125
Total	$ 32	$ 93	$ 125

Future long-term debt maturities as of September 30, l997 are as follows:

Year Ending September 30,	Amount
1998	$ 32
1999	32
2000	32
2001	29
	$ 125

The Company has a prime rate confirmed line of credit, collateralized by the unconditional guarantee of Company stockholders, expiring January 15, 1998, with the balance at that time being repaid, renewed or restructured by the bank. Maximum amount available is $700,000 payable upon demand with interest payable monthly. There was no outstanding balance on this line of credit at September 30, l997.

Additionally, the Company has a guidance line of credit expiring January 15, 1998, with maximum funds available of $500,000. The terms of this line of credit which is collateralized by the unconditional guarantee of Company stockholders, requires interest of prime plus .50% to be paid monthly and principal is payable upon demand. Additionally, each advance on this line will be handled on a per request basis with information regarding the term, purpose and repayment source to be provided at the time of disbursement. There was no outstanding balance on this line at September 30, l997.

T & H ELECTRICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

INTEREST EXPENSE

Interest expense for the years ended September 30, l997, and l996 totaled $34,230 and $24,449, for each year respectively.

STATEMENTS OF CASH FLOWS

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. At September 30, 1997, and September 30, 1996, the Company had $243,583 and $-0-, respectively, invested in preferred selects which have a seven day maturity.

Supplemental disclosures of cash flow information

	Year Ended September 30,1997
Cash paid for:	
Interest expense	$ 34
Income taxes	$ 51

PROFIT SHARING PLAN

The Company has a defined contribution profit-sharing plan for all of its employees. Annual additions to the Plan are made at the Company's discretion. During the years ended September 30, 1997, and 1996 contributions were $120,000 and $115,000, respectively.

DESCRIPTION OF LEASING ARRANGEMENTS

The Company leased a vehicle under an operating lease which required monthly lease payments of $800.00 and expired June 30, 1997.

CONCENTRATION:

The Company grants credit, generally without collateral, to its customers, which are general contractors in the commercial and industrial construction markets in North Carolina. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial construction markets in this state. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

TABLE OF CONTENTS

21,000,000 SHARES

Integrated Electrical Services, Inc.

COMMON STOCK

PROSPECTUS

SEPTEMBER 14, 1998

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

[ALTERNATE PAGE FOR SELLING STOCKHOLDER PROSPECTUS]

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED SEPTEMBER 14, 1998

PROSPECTUS

21,000,000 SHARES

Integrated Electrical Services, Inc.

COMMON STOCK

This Prospectus, as appropriately amended or supplemented, may be used from time to time principally by persons (the "Selling Stockholders") who have received shares of common stock, par value $0.01 per share (the "Common Stock"), of Integrated Electrical Services, Inc. (the "Company") in connection with the acquisition by the Company of securities or assets held by such persons, or their transferees, and who wish to offer and sell such shares of Common Stock in transactions in which they and any broker-dealer through whom such shares are sold may be deemed to be Underwriters within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), as more fully described herein. The Company will receive none of the proceeds from any such sale. Any commissions paid or concessions allowed to any broker-dealer, and, if any broker-dealer purchases such shares as principal, any profits received on the resale of such shares, may be deemed to be underwriting discounts and commissions under the Securities Act. Printing, certain legal and accounting, filing and other similar expenses of this offering will be paid by the Company. The Selling Stockholders will generally bear all other expenses of this offering, including brokerage fees and any underwriting discounts or commissions.

The Registration Statement of which this Prospectus is a part also relates to the offer and issuance by the Company from time to time of 21,000,000 shares of Common Stock in connection with its acquisition of the securities and assets of other businesses.

The Common Stock trades on The New York Stock Exchange (the "NYSE") under the symbol "IEE." Application will be made to list the shares of Common Stock offered hereby on the NYSE. The last reported sale price of the Common Stock on the NYSE on September 11, 1998 was $13 7/8 per share.

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS SEPTEMBER 14, 1998.

[ALTERNATE PAGE FOR SELLING STOCK HOLDER PROSPECTS]

PLAN OF DISTRIBUTION

This Prospectus, as appropriately amended or supplemented, may be used from time to time principally by persons who have received shares of Common Stock in connection with acquisitions by the Company of securities and assets held by such persons, or their transferees, and who wish to offer and sell such shares of Common Stock (such persons are herein referred to as "Selling Stockholders") in transactions in which they and any broker-dealer through whom such shares are sold may be deemed to be Underwriters within the meaning of the Securities Act. The Company will receive none of the proceeds from any such sales. There presently are no arrangements or understandings, formal or informal, pertaining to the distribution of the shares of Common Stock described herein. Upon the Company being notified by a Selling Stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares of Common Stock bought through a block trade, special offering, exchange distribution or secondary distribution, a supplemented Prospectus will be filed, pursuant to Rule 424(b) under the Securities Act, setting forth (i) the name of each Selling Stockholder and the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which the shares were sold, (iv) the commissions paid or the discounts allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out in this Prospectus and (vi) other facts material to the transaction.

Selling Stockholders may sell the shares being offered hereby from time to time in transactions (which may involve crosses and block transactions) on the NYSE, in negotiated transactions or otherwise, at market prices prevailing at the time of the sale or at negotiated prices. Selling Stockholders may sell some or all of the shares in transactions involving broker-dealers, who may act solely as agent and/or may acquire shares as principal. Broker-dealers participating in such transactions as agent may receive commissions from Selling Stockholders (and, if they act as agent for the purchaser of such shares, from such purchaser), such commissions computed in appropriate cases in accordance with the applicable rules of the NYSE, which commissions may be at negotiated rates where permissible under such rules. Participating broker-dealers may agree with Selling Stockholders to sell a specified number of shares at a stipulated price per share and, to the extent such broker-dealer is unable to do so acting as an agent for the Selling Stockholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer's commitment to Selling Stockholders. In addition or alternatively, shares may be sold by Selling Stockholders and/or by or through other broker-dealers in special offerings, exchange distributions or secondary distributions pursuant to and in compliance with the governing rules of the NYSE, and in connection therewith commissions in excess of the customary commission prescribed by such governing rules may be paid to participating broker-dealers, or, in the case of certain secondary distributions, a discount or concession from the offering price may be allowed to participating broker-dealers in excess of the customary commission. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions (which may involve crosses and block transactions and which may involve sales to or through other broker-dealers, including transactions of the nature described in the preceding two sentences) on the NYSE, in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices, and in connection with such resales may pay to or receive commissions from the purchaser of such shares.

The Company may agree to indemnify each Selling Stockholder as an Underwriter under the Securities Act against certain liabilities, including liabilities arising under the Securities Act. Each Selling Stockholder may indemnify any broker-dealer that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act.

The Selling Stockholders may resell the shares offered hereby only if such securities are qualified for sale under applicable state securities or "blue sky" laws or exemptions from such registration and qualification requirements are available.

[ALTERNATE PAGE FOR SELLING STOCKHOLDER PROSPECTUS]

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

TABLE OF CONTENTS

21,000,000 SHARES

Integrated Electrical Services, Inc.

COMMON STOCK

PROSPECTUS

SEPTEMBER 14, 1998

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION(A)

SEC Registration Fee	$ 84,473
Accounting Fees and Expenses	300,000
Legal Fees and Expenses	5,000
Printing Expenses	60,000
Transfer Agent's Fees	1,000
Miscellaneous	9,527
Total	$460,000

- ---------------

(a) The amounts set forth above, except for the SEC and NASD fees, are in each case estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Subsection (a) of section 145 of the General Corporation Law of the State of Delaware empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Subsection (b) of Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been made to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145 further provides that to the extent a director or officer of a corporation has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145 in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; that indemnification provided for by Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of such person's heirs, executors and administrators; and empowers the corporation to purchase and maintain insurance on behalf of a director or officer of the corporation against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under Section 145.

Section 102(b)(7) of the General Corporation Law of the State of Delaware provides that a certificate of incorporation may contain a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

Article Eighth of the Company's Amended and Restated Certificate of Incorporation states that:

No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty by such director as a director; provided, however, that this Article Eighth shall not eliminate or limit the liability of a director to the extent provided by applicable law (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article Eighth shall apply to, or have any effect on, the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

In addition, Article VI of the Company's Bylaws further provides that the Company shall indemnify its officers, directors and employees to the fullest extent permitted by law.

The Company has entered into indemnification agreements with each of its executive officers and directors.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is certain information concerning all sales of securities by the Company during the past three years that were not registered under the Securities Act of 1933. The description presented below gives effect to the Company's 2,329.6-for-one stock split effected in October, 1997.

(a) On June 26, 1997, the Company issued 2,329,600 shares of its Common Stock at an aggregate price of $1,000 to C. Byron Snyder, the Snyder Children's Trust and D. Merril Cummings.

(b) On September 5, 1997, the Company issued 1,672,711 shares of its Common Stock to C. Byron Snyder, the Snyder Children's Trust, and to certain executive officers and key employees at an aggregate price of $718.

(c) On October 17, 1997, the Company issued 50,000 shares of its Common Stock to certain executive officers and key employees at an aggregate price of $21.

(d) See "Certain Transactions" for a discussion of the issuance of shares of Common Stock in connection with the Acquisitions.

(e) On September 14, 1998, the Company issued 214,047 shares of its Common Stock and cash consideration of $41.3 million to the six stockholders of Davis Electrical Constructors, Inc. in exchange for all of the outstanding shares of common stock of such entity.

These transactions were completed without registration under the Securities Act of 1933 in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits. Except as indicated, all exhibits have been previously filed.

EXHIBIT	
2.1	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Ace Electric, Inc., and all of the Stockholders of Ace Electric, Inc. (Incorporated by reference to 2.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.2	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Amber Electric, Inc., and all of the Stockholders of Amber Electric, Inc. (Incorporated by reference to 2.2 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.3	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., BW Consolidated, Inc., all of the Stockholders of BW Consolidated, Inc., Bexar Electric Company, Ltd., Calhoun Electric Company, Ltd. and the Employee Partners of such partnerships. (Incorporated by reference to 2.3 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.4	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Daniel Electrical Contractors, Inc., Daniel Electrical of Treasure Coast Inc. and all of the Stockholders of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc. (Incorporated by reference to 2.4 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.5	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Stark Investments, Inc., and all of the Stockholders of Stark Investments, Inc. (Incorporated by reference to 2.5 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.6	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Hatfield Electric, Inc., and all of the Stockholders of Hatfield Electric, Inc. (Incorporated by reference to 2.6 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.7	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., General Partner, Inc., Charles P. Bagby Company, Inc. and all of the Stockholders of General Partner, Inc., and Charles P. Bagby Company, Inc. (Incorporated by reference to 2.7 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.8	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Houston-Stafford Electric, Inc., and all of the Stockholders of Houston-Stafford Electric, Inc. (Incorporated by reference to 2.8 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.9	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Mills Electrical Contractors, Inc., and all of the Stockholders of Mills Electrical Contractors, Inc. (Incorporated by reference to 2.9 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.10	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Muth Electric, Inc., and all of the Stockholders of Muth Electric, Inc. (Incorporated by reference to 2.10 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)

EXHIBIT	
2.11	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Pollock Electric Inc., and all of the Stockholders of Pollock Electric Inc. (Incorporated by reference to 2.11 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.12	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thomas Popp & Company and all of the Stockholders of Thomas Popp & Company. (Incorporated by reference to 2.12 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.13	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Reynolds Electric Corp., and all of the Stockholders of Reynolds Electric Corp. (Incorporated by reference to 2.13 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.14	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Rodgers Electric Company, Inc., and all of the Stockholders of Rodgers Electric Company, Inc. (Incorporated by reference to 2.14 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.15	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Summit Electric of Texas, Incorporated, and all of the Stockholders of Summit Electric of Texas, Incorporated. (Incorporated by reference to 2.15 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.16	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thurman & O'Connell Corporation, and all of the Stockholders of Thurman & O'Connell Corporation. (Incorporated by reference to 2.16 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.17	-- Agreement and Plan of Merger dated as of June 18, 1998 among Integrated Electrical Services, Inc., Mark Henderson Acquisition Corporation, Mark Henderson, Incorporated, and Mark Henderson and Bill Collins. (Incorporated by reference from the Company's Report on Form 8-K dated July 14, 1998).
2.18	-- Agreement and Plan of Merger dated as of June 18, 1998 among Integrated Electrical Services, Inc., Mark Henderson Acquisition Corporation, Holland Electrical Systems, Inc. and Amy B. Henderson and Mary Sue Holland. (Incorporated by reference from the Company's Report on Form 8-K dated July 14, 1998).
2.19	-- Agreement and Plan of Merger dated as of June 18, 1998 among Integrated Electrical Services, Inc., Mark Henderson Acquisition Corporation, Spectrol, Inc. and David Lytle. (Incorporated by reference from the Company's Report on Form 8-K dated July 14, 1998).
*2.20	-- Agreement and Plan of Merger dated as of September 11, 1998 among Integrated Electrical Services, Inc., Davis Acquisition Corporation, Davis Electrical Constructors, Inc., James B. Stephens, J. Michael Stephens, William N. Byrd, James C. Henderson, J. Lowell Hughes and William M. Sumerel.
3.1	-- Amended and Restated Certificate of Incorporation as amended. (Incorporated by reference to 3.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
3.2	-- Bylaws. (Incorporated by reference to 3.2 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
4.1	-- Specimen Common Stock Certificate. (Incorporated by reference to 4.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
**5.1	-- Opinion of John F. Wombwell, Esq. as to the legality of the securities being registered.
10.1	-- Form of Employment Agreement (Incorporated by reference to 10.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.2	-- Form of Officer and Director Indemnification Agreement. (Incorporated by reference to 10.2 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.3	-- Integrated Electrical Services, Inc. 1997 Stock Plan. (Incorporated by reference to 10.3 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.4	-- Integrated Electrical Services, Inc. 1997 Directors Stock Plan. (Incorporated by reference to 10.4 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
*10.5	-- Form of Credit Agreement among the Company, the Financial Institutions named therein and NationsBank of Texas, N.A., including form of Subsidiary Guaranty Agreement, form of Pledge Agreement, form of Security Agreement,

form of promissory note, and form of swing line note.

EXHIBIT	
10.6	-- Form of Lock-up Agreement to be entered into by the Company and the stockholders set forth on Schedule A thereto. (Incorporated by reference to 10.6 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
*21.1	-- List of Subsidiaries.
23.1	-- Consent of John F. Wombwell, Esq. (included in Exhibit 5.1).
*23.2	-- Consent of Arthur Andersen LLP.
*23.3	-- Consent of Bradshaw, Pope & Franklin, LLP.
*23.4	-- Consent of Elliott, Davis & Company, L.L.P.
*23.5	-- Consent of Sapp & Sapp P.A.
*23.6	-- Consent of Philhours, Rich & Fletcher, P.L.L.C.
*23.7	-- Consent of Wolfe and Company, P.C.
*23.8	-- Consent of Edmondson, LedBetter & Ballard, L.L.P.
*23.9	-- Consent of Ketel Thorstenson, LP.
*23.10	-- Consent of Wear, Howell, Strickland & Quinn, L.L.C.
*23.11	-- Consent of Dees, Jackson, Watson & Associates, P.A.
**24.1	-- Power of Attorney.
*27	-- Financial Data Schedule.

- ---------------

* Filed herewith.
** Previously filed.

(b) Financial statement schedules

None.

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

(1) That for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on September 14, 1998.

Integrated Electrical Services, Inc.

By: /s/ JON POLLOCK

Jon Pollock
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on September 14, 1998.

SIGNATURE	TITLE
/s/ JON POLLOCK Jon Pollock	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ JIM P. WISE * Jim P. Wise	Senior Vice President and Chief Financial Officer (Principal Financial Officer
/s/ J. PAUL WITHROW * J. Paul Withrow	Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ JERRY MILLS * Jerry Mills	Senior Vice President, Chief Operating Officer -- Commercial and Industrial and Director
/s/ BEN L. MUELLER * Ben E. Mueller	Senior Vice President, Chief Operating Officer -- Residential and Director

SIGNATURE	TITLE
/s/ C. BYRON SNYDER * C. Byron Snyder	Chairman of the Board of Directors
Donald Paul Hodel	Director
/s/ RICHARD MUTH * Richard Muth	Director
/s/ ALAN R. SIELBECK * Alan R. Sielbeck	Director
/s/ ROBERT STALVEY * Robert Stalvey	Director
/s/ RICHARD L. TUCKER * Richard L. Tucker	Director
/s/ BOB WEIK * Bob Weik	Director

* /s/ Jon Pollock
Jon Pollock, pursuant
to a power-of-attorney
filed with the Registration
Statement on Form S-1 (333-50031)
on September 14, 1998

INDEX TO EXHIBITS

EXHIBIT	
2.1	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Ace Electric, Inc., and all of the Stockholders of Ace Electric, Inc. (Incorporated by reference to 2.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.2	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Amber Electric, Inc., and all of the Stockholders of Amber Electric, Inc. (Incorporated by reference to 2.2 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.3	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., BW Consolidated, Inc., all of the Stockholders of BW Consolidated, Inc., Bexar Electric Company, Ltd., Calhoun Electric Company, Ltd. and the Employee Partners of such partnerships. (Incorporated by reference to 2.3 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.4	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Daniel Electrical Contractors, Inc., Daniel Electrical of Treasure Coast Inc. and all of the Stockholders of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc. (Incorporated by reference to 2.4 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.5	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Stark Investments, Inc., and all of the Stockholders of Stark Investments, Inc. (Incorporated by reference to 2.5 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.6	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Hatfield Electric, Inc., and all of the Stockholders of Hatfield Electric, Inc. (Incorporated by reference to 2.6 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.7	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., General Partner, Inc., Charles P. Bagby Company, Inc. and all of the Stockholders of General Partner, Inc., and Charles P. Bagby Company, Inc. (Incorporated by reference to 2.7 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.8	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Houston-Stafford Electric, Inc., and all of the Stockholders of Houston-Stafford Electric, Inc. (Incorporated by reference to 2.8 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.9	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Mills Electrical Contractors, Inc., and all of the Stockholders of Mills Electrical Contractors, Inc. (Incorporated by reference to 2.9 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.10	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Muth Electric, Inc., and all of the Stockholders of Muth Electric, Inc. (Incorporated by reference to 2.10 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)

EXHIBIT	
2.11	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Pollock Electric Inc., and all of the Stockholders of Pollock Electric Inc. (Incorporated by reference to 2.11 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.12	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thomas Popp & Company and all of the Stockholders of Thomas Popp & Company. (Incorporated by reference to 2.12 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.13	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Reynolds Electric Corp., and all of the Stockholders of Reynolds Electric Corp. (Incorporated by reference to 2.13 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.14	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Rodgers Electric Company, Inc., and all of the Stockholders of Rodgers Electric Company, Inc. (Incorporated by reference to 2.14 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.15	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Summit Electric of Texas, Incorporated, and all of the Stockholders of Summit Electric of Texas, Incorporated. (Incorporated by reference to 2.15 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.16	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thurman & O'Connell Corporation, and all of the Stockholders of Thurman & O'Connell Corporation. (Incorporated by reference to 2.16 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
2.17	-- Agreement and Plan of Merger dated as of June 18, 1998 among Integrated Electrical Services, Inc., Mark Henderson Acquisition Corporation, Mark Henderson, Incorporated, and Mark Henderson and Bill Collins. (Incorporated by reference from the Company's Report on Form 8-K dated July 14, 1998).
2.18	-- Agreement and Plan of Merger dated as of June 18, 1998 among Integrated Electrical Services, Inc., Mark Henderson Acquisition Corporation, Holland Electrical Systems, Inc. and Amy B. Henderson and Mary Sue Holland. (Incorporated by reference from the Company's Report on Form 8-K dated July 14, 1998).
2.19	-- Agreement and Plan of Merger dated as of June 18, 1998 among Integrated Electrical Services, Inc., Mark Henderson Acquisition Corporation, Spectrol, Inc. and David Lytle. (Incorporated by reference from the Company's Report on Form 8-K dated July 14, 1998).
*2.20	-- Agreement and Plan of Merger dated as of September 11, 1998 among Integrated Electrical Services, Inc., Davis Acquisition Corporation, Davis Electrical Constructors, Inc., James B. Stephens, J. Michael Stephens, William N. Byrd, James C. Henderson, J. Lowell Hughes and William M. Sumerel.
3.1	-- Amended and Restated Certificate of Incorporation as amended. (Incorporated by reference to 3.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
3.2	-- Bylaws. (Incorporated by reference to 3.2 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
4.1	-- Specimen Common Stock Certificate. (Incorporated by reference to 4.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
**5.1	-- Opinion of John F. Wombwell, Esq. as to the legality of the securities being registered.
10.1	-- Form of Employment Agreement (Incorporated by reference to 10.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.2	-- Form of Officer and Director Indemnification Agreement. (Incorporated by reference to 10.2 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.3	-- Integrated Electrical Services, Inc. 1997 Stock Plan. (Incorporated by reference to 10.3 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.4	-- Integrated Electrical Services, Inc. 1997 Directors Stock Plan. (Incorporated by reference to 10.4 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
*10.5	-- Form of Credit Agreement among the Company, the Financial Institutions named therein and NationsBank of Texas, N.A., including form of Subsidiary Guaranty Agreement,

form of Pledge Agreement, form of Security Agreement,
form of promissory note, and form of swing line note.
Incorporated by reference to 10.5 to the Registration
Statement on Form S-1 (File No. 333-38715) of the Company)

EXHIBIT	
10.6	-- Form of Lock-up Agreement to be entered into by the Company and the stockholders set forth on Schedule A thereto. (Incorporated by reference to 10.6 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
*21.1	-- List of Subsidiaries.
23.1	-- Consent of John F. Wombwell, Esq. (included in Exhibit 5.1).
*23.2	-- Consent of Arthur Andersen LLP.
*23.3	-- Consent of Bradshaw, Pope & Franklin, LLP.
*23.4	-- Consent of Elliott, Davis & Company, L.L.P.
*23.5	-- Consent of Sapp & Sapp P.A.
*23.6	-- Consent of Philhours, Rich & Fletcher, P.L.L.C.
*23.7	-- Consent of Wolfe and Company, P.C.
*23.8	-- Consent of Edmondson, LedBetter & Ballard, L.L.P.
*23.9	-- Consent of Ketel Thorstenson, LP.
*23.10	-- Consent of Wear, Howell, Strickland & Quinn, L.L.C.
*23.11	-- Consent of Dees, Jackson, Watson & Associates, P.A.
**24.1	-- Power of Attorney.
*27	-- Financial Data Schedule.

- ---------------

* Filed herewith.

EXHIBIT 2.20

AGREEMENT AND PLAN OF MERGER

DATED AS OF

SEPTEMBER 11, 1998

AMONG

INTEGRATED ELECTRICAL SERVICES, INC.,

DAVIS ACQUISITION CORPORATION,

DAVIS ELECTRICAL CONSTRUCTORS, INC.

AND

JAMES B. STEPHENS, J. MICHAEL STEPHENS,
WILLIAM N. BYRD, JAMES C. HENDERSON,
J. LOWELL HUGHES AND WILLIAM M. SUMEREL

TABLE OF CONTENTS

EXHIBITS AND SCHEDULES

Exhibit A	Form of Employment Agreement
Exhibit B	Form of Opinion of Counsel to Company Stockholders
Exhibit C	Form of Certificate of Secretary of the Company
Exhibit D	Form of Company Stockholder Release
Exhibit E	Form of Company Director Resignation
Exhibit F	Form of Company Affiliate Letter
Exhibit G	Form of Company Stockholder Receipt
Exhibit H	Form of Cross-Receipt
Exhibit I	Form of Opinion of John F. Wombwell
Exhibit J	Form of Certificate of Secretary of IES and Acquisition
Exhibit K	Form of Stock Option Agreement
Schedule 2.3	Officers of Surviving Corporation
Schedule 3.1	Organization and Qualification of Company and Subsidiaries
Schedule 3.2(a)	Ownership of Company Shares and Delivery Instructions
Schedule 3.2(b)	Subsidiary Corporate History, Subsidiary Stock, Other Securities and Non-Corporate Entity Participation
Schedule 3.4	Company Consents and Approvals; No Violation
Schedule 3.5	Affiliate Relationships
Schedule 3.6	Company Financial Statements
Schedule 3.7	Company Undisclosed Liabilities
Schedule 3.8	Company Accounts and Notes Receivables
Schedule 3.9	Company Assets
Schedule 3.10	Material Contracts, Commitments and Customers
Schedule 3.11	Company Operating Authority
Schedule 3.12	Company Bank Account Information
Schedule 3.13	Company Conduct of Business
Schedule 3.14	Company Litigation; Orders
Schedule 3.15	Company Labor Agreements
Schedule 3.17	Company Insurance
Schedule 3.18	Company Disposal Sites
Schedule 3.19	Company Taxes
Schedule 3.20	Company Employee Benefit Plans
Schedule 3.21	Company Brokerage Fees and Commissions
Schedule 5.6	Company Stockholder Guarantees
Schedule 5.9	Repayment of Advances, Receivables and Loans
Schedule 5.11	Merger Consideration and Liability Allocations
Schedule 5.13	Conduct of Business
Schedule 5.15	Vehicles
Schedule 5.16	Deferred Compensation
Schedule 5.17	Stock Options
Schedule 5.18	Bonuses
Schedule 5.22	Purchase of Assets

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER ("Agreement") dated as of September 11, 1998 among Integrated Electrical Services, Inc., a Delaware corporation ("IES"), Davis Acquisition Corporation, a South Carolina corporation and a wholly owned subsidiary of IES ("Acquisition"), Davis Electrical Constructors, Inc., a South Carolina corporation ("Company"), and James B. Stephens, J. Michael Stephens, William N. Byrd, James C. Henderson, J. Lowell Hughes and William M. Sumerel, who are all of the stockholders of the Company (together, the "Company Stockholders").

RECITALS:

WHEREAS, the Boards of Directors of IES and the Company have determined that the combination of IES and the Company is in the best interests of the stockholders of IES and the Company, respectively;

WHEREAS, the Company Stockholders desire to sell to IES all of the issued and outstanding shares of capital stock of the Company, free and clear of all Liens (as defined in Section 10.16), and the Company Stockholders agree to be bound by a covenant not to compete; and

WHEREAS, IES desires to acquire such shares of capital stock of the Company as more fully set forth herein and enforce the covenant not to compete.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

THE MERGER

SECTION 1.1. THE MERGER. (a) At the closing of the transactions contemplated by this Agreement (the "Closing") and upon delivery of the documents listed in Section 1.6, at the Effective Time (as hereinafter defined), Acquisition shall be merged (the "Merger") with and into the Company in accordance with the South Carolina Business Corporation Act, as amended ("South Carolina Law"), whereupon the separate existence of Acquisition shall cease, and the Company shall be the surviving corporation (the " Surviving Corporation").

(b) Immediately following the delivery of the documents listed in Section 1.6, the Company and Acquisition will file Articles of Merger (the "Certificate of Merger") with the South Carolina Secretary of State and make all other filings or recordings required by South Carolina Law in connection with the Merger. The Merger shall become effective at such time (the "Effective Time") as the Certificate of Merger is duly filed with the South Carolina

Secretary of State (or at such later time as may be agreed in writing by the parties hereto and specified in the Certificate of Merger).

(c) From and after the Effective Time, the Surviving Corporation shall possess all the rights, assets, powers, privileges, and franchises and be subject to all of the obligations, liabilities, restrictions, and disabilities of the Company and Acquisition, all as provided under South Carolina Law.

(d) The Closing of the transactions shall take place at the offices of Merline & Thomas, P.A. in Greenville, South Carolina, at 10:00 a.m. eastern standard time, on the first business day following the date first written above in this Agreement.

SECTION 1.2. CONVERSION OF SHARES. At the Effective Time:

(a) (i) the shares of common stock, $1.00 par value, of the Company ("Company Common Stock") outstanding immediately prior to the Effective Time shall be converted into the right to receive, without interest, an aggregate of 214,046 shares of common stock, $0.01 par value, of IES ("IES Common Stock"), as equitably adjusted to give effect to any stock split, stock dividend or stock combination or reclassification of such shares occurring during the period from the date hereof to the Closing, and (ii) IES shall pay cash consideration equal to $49,814,605.00 less the amount of deferred compensation paid to Company Stockholders pursuant to Section 5.16, by wire transfer of immediately available funds to the accounts designated by Company (collectively, the "Merger Consideration"); and

(b) each share of common stock of Acquisition outstanding immediately prior to the Effective Time shall be converted into and become one share of common stock of the Surviving Corporation with the same rights, powers, and privileges as the shares so converted and shall constitute the only outstanding shares of capital stock of the Surviving Corporation.

SECTION 1.3. SURRENDER AND PAYMENT. At the Effective Time, the Company Stockholders will deliver to IES the certificates listed on Schedule 3.2(a) (the "Certificates") representing all of the outstanding shares of Company Common Stock, and IES will deliver, in exchange therefor, the Merger Consideration divided among the Company Stockholders in accordance with the written instructions provided in Schedule 3.2(a). The Certificates will be duly endorsed (or accompanied by duly execute powers), with signatures of those Company Stockholders not present at the Closing guaranteed by a commercial bank or by a member firm of the New York Stock Exchange (the "NYSE") for any Company Stockholder that is not present at the Closing of the Merger.

SECTION 1.4. WITHHOLDING RIGHTS. Each of the Surviving Corporation and IES shall be entitled to deduct and withhold from the consideration otherwise payable to any Person (as defined in Section 10.16) pursuant to this Article I such amounts as it is required to deduct and withhold with respect to the making of such payment under any provision of federal, state, local, or foreign tax law. To the extent that amounts are so withheld by the Surviving Corporation or IES, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation or IES, as the case may be, so long as the Surviving Corporation or IES actually pays over such withheld amounts to the proper authority.

SECTION 1.5. LOST CERTIFICATES. If any Certificate shall have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen, or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond, in such reasonable amount as the Surviving Corporation may direct, as indemnity against any claim that may be made against it with respect to such Certificate, IES will issue in exchange for such lost, stolen, or destroyed Certificate the Merger Consideration to be paid in respect of the shares of Company Common Stock represented by such Certificates as contemplated by this Article I.

SECTION 1.6. OTHER DOCUMENTS TO BE DELIVERED IMMEDIATELY PRIOR TO THE EFFECTIVE TIME.

(a) At the Closing and immediately prior to the Effective Time, the Company and the Company Stockholders will deliver to IES:

(i) Employment Agreements (the "Employment Agreements"), each in the form attached hereto as EXHIBIT A, for each of the following employees of the Company: William N. Byrd, James C. Henderson, J. Lowell Hughes and William M. Sumerel;

(ii) an opinion of counsel to the Company Stockholders in the form attached hereto as EXHIBIT B;

(iii) a Certificate of the Secretary of the Company in the form attached hereto as EXHIBIT C;

(iv) a release executed by the Company Stockholders in the form attached hereto as EXHIBIT D;

(v) the resignations of the directors of the Company in the form attached hereto as EXHIBIT E;

(vi) the minute book and corporate seal of the Company;

(vii) letters from the affiliates of the Company in the form attached hereto as EXHIBIT F;

(viii) receipts executed by the Company Stockholders in the form attached hereto as EXHIBIT G; and

(ix) a cross-receipt executed by the Company Stockholders in the form attached hereto as EXHIBIT H.

(b) At the Closing and immediately prior to the Effective Time, IES will deliver to the Company Stockholders:

(i) the Employment Agreements executed by a duly authorized representative of Surviving Corporation for each of the employees listed in Section 1.6(a)(i) above;

(ii) an opinion of John F. Wombwell, Esq., Senior Vice President, General Counsel and Secretary of IES in the form attached hereto as EXHIBIT I;

(iii) a cross-receipt executed by IES in the form attached hereto as EXHIBIT H; and

(iv) a Certificate of the Secretary of IES and Acquisition in the form attached hereto as EXHIBIT J.

SECTION 1.7. CONDITIONS TO THE OBLIGATIONS OF THE COMPANY STOCKHOLDERS. The obligations of the Company Stockholders to consummate the Merger are subject to the fulfillment, at or before the Closing, of all of the following conditions, any one or more of which may be waived by the Company Stockholders:

(a) The representations and warranties of IES contained in this Agreement shall be true as of the Closing.

(b) All of the obligations of IES to be performed at or before the Closing pursuant to the terms of this Agreement shall have been duly performed, including, without limitation, those set forth in Article I hereof.

(c) The documents necessary to consummate the Merger shall have been filed with the Secretary of State of the State of South Carolina.

(d) All waiting, review and investigation periods (and any extensions thereof) applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") shall have expired or been terminated.

SECTION 1.8. CONDITIONS TO THE OBLIGATIONS OF IES. The obligations of IES to consummate the Merger are subject to the fulfillment, at or before the Closing, of all of the following conditions, any one or more of which may be waived by IES.

(a) The representations and warranties of the Company Stockholders contained in this Agreement shall be true as of the Closing.

(b) All of the obligations of the Company and the Company Stockholders to be performed at or before the Closing pursuant to the terms of this Agreement shall have been duly performed, including, without limitation, those set forth in Article I hereof.

(c) The documents necessary to consummate the Merger shall have been filed with the Secretary of State of the State of South Carolina.

(d) All waiting, review and investigation periods (and any extensions thereof) applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated.

SECTION 1.9. TERMINATION. (a) This Agreement may be terminated at any time prior to the Closing solely:

(i) by mutual consent of IES and the Company Stockholders;

(ii) by the Company Stockholders holding in the aggregate, a majority vote of the issued and outstanding shares of Company Common Stock on the one hand, or by IES, on the other hand, if the transactions contemplated by this Agreement to take place at the Closing shall not have been consummated by September 30, 1998, unless the failure of such transactions to be consummated is due to (A) the failure of all waiting, review and investigation periods (and any extensions thereof) applicable to consummation of the Merger under the HSR Act to have expired or terminated or (B) the willful failure of the party seeking to terminate this Agreement to perform any of its material obligations under this Agreement to the extent required to be performed by it prior to the Closing;

(iii) by the Company Stockholders, on the one hand, or by IES, on the other hand, if a material breach or default shall be made by the other party in the observance or in the due and timely performance of any of the covenants or agreements contained herein, and the curing or waiver of such default shall not have been made on or before the Closing; or

(iv) by any party hereto if a court of competent jurisdiction or governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use all reasonable efforts to lift), in each case restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable.

(b) Termination of this Agreement (i) shall have no effect upon the Confidentiality Agreement dated May 18, 1998 between IES and Company and such Confidentiality Agreement shall survive the termination of this Agreement and continue in full force and effect and (ii) will in no way limit any obligation or liability of any party based on or arising from a breach or default by such party with respect to any of its representations, warranties, covenants or agreements contained in this Agreement including, but not limited to, legal costs and out of pocket expenses.

ARTICLE II

THE SURVIVING CORPORATION

SECTION 2.1. CERTIFICATE OF INCORPORATION. The articles of incorporation of Company in effect at the Effective Time as amended by the Certificate of Merger shall be the articles of incorporation of the Surviving Corporation until amended in accordance with applicable law.

SECTION 2.2. BYLAWS. The bylaws of Acquisition in effect at the Effective Time shall be the bylaws of the Surviving Corporation until amended in accordance with applicable law.

SECTION 2.3. DIRECTORS AND OFFICERS. From and after the Effective Time, until successors are duly elected or appointed and qualified in accordance with applicable law, (i) the director of Acquisition at the Effective Time shall be the sole director of the Surviving Corporation and (ii) the officers of the Surviving Corporation shall be as set forth on Schedule 2.3 hereto.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY STOCKHOLDERS

The Company Stockholders jointly and severally represent and warrant to IES as follows upon execution of this Agreement and as of the Effective Time:

SECTION 3.1. ORGANIZATION AND QUALIFICATION. The Company, and each of its subsidiaries, if any, are listed on Schedule 3.1 (the "Subsidiaries"), and each is a corporation duly organized, validly existing, and in good standing under the laws of the state of its incorporation and has the requisite corporate power to carry on its business as it is now being conducted. The Company, and each of the Subsidiaries, is duly qualified to conduct business as a foreign corporation in every state of the United States in which its ownership or lease of property or the conduct of its business and operations makes such qualification necessary, except for such states in which the Company's or the Subsidiaries' failure to be so qualified is not reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect (as defined in Section 10.16). Schedule 3.1 contains a list of all jurisdictions in which the Company and each of the Subsidiaries is authorized or qualified to do business. The Company has heretofore delivered to IES true and complete copies of the articles of incorporation and bylaws of the

Company and each of the Subsidiaries, in each instance including any amendments thereto, as currently in effect.

SECTION 3.2. CAPITALIZATION; OWNERSHIP. (a) The authorized capital stock of the Company consists of 500,000 shares of Company Common Stock, of which 62,500 shares are issued and outstanding (the "Company Shares"). The Company Shares are all of the issued and outstanding shares of capital stock of the Company and have been duly authorized and validly issued and are fully paid and nonassessable and free of preemptive rights. There are not, as of the date hereof, any outstanding or authorized subscriptions, options, warrants, calls, rights, commitments, or any other agreements of any character (any of the foregoing, a "Commitment") obligating the Company to issue any additional shares of capital stock of the Company, or any other securities convertible into or evidencing the right to subscribe for any shares of capital stock of the Company. The Company Stockholders own the respective number of shares of Company Common Stock set forth on Schedule 3.2(a) attached hereto, free and clear of all Liens other than restrictions imposed by applicable securities laws. Each of the Company Stockholders has full legal right, power and authority to exchange, assign and transfer or cause to be exchanged, assigned or transferred their respective shares of Company Common Stock. The delivery to IES of the Company Shares pursuant to the terms of this Agreement will transfer valid title thereto, free and clear of all Liens other than restrictions imposed by applicable securities laws. No Company Stockholder has or will have appraisal or similar rights as a result of the consummation of the transactions contemplated by this Agreement.

(b) The authorized capital stock of each of the Subsidiaries consists of the number and type of shares of capital stock set forth on Schedule 3.2(b) (collectively, "Subsidiary Stock"). Schedule 3.2(b) also sets forth the number and type of shares of Subsidiary Stock which are issued and outstanding (collectively, "Subsidiary Shares"), the securities of any other corporation owned by the Company or any of the Subsidiaries, as well as the names of any joint venture, partnership or other noncorporate entity in which the Company or any of the Subsidiaries is a participant. The Subsidiary Shares are all of the issued and outstanding shares of capital stock of the Subsidiaries and are directly or ultimately owned by the Company, free and clear of any Liens other than restrictions imposed by applicable securities laws, and have been duly authorized and validly issued and are fully paid and nonassessable and free of preemptive rights. Also set forth on Schedule 3.2(b) is a listing of all names under which the Company and the Subsidiaries have done business within the five (5) year period ending on the date of this Agreement, as well as the names of all predecessors of the Company and the Subsidiaries, including the names of any entities from whom the Company or the Subsidiaries previously acquired significant assets within the five (5) year period ending on the date of this Agreement. There are, as of the date hereof, no Commitments obligating any of the Subsidiaries to issue any additional shares of capital stock of any such Subsidiaries, or any other securities convertible into or evidencing the right to subscribe for any shares of capital stock of any such Subsidiary.

SECTION 3.3. AUTHORIZATION. The Company has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement. The Company Stockholders and the Board of Directors of the

Company have (a) determined that participating in the Merger is in the best interests of the Company and its stockholders and (b) approved this Agreement and the Merger. No other corporate proceedings on the part of the Company or the Company Stockholders are necessary to authorize the execution and delivery of this Agreement or the consummation by the Company and the Company Stockholders of the transactions contemplated hereby. This Agreement has been duly authorized, executed, and delivered by the Company and the Company Stockholders and, assuming that it has been duly executed and delivered by IES and Acquisition, constitutes the valid and binding obligation of the Company and the Company Stockholders, enforceable against the Company and the Company Stockholders in accordance with its terms.

SECTION 3.4. CONSENTS AND APPROVALS; NO VIOLATION. Neither the execution and delivery of this Agreement by the Company or the Company Stockholders, nor the consummation by the Company or the Company Stockholders of the transactions contemplated by this Agreement, will: (a) require any consent, approval, authorization, or permit of, or filing with or notification to, any Governmental Authority (as defined in Section 10.16), except (i) the filing of a Certificate of Merger in accordance with South Carolina Law, (ii) any regulatory approvals or routine governmental consents normally acquired after the consummation of transactions such as transactions of the nature contemplated by this Agreement, (iii) where the failure to obtain such consent, approval, authorization, or permit, or to make such filing or notification, is not reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect or prevent or delay, in any material respect, the consummation of the transactions contemplated by this Agreement, (iv) approvals required pursuant to the HSR Act, or (v) as set forth on Schedule 3.4; (b) result in a default (or give rise to any right of termination, cancellation, or acceleration) under any of the terms, conditions, or provisions of any material contract, commitment or similar agreement to which the Company or any of the Subsidiaries is a party, except (i) as set forth on Schedule 3.4 or (ii) for such defaults (or rights of termination, cancellation, or acceleration) as to which requisite waivers or consents have been obtained or which are not reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect or prevent or delay, in any material respect, the consummation of the transactions contemplated by this Agreement; or (c) assuming compliance with the matters referred to in Section 3.4(a), violate any order, writ, injunction, decree, statute, rule, or regulation applicable to the Company, any of the Subsidiaries, or any of their assets, except for violations which are not reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect or prevent or delay, in any material respect, the consummation of the transactions contemplated by this Agreement. The Company is not, and the consummation of the transactions contemplated by this Agreement will not result, in violation of its Articles of Incorporation or Bylaws.

SECTION 3.5. AFFILIATE RELATIONSHIPS. Except as set forth on Schedule 3.5, none of the Company Stockholders nor any affiliate of any of the Company Stockholders, and no director, officer or employee of the Company or any of the Subsidiaries, owns, directly or indirectly, in whole or in part, any property, assets or right, tangible or intangible, which is associated with any property, asset or right owned by the Company or any of the Subsidiaries or which the Company or any of the Subsidiaries is operating or using or the use of which is necessary for its business. Except for ownership of a publicly traded corporation not more than two (2%) percent of the capital stock of which is owned by a Company Stockholder, Schedule 3.5 includes a disclosure of any relationships which any of the Company Stockholders have, or any director, officer or employee, of the Company or any of the Subsidiaries has, with the Company or any of the Subsidiaries or any other corporation, partnership, firm, association or business organization, entity or enterprise which is a competitor, potential competitor, supplier or customer of the Company or any of the Subsidiaries. The Persons named on Schedule 3.5 are the only Persons who may be deemed affiliates of the Company under Rule 145 of the Securities Act of 1933, as amended (the "1933 Act").

SECTION 3.6. FINANCIAL STATEMENTS. Attached as Schedule 3.6 are (a) the audited consolidated balance sheet, statement of income and statement of cash flows of the Company and the Subsidiaries as of and for the years ended September 30, 1995, 1996 and 1997 (the "Company Audited Financial Statements") and (b) the unaudited in-house consolidated balance sheet, statement of income and statement of cash flows of the Company and the Subsidiaries as of and for the nine months ended June 30, 1998 (the "Company Unaudited Financial Statements"). The Company Audited Financial Statements present fairly in all material respects the consolidated financial position, results of operations, and changes in financial position of the Company and the Subsidiaries as of the respective dates or for the respective periods to which they apply in accordance with United States generally accepted accounting principles except as provided therein, including notes thereto, consistently applied ("GAAP").

SECTION 3.7. UNDISCLOSED LIABILITIES. Except for the liabilities set forth on Schedule 3.7 or as reflected, reserved against, or otherwise disclosed in the Company Unaudited Financial Statements, neither the Company nor any of the Subsidiaries had, at the date of the unaudited balance sheet included in the Company Unaudited Financial Statements (the "Company Unaudited Balance Sheet Date") and do not have, at the date hereof, any liabilities or obligations, whether accrued, contingent, absolute, determined, determinable or otherwise, that may have, individually or in the aggregate, a Company Material Adverse Effect.

SECTION 3.8. ACCOUNTS AND NOTES RECEIVABLES. Schedule 3.8 sets forth an accurate list as of the Company Unaudited Balance Sheet Date of the accounts and notes receivable of the Company and the Subsidiaries, including receivables from and advances to employees of the Company, employees of the Subsidiaries, and the Company Stockholders. Included in Schedule 3.8 is an aging of all accounts and notes receivable showing amounts due in 30-day aging categories. The trade and other accounts receivable of the Company and the Subsidiaries which are classified as current assets on the balance sheet as of the Company Unaudited Balance Sheet Date are bona fide receivables, were acquired in the ordinary course of business, are stated in accordance with GAAP and, subject to the reserve for doubtful accounts, need not be written-off as uncollectible. Except to the extent reflected on Schedule 3.8 or as reflected in the reserve for doubtful accounts, such accounts and notes are collectible in the amount shown on Schedule 3.8.

SECTION 3.9. ASSETS. Schedule 3.9 sets forth an accurate list of all real and personal property included in "property and equipment" on the balance sheet of the Company as of the Company Unaudited Balance Sheet Date and all other tangible assets of the Company with a book value for federal income tax purposes in excess of $5,000 (i) owned by the Company or the

Subsidiaries as of the Company Unaudited Balance Sheet Date and (ii) acquired since the Company Unaudited Balance Sheet Date, including in each case true, complete and correct copies of leases for equipment with a term of six months or more and for all real property leased by the Company or the Subsidiaries and descriptions of all real property on which buildings, warehouses, workshops, garages and other structures used in the operation of the business of the Company and the Subsidiaries are situated. Schedule 3.9 indicates which of such assets listed on Schedule 3.9 that are currently owned, or were owned within the twelve (12) months preceding the date of this Agreement, by the Company Stockholders or affiliates of the Company or the Company Stockholders. IES and Acquisition are accepting all of the tangible assets, vehicles and other machinery and equipment of the Company and the Subsidiaries listed on Schedule 3.9 in "As Is, Where Is" condition without regard to any condition of merchantability or fitness for any particular purpose. All fixed assets used by the Company and the Subsidiaries that are material to the operation of the Company's and the Subsidiaries' business are either owned by the Company or the Subsidiaries or leased under an agreement identified on Schedule 3.9. All leases set forth on Schedule 3.9 are in full force and effect and constitute valid and binding agreements of the parties thereto in accordance with their respective terms subject to the Enforceability Exceptions (hereinafter defined).

Schedule 3.9 contains true, complete and correct copies of all real property title reports and title insurance policies received or owned by the Company and the Subsidiaries. Schedule 3.9 also includes a summary description of all plans or projects involving the opening of new operations, expansion of existing operations or the acquisition of any real property or existing business, to which management of the Company and the Subsidiaries has devoted effort or expenditure in the two-year period prior to the date of this Agreement, which if pursued by the Company or the Subsidiaries would require additional expenditures of capital.

The Company and the Subsidiaries have good and marketable title to the tangible and intangible personal property and the real property owned and used in their business, including the properties identified on Schedule 3.9, subject to no mortgage, pledge, Lien, claim, conditional sales agreement, encumbrance or charge, except for Liens reflected on Schedule 3.9, Liens for current taxes not yet payable and assessments not in default, easements for utilities serving only the property, and easements, covenants and restrictions and other exceptions to title shown of record in the appropriate public records in the jurisdictions in which the properties, assets and leasehold estates are located, which do not adversely affect the Company's or the Subsidiaries' use of the property and except that enforcement thereof may be limited by liquidation, conservatorship, bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally from time to time in effect and except that equitable remedies are subject to judicial discretion (collectively, the "Enforceability Exceptions").

SECTION 3.10. MATERIAL CONTRACTS, COMMITMENTS AND CUSTOMERS. Schedule 3.10 sets forth an accurate list as of the Company Unaudited Balance Sheet Date of (i) all material contracts, commitments and similar agreements to which the Company or any of the Subsidiaries is a party or by which they or any of their property is bound (including, but not limited to, joint venture or partnership agreements, contracts with any labor organizations, loan agreements, indemnity or guaranty agreements, bonds, mortgages, Liens, pledges or other security agreements) which either cannot be canceled within 30 days or has a value of more than $20,000, and the Company Stockholders have delivered true copies of such agreements to IES and (ii) all customers representing 5% or more of the Company's and the Subsidiaries' revenues, taken as a whole, in any of the periods covered by the Company Audited Financial Statements or the Company Unaudited Financial Statements. Except as disclosed on Schedule 3.10, all such agreements are in full force and effect. In the three (3) year period ending on the date of this Agreement, none of the Company's or the Subsidiaries' customers or suppliers has canceled service or products, as appropriate. Except to the extent set forth on Schedule 3.10, (a) the Company and the Subsidiaries have complied with all material commitments and obligations and are not in default under any contracts and agreements and no notice of default has been received and (b) none of the Company's or the Subsidiaries' customers listed pursuant to (ii) above has canceled or substantially reduced or is currently attempting or, to the Knowledge of Company Stockholders, threatening to cancel or substantially reduce its use of the Company's products or services. Except for cost-plus contracts, neither the Company nor any of the Subsidiaries is a party to any contract subject to a contractual right to price redetermination or renegotiation.

SECTION 3.11. OPERATING AUTHORITY. Except as disclosed on Schedule 3.11, the Company and each of the Subsidiaries, as applicable, possess all material governmental licenses, permits, franchises, and other authorizations of any Governmental Authority ("Licenses") that are necessary to the ownership or operation of their business as currently conducted, and all such Licenses are in full force and effect, except where the failure to possess any License or the failure to be in full force and effect is not reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect, and neither the Company nor any of the Subsidiaries is in default in any material respect relating thereto. Except as disclosed on Schedule 3.11, no proceeding is pending or, to the Company Stockholders' Knowledge, is threatened seeking the revocation or limitation of any such License that is reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect.

Schedule 3.11 sets forth an accurate list and summary description as of the Company Unaudited Balance Sheet Date of all Licenses, certificates, trademarks, trade names, patents, patent applications and copyrights related to the assets owned or held by the Company or the Subsidiaries. The Licenses and other rights listed on Schedule 3.11 are valid, and the Company has not received any written notice that any person intends to cancel, terminate or not renew any such License or other right. The Company has conducted and is conducting its business in compliance in all material respects with the requirements, standards, criteria and conditions set forth in the Licenses and other rights listed on Schedule 3.11 and is not in violation of any of the foregoing in any material respect. Except as specifically provided in Schedule 3.11, the consummation of the transactions contemplated by this Agreement will not result in a default under or a breach or violation of, or adversely affect in a material respect the rights and benefits afforded to the Company by, any such Licenses or other rights.

SECTION 3.12. BANK ACCOUNT INFORMATION. Schedule 3.12 contains an accurate list of the names and addresses of every bank and other financial institution in which Company or any of the Subsidiaries maintains an account (whether checking, savings or otherwise), lock box, or safe deposit box, and the account numbers and persons having signature authority or legal access thereto.

SECTION 3.13. CONDUCT OF BUSINESS SINCE COMPANY UNAUDITED BALANCE SHEET DATE. Except as expressly contemplated by this Agreement and except as set forth on Schedule 3.13, since the Company Unaudited Balance Sheet Date, (a) the business and operations of the Company and the Subsidiaries have been conducted in the ordinary and usual course in all material respects in accordance with past practices, (b) neither the Company nor any of the Subsidiaries has paid or declared any dividend on, or made any distribution with respect to, or purchased or redeemed any of its capital stock or paid any bonus to any Company Stockholder and (c) no Company Material Adverse Effect has occurred and is continuing.

SECTION 3.14. LITIGATION; ORDERS. Except as set forth on Schedule 3.14, as of the date hereof, there are no Actions pending or, to the Company Stockholders' Knowledge, threatened against the Company or any of the Subsidiaries. Except as set forth on Schedule 3.14, as of the date hereof there are no judgments or outstanding orders, injunctions, decrees, stipulations, or awards (whether rendered by a court or administrative agency or by arbitration) against the Company or any of the Subsidiaries.

SECTION 3.15. LABOR MATTERS. Except as set forth on Schedule 3.15, there are no agreements with labor unions or associations representing employees of the Company or any of the Subsidiaries. No material work stoppage against the Company or any of the Subsidiaries is pending or, to the Company Stockholders' Knowledge, threatened. Neither the Company nor any of the Subsidiaries has been or is involved in or, to the Company Stockholders' Knowledge, is threatened with any labor dispute, arbitration, lawsuit, or administrative proceeding relating to labor matters involving the employees of the Company or the Subsidiaries (excluding routine workers' compensation claims) that is reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect.

SECTION 3.16. COMPLIANCE WITH LAWS. Except as disclosed on Schedule 3.11, the conduct of the business by the Company and each of the Subsidiaries complies with all statutes, laws, regulations, ordinances, rules, judgments, orders, or decrees applicable thereto (other than Environmental Laws (as hereinafter defined) which are governed solely by Section 3.18), except for violations or failures so to comply, if any, that would not have, individually or in the aggregate, a Company Material Adverse Effect.

SECTION 3.17. INSURANCE. Schedule 3.17 sets forth a list of all insurance policies currently in effect issued in favor of the Company and the Subsidiaries which relate to their businesses, and all such policies are currently in force and effect. True and complete copies of all such policies have been delivered to IES. A true and complete list of all insurance loss runs and workers' compensation claims received for the past three (3) policy years has been delivered to IES. The insurance carried by the Company, which the Company Stockholders believe to be adequate in character and amount, is with insurers unaffiliated with any of the Company Stockholders or the Company. Except as set forth on Schedule 3.17, none of such policies is a "claims made" policy. Within the last five years, Company's insurance has not been canceled and the Company has not been denied coverage or experienced a substantial increase in premiums or substantial reduction in coverage from one policy period to the next period.

SECTION 3.18. ENVIRONMENTAL MATTERS. Except as disclosed on Schedule 3.18, other than violations that would not have, individually or in the aggregate, a Company Material Adverse Effect, the Company and the Subsidiaries are in compliance with all applicable Environmental Laws. Except as disclosed on Schedule 3.18, without limitation of the foregoing, there are no past, existing, pending or, to the Company Stockholders' Knowledge, threatened actions, suits, investigations, inquiries, proceedings or clean-up obligations by or to any Governmental Authority relating to any Environmental Laws with respect to the Company or any of the Subsidiaries, except for actions, suits, investigations, inquiries, proceedings, and obligations that would not have, individually or in the aggregate, a Company Material Adverse Effect. Except as indicated on Schedule 3.18, to the Company Stockholders' Knowledge (i) there are no underground storage tanks on, in or under any properties owned by the Company and no underground storage tanks have been closed or removed from any of such properties during the time such properties were owned or leased by the Company and (ii) there is no asbestos or asbestos-containing material present in any of the properties owned by the Company, and no asbestos has been removed from any of such properties during the time such properties were owned or leased by the Company. Except as disclosed on Schedule 3.18, neither the Company nor any of its respective properties are subject to any material liabilities or expenditures (fixed or contingent) relating to any suit, settlement, court order, administrative order, regulatory requirement, judgment or claim asserted or arising under any Environmental Law. All notices, permits, or similar authorizations, if any, required to be obtained or filed in connection with the operations of the Company or the Subsidiaries, including, without limitation, treatment, storage, disposal, or release of a hazardous substance or solid waste into the environment, have been duly obtained or filed, other than any such notices, permits, or similar authorizations the failure of which to obtain or file is not reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect. The term "release" has the meaning specified in CERCLA (as hereinafter defined), and the term "disposal" (or "disposed") has the meaning specified in RCRA (as hereinafter defined). For the purposes hereof, "Environmental Laws" shall mean any and all laws, statutes, ordinances, rules, regulations, orders, or determinations of any Governmental Authority pertaining to the environment in effect on the date of this Agreement and in effect at such time in any and all jurisdictions in which the Company or any of the Subsidiaries operate, including, without limitation, the Clean Air Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA"), the Federal Water Pollution Control Act, as amended, the Resource Conservation and Recovery Act, as amended ("RCRA"), the Safe Drinking Water Act, as amended, the Toxic Substances Control Act, as amended, comparable state and local laws and other material environmental protection laws in effect on the date of this Agreement.

SECTION 3.19. TAXES. (a) Except as set forth on Schedule 3.19, (i) the Company and each of the Subsidiaries have filed when due all Company Returns (as defined in Section 10.16), and have, except for Taxes that are being contested in good faith and set forth on Schedule 3.19, timely paid and discharged all Tax obligations shown thereon and adequate reserves have been established on the books of the Company for all Taxes for which the Company is liable but payment is not yet due, (ii) the Company Returns correctly and accurately reflect in all material respects the facts regarding the income, business and assets, operations, activities, status, or other matters of the Company and the Subsidiaries, and any other information required to be shown thereon, and are not subject to penalties under Section 6662 of the Code (as defined in Section 10.16), relating to accuracy related penalties, or any corresponding provision of applicable state, local, or foreign Tax law or any predecessor provision of law, and (iii) neither the Company nor any of the Subsidiaries has received any notice of any Tax deficiency outstanding, proposed, or assessed against or allocable to it, nor has either of them executed any waiver of any statute of limitations on the assessment or collection of any Tax, or executed or filed with the Internal Revenue Service or any other governmental agency any agreement now in effect extending the period for assessment or collection of any Taxes against the Company or any of the Subsidiaries. No Liens for Taxes exist upon the assets of the Company except Liens for Taxes that are not yet due. Within the past five (5) years, the Company is not and has not been, subject to Tax in any jurisdiction outside the United States. Except as disclosed on Schedule 3.19, no litigation with respect to any Tax for which the Company is asserted to be liable is pending or, to the Knowledge of the Company or any Company Stockholder threatened. There are no requests for rulings or determinations in respect of any Taxes pending between the Company and any taxing authority. Except as disclosed on Schedule 3.19, no issues have been raised and remain pending by any taxing authority in connection with the examination of any Company Return. Except as disclosed on Schedule 3.19, all deficiencies asserted and assessments made, if any, as a result of or in connection with any examination have been paid in full or are fully reflected as a liability in the Company Audited Financial Statements or Company Unaudited Financial Statements. In the six (6) year period ending on the date of this Agreement, the Company was not a party to any income tax allocation or sharing agreement. All amounts required to be withheld by the Company and paid to governmental agencies for income, social security, unemployment insurance, sales, excise, use and other Taxes have been collected or withheld and paid to the proper taxing authority or are not yet due to be paid. For purposes of this Agreement, "Tax" or "Taxes" means taxes of any kind, levies, or other like assessments, customs, duties, imposts, charges, or fees, including, without limitation, income, gross receipts, ad valorem, value added, excise, real or personal property, asset, sales, use, license, payroll, transaction, capital, net worth and franchise taxes, estimated taxes, withholding, employment, social security, workers compensation, utility, severance, production, unemployment compensation, occupation, premium, windfall profits, transfer, and gains taxes or other governmental taxes imposed or payable to the United States, or any state, county, local, or foreign government or subdivision or agency thereof, and in each instance such term shall include any interest, penalties, or additions to tax attributable to or imposed with respect to any such Tax, including penalties for the failure to file any Tax return or report.

(b) Except for the group of which the Company is currently the parent, neither the Company nor any of the Subsidiaries has within the past six years been a member of an affiliated group of corporations, within the meaning of Section 1504 of the Code, other than as a common parent corporation.

(c) None of the material assets of the Company or any of the Subsidiaries is property that the Company is required to treat as being owned by any other Person pursuant to the "safe harbor lease" provisions of former Section 168(f)(8) of the Code.

(d) None of the assets of the Company or any of the Subsidiaries directly or indirectly secures any debt the interest on which is Tax-exempt under Section 103(a) of the Code.

(e) None of the assets of the Company or any of the Subsidiaries is "tax-exempt use property" within the meaning of Section 168(h) of the Code.

(f) Neither the Company nor any of the Subsidiaries has agreed to make, nor is any of them required to make, any adjustment under Section 481(a) of the Code by reason of a change in accounting method or otherwise.

(g) Neither the Company nor any of the Subsidiaries has participated in, nor will any of them participate in prior to the Closing, an international boycott within the meaning of Section 999 of the Code.

(h) Neither the Company nor any of the Subsidiaries has or had a permanent establishment in any foreign country, as defined in any applicable tax treaty or convention between the United States and such foreign country.

(i) Neither the Company nor any of the Subsidiaries has filed a consent pursuant to the collapsible corporation provisions of Section 341(f) of the Code (or any corresponding provision of state, local, or foreign income tax law) or agreed to have Section 341(f)(2) of the Code (or any corresponding provision of state, local, or foreign income tax law) apply to any disposition of any asset owned by it.

(j) None of the Company nor any Company Stockholder is a "foreign person" as that term is defined in Section 1445(f)(3) of the Code.

(k) The Company has not made, is not obligated to make and is not a party to any agreement that would require it to make any payment that is not deductible under Section 280G of the Code.

(l) Other than luxury automobiles, no asset of the Company is subject to any provision of applicable law that eliminates or reduces the allowance for depreciation or amortization in respect of that asset below the allowance generally available to an asset of its type.

(m) The Company is an "S corporation" as that term is defined in Section 1361(a)(1) of the Code and since becoming an S corporation on October 1, 1995 has not incurred any federal income tax liabilities.

(n) Schedule 3.19 identifies each Subsidiary that is a "qualified subchapter S subsidiary" within the meaning of Section 1361(b)(3)(B) of the Code. Each Subsidiary so identified has been a qualified subchapter S subsidiary at all times since the date shown on such schedule up to and including the date of Closing.

(o) Neither the Company nor any qualified subchapter S subsidiary of the Company has, in the past 10 years, (i) acquired assets from another corporation in a transaction in which the Company's Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor or (ii) acquired the stock of any corporation which is a qualified subchapter S subsidiary.

SECTION 3.20. EMPLOYEE BENEFIT PLANS. (a) Except for oral employment agreements terminable at will, Schedule 3.20 contains a list of all "employee pension benefit plans" (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) (sometimes referred to herein as "Company Pension Plans"), "employee welfare benefit plans" (as defined in Section 3(l) of ERISA, hereinafter a "Company Welfare Plan"), stock option, stock purchase, incentive, bonus, deferred compensation plans or arrangements, vacation, change in control, stay-on bonus plans or arrangements, and other material employee compensation and fringe benefit plans or agreements, maintained, contributed to, or pursuant to which the Company or any of the Subsidiaries has or may have any liability, whether or not heretofore terminated (all the foregoing being herein called "Company Benefit Plans"). The Company has delivered to IES an accurate list (which is set forth on Schedule 3.20) showing all officers and directors of the Company, listing all employment agreements with such officers and directors of the Company, listing all employment agreements with such officers and directors and the rate of compensation (and the portions thereof attributable to salary, bonus and other compensation, respectively) of each of such persons as of (i) December 31, 1997 and (ii) the date hereof. The Company has provided to IES true, complete and correct copies of any written employment agreements for persons listed on Schedule 3.20. Since December 31, 1997, except as disclosed on Schedule 3.20, there have been no increases in the compensation payable or any special bonuses to any officer, director, key employee or other employee, except ordinary salary increases implemented on a basis consistent with past practices. The Company has made available to IES true, complete, and correct copies of (1) each Company Benefit Plan and any subsequently adopted amendments thereto (or, in the case of unwritten Company Benefit Plans, descriptions thereof), (2) the most recent annual report on Form 5500 filed with respect to each Company Benefit Plan (if any such report was required), (3) the most recent summary plan description for each Company Benefit Plan for which such a summary plan description is required (with all summaries of material modifications provided after the most recent summary plan description was distributed), (4) each trust agreement, group annuity contract and service agreement relating to any Company Benefit Plan and (5) each favorable determination letter from the Internal Revenue Service with respect to each Company Benefit Plan that is intended to be qualified under Section 401(a) of the Code.

(b) All Company Benefit Plans are and have been administered in compliance with their terms and all applicable laws, including, without limitation, ERISA and the Code, except where the failure to so administer the Company Benefit Plans or to comply with such laws would not have, individually or in the aggregate, a Company Material Adverse Effect. There are no pending or, to the Company Stockholders' Knowledge, threatened investigations by any governmental entity, termination proceedings, or other, suits or proceedings against or involving any Company Benefit Plan. All such plans that are intended to qualify (the "Qualified Plans") under Section 401(a) of the Code are, and have been so qualified and have been determined by the Internal Revenue Service to be so qualified, and copies of such determination letters are attached to Schedule 3.20. Except as disclosed on Schedule 3.20, all reports and other documents required to be filed with any governmental agency or distributed to plan participants or beneficiaries (including, but not limited to, actuarial reports, audits or tax returns) have been timely filed or distributed, and copies thereof are included as part of Schedule 3.20 hereof.

(c) All contributions to, and payments from, the Company Benefit Plans required to be made in accordance with the Company Benefit Plans or applicable law have been timely made. All accrued contribution obligations of the Company with respect to any Company Benefit Plan have either been fulfilled in their entirety or are fully reflected on the balance sheet in the Company Unaudited Financial Statements.

(d) No Company Benefit Plan is subject to Section 302 or Title IV of ERISA or Section 412 of the Code or is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA or a "multiple employer's plan" within the meaning of Section 413 of the Code.

(e) (i) No "prohibited transaction" (under Section 4975 of the Code or Section 406 of ERISA) has occurred with respect to any Company Benefit Plan and (ii) there has been no breach of any fiduciary duty with respect to any Company Benefit Plan, other than, in the case of (i) and (ii), those that are not reasonably expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(f) Neither the Company nor any of the Subsidiaries maintains or contributes to any Company Welfare Plan that could not be unilaterally terminated by the Company or any of the Subsidiaries at any time without liability.

(g) Except as set forth on Schedule 3.20, there are no assets of any Company Benefit Plan that are not readily tradeable on a national securities exchange, including the Nasdaq Stock Market.

SECTION 3.21. BROKERAGE FEES AND COMMISSIONS. Except as set forth on Schedule 3.21, neither the Company nor the Company Stockholders has incurred any obligation or entered into any agreement for any investment banking, brokerage or finder's fee, or commission in respect of the transactions contemplated by this Agreement for which IES or the Company shall incur any liability.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF IES

IES represents and warrants to the Company Stockholders as follows upon execution of this Agreement and as of the Effective Time:

SECTION 4.1. ORGANIZATION AND QUALIFICATION. Each of IES and Acquisition is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation, and IES has the requisite corporate power to carry on its business as it is now conducted. IES is duly qualified to conduct business as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its business and operations makes such qualification necessary, except for such jurisdictions in which IES's failure to be so qualified is not reasonably expected to have, individually or in the aggregate, an IES Material Adverse Effect (as defined in Section 10.16).

SECTION 4.2. CAPITALIZATION. (a) The authorized capital stock of IES consists of 100,000,000 shares of IES Common Stock, 2,655,709 shares of restricted voting common stock and 10,000,000 shares of preferred stock. As of March 31, 1998, there were outstanding 21,759,627 shares of IES Common Stock (including no shares of treasury stock), 2,655,709 shares of restricted voting common stock, and no shares of preferred stock. All outstanding shares of capital stock of IES have been duly authorized and validly issued and are fully paid and non-assessable and free of preemptive rights.

(b) The shares of IES Common Stock to be issued as part of the Merger Consideration have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will have been validly issued and will be fully paid and non-assessable, and the issuance thereof is not subject to any preemptive or other similar right. The delivery of the Merger Consideration to the Company Stockholders pursuant to the terms of this Agreement will transfer valid title thereto, free and clear of all Liens.

SECTION 4.3. AUTHORIZATION. The execution, delivery and performance by IES of this Agreement, and the consummation by IES and Acquisition of the transactions contemplated hereby, are within the corporate powers of IES and Acquisition and have been duly authorized by all necessary corporate action. No other corporate proceedings on the part of IES or Acquisition are necessary to authorize the execution and delivery of this Agreement or the consummation by IES and Acquisition of the transaction contemplated hereby. This Agreement has been duly authorized, executed and delivered by IES and Acquisition and constitutes the valid and binding obligation of IES and Acquisition enforceable against IES and Acquisition in accordance with its terms.

SECTION 4.4. CONSENTS AND APPROVAL; NO VIOLATION. Neither the execution and delivery of this Agreement by IES and Acquisition, nor the consummation by IES and Acquisition of the transactions contemplated by this Agreement, will: (a) require any consent, approval, authorization, or permit of, or filing with or notification to, any Governmental

Authority, except (i) the filing of articles of merger in accordance with South Carolina Law, (ii) compliance with any applicable requirements of the 1933 Act, the Securities Exchange Act of 1934, as amended (the "1934 Act"), and foreign or state securities or Blue Sky laws, (iii) any regulatory approvals or routine governmental consents normally acquired after the consummation of transactions such as transactions of the nature contemplated by this Agreement, (iv) where the failure to obtain such consent, approval, authorization, or permit, or to make such filing or notification, is not reasonably expected to have, individually or in the aggregate, an IES Material Adverse Effect or prevent or delay, in any material respect, the consummation of the transactions contemplated by this Agreement or (v) approvals required pursuant to the HSR Act; (b) result in a default (or give rise to any right of termination, cancellation, or acceleration) under any of the terms, conditions, or provisions of any agreement or other instrument binding upon IES or any of its subsidiaries, except for such defaults (or rights of termination, cancellation, or acceleration) as to which requisite waivers or consents have been obtained or which are not reasonably expected to have, individually or in the aggregate, an IES Material Adverse Effect or prevent or delay, in any material respect, the consummation of the transactions contemplated by this Agreement; or (c) assuming compliance with the matters referred to in Section 4.4(a), violate any order, writ, injunction, decree, statute, rule, or regulation applicable to IES or any of its subsidiaries or any of their assets, except for violations which are not reasonably expected to have, individually or in the aggregate, an IES Material Adverse Effect or prevent or delay, in any material respect, the consummation of the transactions contemplated by this Agreement. Neither IES nor Acquisition is in violation of their Articles of Incorporation or Bylaws, and the consummation of the transactions contemplated by this Agreement will not result in violation of the Articles of Incorporation or Bylaws of either of them.

SECTION 4.5. SEC FILINGS. (a) IES has filed with the Securities and Exchange Commission ("SEC") all material forms, statements, reports and documents (the "IES SEC Filings") required to be filed by it under the 1934 Act and the rules and regulations thereunder.

(b) As of its filing date, each IES SEC Filing complied as to form in all material respects with the applicable requirements of the 1934 Act.

(c) As of its filing date, each IES SEC Filing filed pursuant to the 1934 Act did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(d) IES has previously delivered to the Company Stockholders copies of IES's prospectus, dated April 30, 1998, as supplemented (the "Prospectus"). As of its date, the Prospectus did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 4.6. NO ASSURANCES. IES and Acquisition represent that none of the following has been represented, guaranteed, or warranted to either of them by Company or Company Stockholders or their agents or employees, or any other person, expressly or by implication:

(a) the profit to be realized, if any, as a result of the acquisition of the shares of Company Common Stock;

(b) that the past performance or experience on the part of company, or any officer, director or affiliate, their partners, salesmen, associates, agents, or employees, or any other person, will in any way guarantee the actual results of the ownership of the shares of Company Common Stock; or

(c) that any projections, budgets, forecasts or other forward looking information constitute a guarantee, representation or warranty that such predictions, forecasts or information can, or will, be achieved.

SECTION 4.7. STOCKHOLDER'S EQUITY. IES and Acquisition represent that they are aware and understand that the transactions contemplated by this Agreement will cause a loss to Company and a reduction in Company's stockholder's equity.

ARTICLE V

ADDITIONAL COVENANTS AND AGREEMENTS

SECTION 5.1. REASONABLE BEST EFFORTS. Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper, or advisable under applicable laws and regulations to consummate the transactions contemplated by this Agreement.

SECTION 5.2. CERTAIN FILINGS. The Company and IES shall cooperate with one another (i) in determining whether any action by or in respect of, or filing with, any Governmental Authority is required, or any actions, consents, approvals, or waivers are required to be obtained from parties to any material agreements, in connection with the consummation of the transactions contemplated by this Agreement and (ii) in taking such actions or making such filings, furnishing information required in connection therewith and seeking timely to obtain such actions, consents, approvals, or waivers.

SECTION 5.3. PUBLIC ANNOUNCEMENTS. Prior to Closing, unless required under law or regulation, without the prior consent of the other, which consent shall not be unreasonably withheld, none of the parties hereto will issue, or permit any agent or affiliate to issue, any press releases or otherwise make or permit any agent or affiliate to make, any public statements with respect to this Agreement or the transactions contemplated by this Agreement.

SECTION 5.4. FURTHER ASSURANCES. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company or Acquisition, any deeds, bills of sale, assignments, or assurances and to take and do, in the name and on behalf of the Company or Acquisition, any other actions and things to vest, perfect, or confirm of record or otherwise in the Surviving Corporation any and all right, title, and interest in, to, and under any of the rights, properties, or assets of the Company acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

SECTION 5.5 NOTICES OF CERTAIN EVENTS. Each of the Company, the Company Stockholders and IES shall promptly notify the other parties hereto of:

(a) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement;

(b) any notice or other communication from any Governmental Authority in connection with the transactions contemplated by this Agreement;

(c) any actions, suits, claims, investigations or proceedings commenced or, to its knowledge, threatened against, relating to, or involving or otherwise affecting such party that relate to the consummation of the transactions contemplated by this Agreement; and

(d) any material failure on its part to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 5.5(d) shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

SECTION 5.6. RELEASE FROM GUARANTEES. Following the Effective Time, IES and the Surviving Corporation shall use reasonable efforts to have the Company Stockholders released from the personal guarantees of the Company's indebtedness identified on Schedule 5.6. In the event that IES cannot obtain releases of any such guarantees on or prior to thirty (30) days subsequent to the Effective Time, IES shall pay off or otherwise refinance or retire such indebtedness.

SECTION 5.7. FUTURE COOPERATION. The Company, Company Stockholders and IES shall each deliver or cause to be delivered to the other following the Effective Time such additional instruments as the other may reasonably request for the purpose of fully carrying out this Agreement. The Company Stockholders will cooperate and use their reasonable best efforts to have the present officers, directors and employees of and independent accountants to the Company cooperate with IES at and after Effective Time in furnishing information, evidence, testimony and other assistance in connection with any actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Effective Time, including, without limitation, consent to the inclusion of any independent auditor's report in documents filed by IES under the 1933 Act or 1934 Act.

SECTION 5.8. EXPENSES. IES and the Company Stockholders will each pay their own fees, expenses and disbursements of their respective agents, representatives, accountants and counsel incurred in connection with the execution, delivery and performance of this Agreement and any amendment thereto; provided, however, that IES shall pay all expenses, including all attorneys' fees and filing fees, relating to any filings required pursuant to the HSR Act.

SECTION 5.9. REPAYMENT OF RELATED PARTY INDEBTEDNESS. Concurrently with the Closing, (i) the Company Stockholders shall repay to the Company all amounts outstanding as advances to or receivables from the Company Stockholders and (ii) the Company shall repay all amounts outstanding under loans to the Company from the Company Stockholders. Such advances, receivables and loans, and the amounts thereof, are listed on Schedule 5.9.

SECTION 5.10. FIRPTA CERTIFICATE. Each Company Stockholder will deliver to IES a certificate to the effect that he is not a foreign person pursuant to Section 1.1445-2(b) of the Treasury regulations.

SECTION 5.11. PREPARATION AND FILING OF TAX RETURNS.

(a) The Company Stockholders shall file or cause to be filed all tax returns of Company for all taxable periods that end on or before the Closing, but in each case only after IES has reviewed such filings and consented thereto, which consent shall not be unreasonably withheld. Such Company tax returns shall be prepared by Elliott Davis & Company, Greenville, South Carolina.

(b) IES shall file or cause to be filed all tax returns of Company for all taxable periods ending after the Closing.

(c) Each party hereto shall, and shall cause its subsidiaries and affiliates to, provide to each of the other parties hereto such cooperation and information as any of them reasonably may request in filing any tax returns, amended tax returns or claim for refund, determining a liability for Taxes or a right to refund of Taxes or in conducting any audit or other proceeding in respect of Taxes. Such cooperation and information shall include providing copies of all relevant portions of relevant tax returns, together with relevant accompanying schedules and relevant work papers, relevant documents relating to rulings or other determinations by taxing authorities and relevant records concerning the ownership and Tax basis of property, which such party may possess. Each party shall make its employees reasonably available on a mutually convenient basis at its cost to provide explanation of any documents or information so provided. Subject to the preceding sentence, each party required to file tax returns pursuant to this Agreement shall bear all costs of filing such tax returns; provided, however, that the Company shall bear all costs (other than costs subject to indemnity pursuant to this Agreement) of filing any such Company tax returns.

(d) At the option of IES, the Company and each of the Company Stockholders will join with IES in making an election under Section 338(h)(10) of the Code (and any corresponding election under state, local, and foreign tax law) with respect to the purchase and sale of the stock of the Company hereunder (a "Section 338(h)(10) Election"). The Company will be liable for any Tax under Section 1374 of the Code caused in connection with the deemed sale of the Company's assets (including the assets of any qualified subchapter S subsidiary) caused by a Section 338(h)(10) Election. The Company Stockholders will include any income, gain, loss, deduction, or other tax item resulting from the Section 338(h)(10) Election on their Tax returns to the extent permitted by applicable law. On or before March 15, 1999, the certified public accounting firm of Elliott Davis & Company, Greenville, South Carolina shall calculate each Company Stockholder's federal and state income taxes for calendar year 1998 both with a Section 338(h)(10) election and without a Section 338(h)(10) Election. If a Company Stockholder's federal and state income taxes calculated with a Section 338(h)(10) Election exceeds the Company Stockholder's federal and state income taxes without a Section 338(h)(10) Election, then IES shall have the opportunity to review such calculation and, if in agreement, shall pay the difference to such Company Stockholder within thirty (30) days following receipt of Elliot Davis & Company's written calculations to such account as the Company Stockholder shall direct. If the parties are unable to agree upon such calculation, they shall mutually pick an independent "Big Six" accounting firm to make such calculation, which calculation equally shall be binding upon both parties. The parties shall split equally the fees and expenses of such accounting firm.

(e) The Company and the Company Stockholders agree that the Merger Consideration and the liabilities of the Company and its qualified subchapter S subsidiaries (plus other relevant items) will be allocated to the assets of the Company and its qualified subchapter S subsidiaries for all purposes (including Tax and financial accounting) in a manner consistent with the fair market values set forth in Schedule 5.11 attached hereto. IES, the Company, the Subsidiaries, and the Company Stockholders will file all Tax returns (including amended returns and claims for refund) and information reports in a manner consistent with such values.

(f) The Company and the Company Stockholders will not revoke the Company's election to be taxed as an S corporation within the meaning of Sections 1361 and 1362 of the Code. The Company and the Company Stockholders will not take or allow any action that would result in the termination of the Company's status as a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code. Notwithstanding the previous two sentences, the parties hereto recognize and acknowledge that the transactions contemplated by this Agreement will terminate Company's status as an S corporation within the meaning of Sections 1361 and 1362 of the Code.

(g) The Company income tax returns for the taxable year ending as a result of the transactions in this Agreement shall be filed in accordance with Section 1362(e)(3) of the Code and not in accordance with Section 1362(e)(2) of the Code.

(h) For purposes of (a) filing the Company income Tax returns for the taxable year ending as a result of the transactions in this Agreement, and (b) the calculations of each Company Stockholder's federal and state income Taxes for the calendar year with a Section 338(h)(10) Election, the Company and the Company Stockholders agree to make the election described in Section 1.1368-1(g)(2) of the Treasury Regulations if such election results in lower aggregate federal and state income Taxes for all Company Stockholders. Additionally, for purposes of the calculations of each Company Stockholder's federal and state income Taxes for the calendar year without a Section 338(h)(10) Election, the calculations will be make by either making or not making the election described in Section 1.1368-1(g)(2), whichever results in the lower aggregate federal and state income Taxes for all Company Stockholders, without regard to whether or not such election is actually made in the Company income Tax returns as described in the first sentence of this paragraph (h).

SECTION 5.12. ANTITRUST LAW COMPLIANCE. Not later than five (5) business days after the date hereof, (a) the Company, (b) the Company Stockholders and (c) IES shall prepare and file with the United States Department of Justice (the "Department") and the Federal Trade Commission (the "FTC") the notification and report form with respect to the transactions contemplated by this Agreement as required pursuant to the HSR Act. The Company, the Company Stockholders and IES shall each cooperate with the other in preparation of such filings and shall promptly comply with any reasonable request by the Department or the FTC for supplemental information and shall use their best efforts to obtain early termination of the waiting period under the HSR Act. IES shall pay all expenses, including all attorneys' fees and filing fees, relating to any filings required by the HSR Act.

SECTION 5.13. CONDUCT OF BUSINESS PENDING CLOSING. (a) Between the date of this Agreement and the Closing, the Company Stockholders will, and will cause the Company to, except as set forth below on Schedule 5.13:

(i) carry on their respective businesses in substantially the same manner as they have heretofore;

(ii) use all commercially reasonable efforts to maintain their properties and facilities, including those held under leases, in as good working order and condition as at present, ordinary wear and tear excepted;

(iii) perform in all material respects all of their respective obligations under agreements relating to or affecting their respective assets, properties or rights;

(iv) use all reasonable efforts to keep in full force and effect present insurance policies or other comparable insurance coverage;

(v) use their commercially reasonable efforts to maintain and preserve their business organization intact, retain their respective present key employees and maintain their respective relationships with suppliers, customers and others having business relations with the Company;

(vi) use reasonable efforts to maintain compliance with all material permits, laws, rules and regulations, consent orders, and all other orders of applicable courts, regulatory agencies and similar Governmental Authorities;

(vii) maintain present debt and lease instruments in accordance with their terms and not enter into new or amended debt or lease instruments without the

Knowledge and consent of IES (which consent shall not be unreasonably withheld), provided that debt and/or lease instruments may be replaced without the consent of IES if such replacement instruments are on terms at least as favorable to the Company as the instruments being replaced;

(viii) maintain or reduce present salaries and commission levels for all officers, directors, employees and agents except for ordinary and customary bonus and salary increases for employees in accordance with past practices; and

(ix) afford to the officers and authorized representatives of IES reasonable access during normal business hours to all of the Company's sites, properties, books and records and will furnish IES with such additional financial and operating data and other information as to the business and properties of the Company as IES may from time to time reasonably request.

(b) Except as disclosed on Schedule 5.13, between the date hereof and the Closing, the Company will not, without prior written consent of IES:

(i) make any change in their Articles of Incorporation or Bylaws;

(ii) issue any securities, options, warrants, calls, conversion rights or commitments relating to its securities of any kind;

(iii) declare or pay any dividend, or make any distribution in respect of its stock whether now or hereafter outstanding, or purchase, redeem, or otherwise acquire or retire for value any share of its stock;

(iv) enter into any contract or commitment or incur or agree to incur any liability or make any capital expenditures, except if it is in the normal course of business (consistent with past practice) or involves an amount not in excess of two percent (2%) of the Company's revenues for fiscal year ended September 30, 1997;

(v) create or assume any mortgage, pledge or other Lien or encumbrance upon any assets or properties whether now owned or hereafter acquired, except with respect to purchase money Liens incurred in connection with the acquisition of equipment with an aggregate cost not in excess of two percent (2%) of the Company's revenues for fiscal 1997 necessary or desirable for the conduct of the businesses of the Company;

(vi) sell, assign, lease or otherwise transfer or dispose of any property or equipment except in the normal course of business;

(vii) negotiate for the acquisition of any business or the start-up of any new business;

(viii) merge or consolidate or agree to merge or consolidate with or into any other corporation;

(ix) waive any material rights or claims of the Company, provided that the Company may negotiate and adjust bills and accounts in the course of good faith disputes with customers in a manner consistent with past practice;

(x) amend or terminate any material judgment, permit, license or other right to the Company; or

(xi) enter into any other transaction outside the ordinary course of its business.

(c) None of the Company Stockholders, the Company, nor any agent, officer, director, trustee or any representative of any of the foregoing will, during the period commencing on the date of this Agreement and ending with the earlier to occur of the Effective Time or the termination of this Agreement in accordance with its terms, directly or indirectly: (i) solicit or initiate the submission of proposals or offers from any person for, (ii) participate in any discussions pertaining to, (iii) enter into any agreement or understanding with respect to, (iv) furnish any information to any person other than IES or its authorized agents relating to, or (v) allow to occur, any acquisition, purchase or sale of all or a material amount of the assets of, or any equity interest in, the Company or a merger, consolidation or business combination of the Company.

SECTION 5.14. NOTIFICATION OF CERTAIN MATTERS. The Company Stockholders shall give prompt notice to IES upon obtaining Knowledge of (i) the occurrence or non-occurrence of any event which would be likely to cause any representation or warranty of the Company Stockholders contained herein to be untrue or inaccurate and (ii) any failure of any Company Stockholder or the Company to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by such person hereunder. IES shall give prompt notice to the Company Stockholders of (i) the occurrence or non-occurrence of any event which would be likely to cause any representation or warranty of IES contained herein to be untrue or inaccurate and (ii) any failure of IES to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder.

SECTION 5.15. VEHICLES. At Closing the parties to this Agreement agree that each Company Stockholder may purchase for cash from Company the vehicle used by such Stockholder as shown on Schedule 5.15 at the purchase price shown on Schedule 5.15. Ownership of the vehicle that a Company Stockholder purchasers will be transferred at Closing to such Company Stockholder free and clear of all Liens by documents of title reasonably satisfactory to legal counsel for Company Stockholders.

SECTION 5.16. DEFERRED COMPENSATION. Notwithstanding anything in this Agreement to the contrary, prior to the date of Closing, each party to this Agreement agrees that the Company shall pay in full all of its deferred compensation liability pursuant to the Incentive Plan of Davis

Electrical Constructors, Inc., dated March 6, 1989, as amended, in the amounts and to the employees shown on Schedule 5.16, subject to applicable withholding laws. The Company Stockholders receiving such deferred compensation payments hereby accept such payments in full settlement of all amounts due them pursuant to the Incentive Plan of Davis Electrical Constructors, Inc. and hereby release and discharge Company from all further liability under such plan, which plan is hereby terminated. In the event the Company does not have adequate cash to make such payments, then notwithstanding anything in this Agreement to the contrary, the parties to this Agreement agree that the Company may borrow the amount of money needed in order to pay in full such payments and such payments and borrowing shall not be deemed a breach of any representation, warranty or covenant of this Agreement.

SECTION 5.17. STOCK OPTIONS. Effective as of the Closing, IES shall grant one hundred seventy-five thousand (175,000) options to acquire IES Common Stock in the amounts and to those employees listed on Schedule 5.17. Further, as soon as reasonably practicable following the Closing, IES shall deliver to each employee listed on Schedule 5.17 a stock option agreement in the form attached hereto as EXHIBIT K to evidence the grant of such options to such employees.

SECTION 5.18. BONUSES. As a condition for IES to enter into this Agreement, IES has required that certain Company employees obtain a greater percentage of the Company Common Stock which the Company has effected by paying bonus compensation in the form of issuing shares of Company Common Stock. Prior to date of Closing Company shall issue shares of Company Common Stock as bonus compensation to those employees listed on Schedule 5.18 in the amount of shares listed on Schedule 5.18, subject to receipt of cash equal to applicable withholding requirements in accordance with law. The parties to this Agreement agree that such bonus shall eliminate in their entirety all bonuses that otherwise would be due any employee listed on Schedule 5.18 from Company for the fiscal year ended September 30, 1998, including, but not limited to bonuses payable pursuant to the Company's Amended and Restated Executive Bonus Plan. Company and Company Stockholders hereby terminate the Amended and Restated Executive Bonus Plan dated September 24, 1997 in its entirety effective as of the Closing. The bonused shares of Company Stock issued to employees listed on Schedule 5.18 will be acquired by Acquisition pursuant to Sections 1.2 and 1.3.

SECTION 5.19. CERTAIN EMPLOYEES AND OFFICES. IES and Company agree that Surviving Corporation shall continue to employ Scottie Woods and Frank Mew for at least sixty (60) days following Closing at their same salary; provided, however, that notwithstanding anything in this Agreement to the contrary, James B. Stephens may, at anytime after the Closing, offer to employ and employ either or both Scottie Woods and Frank Mew. IES and Company agree that Scottie Woods and Frank Mew will continue to perform certain services for James B. Stephens during such sixty (60) day employment period. Further, during such sixty (60) day period James B. Stephens and Scottie Woods shall continue to have exclusive use of their current offices located in the Company office building in Greenville, South Carolina.

SECTION 5.20. TAX AUDIT. In the event of an Internal Revenue Service, South Carolina Department of Revenue and Taxation or other tax authority audit of the Company for any period ending on or before the Closing, IES shall promptly notify the Company Stockholders of the audit. The Company Stockholders shall have the right to solely conduct the audit as well as the current Internal Revenue Service audit in existence at the date of this Agreement. However, in the event of a tax authority audit of the Company for any period for which IES, Acquisition or the Company may have to indemnify the Company Stockholders, IES and Company Stockholders shall have the right to jointly conduct the audit. IES shall not agree, and shall not allow Surviving Corporation to agree, to any adverse tax adjustment affecting the Company Stockholders without the prior written consent of James B. Stephens, if living, or the personal representative of his estate if he is deceased, which consent shall not be unreasonably withheld. The Company Stockholders shall not agree, and, if deceased, their personal representative shall not agree to any adverse tax adjustment affecting the Company, IES or Acquisition or requiring an indemnity payment by such parties without the prior written consent of IES, which consent shall not be unreasonably withheld.

SECTION 5.21. LIFE INSURANCE. No later than ten (10) days after Closing, each Company Stockholder may purchase for cash any life insurance policy owned by the Company and insuring such Company Stockholder's life for such policy's cash surrender value. Further, no later than ten (10) days after Closing any Company Stockholder, or their designee, may purchase for cash any life insurance policy insuring such Company Stockholder's life that is collaterally assigned to Company for the amount owed to Company pursuant to such collateral assignment. If such policies are not purchased, the Company may terminate such policies and retain any proceeds received.

SECTION 5.22. PURCHASE OF ASSETS. At or prior to Closing the parties to this Agreement agree that James B. Stephens may purchase for cash from Company the assets shown on Schedule 5.22 at the purchase price shown on Schedule 5.22. Ownership of such assets will be transferred at Closing to James B. Stephens free and clear of all Liens by documents of title reasonably satisfactory to legal counsel for Company Stockholders.

SECTION 5.23. AIRPLANE LEASE. James B. Stephens and the Company hereby terminate, effective as of the Closing, that certain Airplane Lease Agreement between such parties relating to the Mitsubishi Solitaire Aircraft, Model MV2B40.

SECTION 5.24. STOCK PURCHASE AGREEMENT. The Company Stockholders and the Company agree that the Stock Purchase Agreement dated March 6, 1989 among such parties is hereby terminated effective at the Closing.

SECTION 5.25. REMOVAL OF STOCK CERTIFICATE LEGEND. At any time on or after the second anniversary of the Effective Time, IES shall promptly remove the legend described in Section 8.2 from any stock certificate evidencing the IES Common Stock upon the written request of the holder of any such stock certificate.

ARTICLE VI

INDEMNIFICATION

The Company Stockholders and IES each make the following covenants:

SECTION 6.1. INDEMNIFICATION BY THE COMPANY STOCKHOLDERS. The Company Stockholders covenant and agree that they, jointly and severally, will indemnify, defend, and hold harmless IES, the Company, and the Surviving Corporation, and their respective officers, directors, employees, stockholders, agents, representatives, and affiliates (the "IES Indemnitees") at all times from and after the date of this Agreement from and against all claims, damages, losses, liabilities (joint or several), obligations, penalties, defenses, actions, lawsuits, proceedings, judgments, demands, assessments, adjustments, costs, and expenses (including specifically, but without limitation, reasonable fees, disbursements, and expenses of attorneys, accountants, other professional advisors and of expert witnesses and costs of investigation and preparation) (collectively, "Damages"), as they are incurred resulting from, relating to or arising out of:

(a) any breach of or any allegation or claim by a third party which, if true, would constitute a breach of any representation or warranty of Company Stockholders set forth herein or in the Schedules or certificates delivered in connection herewith;

(b) any breach or non-performance, partial or total, by the Company or any of the Company Stockholders of any covenant or agreement of the Company (or any affiliate or subsidiary thereof) or the Company Stockholders (or any affiliate or subsidiary thereof) contained in this Agreement, other than Company obligations due after Closing; or

(c) the remediation, cleanup, testing, analysis, removal, containment, treatment, storage, disposal, release or other action required by law or expense related to items, if any, set forth or described by Schedule 3.18.

Notwithstanding anything in this Agreement to the contrary, any Damages or other indemnification amounts owed or incurred by Company Stockholders, on the one hand, or IES on the other hand, in this Agreement shall be reduced by (i) reserves established by Company as of June 30, 1998 with regard to a specific indemnity obligation, (ii) any insurance proceeds received by Surviving Corporation or IES, on the one hand, or the Company Stockholders, on the other hand, under insurance coverage; and (iii) any resulting tax benefits.

Notwithstanding any provision to the contrary in this Agreement, in no event whatsoever shall the aggregate liability of the Company Stockholders, on the one hand, or IES, on the other hand, under this Agreement (including all costs, expenses and attorneys' fees paid or incurred by IES, the Company and/or the Company Stockholders in connection therewith or with respect to any indemnification or the curing of any and all misrepresentations or breaches under this Agreement) exceed $18,000,000; provided, however, that the foregoing limitation on liability shall not apply with respect to (i) indemnity obligations under Section 6.1(a) relating to Section 3.2, Section 3.19 hereof or (ii) with respect to indemnity obligations under Section 6.3(a) relating to Section 4.2(b) hereof or (iii) the failure of IES and/or Acquisition to pay all or any part of the Merger Consideration; (iv) with respect to any Damages that relate to or occur as a result of fraudulent misrepresentations or fraudulent actions; or (v) with respect to IES's obligations pursuant to Section 5.6.

SECTION 6.2. INDEMNIFICATION RELATED TO TAX LIABILITIES. Except for any Tax under Section 1374 of the Code, the Company Stockholders shall retain liability, and shall indemnify IES, for the payment of any Tax liabilities with respect to the conduct of the business of the Company or the Subsidiaries during all periods ending as of the day immediately prior to the Effective Time. Notwithstanding any provision in this Agreement to the contrary, IES and Surviving Corporation shall pay and be responsible for all taxes under Section 1374 of the Code incurred by Company due to the transactions described in this Agreement, and Company's failure to have adequate Tax reserves for such Taxes shall not be deemed a breach of any representation, warranty or covenant in this Agreement. Further, if Section 5.20 hereof was complied with and a Company Stockholder's 1998 federal and/or state income Tax liability is subsequently increased by the Internal Revenue Service or any state income Tax authority above the greater of the amount of income taxes determined by Elliott Davis & Company (a) with a Section 338(h)(10) Election and (b) without a Section 338(h)(10) Election, as a result of a successful challenge to a purchase price reallocation resulting from the Section 338(h)(10) Election, IES will indemnify and hold harmless each Company Stockholder for any resulting income tax, penalties and interest within fifteen (15) days after such Company Stockholder has paid such additional income Tax.

SECTION 6.3. INDEMNIFICATION BY IES. IES covenants and agrees that it will indemnify, defend, and hold harmless the Company Stockholders (the "Stockholder Indemnitees") at all times from and after the date of this Agreement from and against all claims, damages, losses, liabilities (joint or several), obligations, penalties, defenses, actions, lawsuits, proceedings, judgments, demands, assessments, adjustments, costs, and expenses (including specifically, but without limitation, reasonable fees, disbursements, and expenses of attorneys, accountants, other professional advisors and of expert witnesses and costs of investigation and preparation), (collectively, "Damages"), as they are incurred, resulting from, relating to or arising out of:

(a) any breach of or any allegation or claim by a third party which, if true, would constitute a breach of any representation or warranty of IES and/or Acquisition set forth herein or in the Schedules or certificates delivered in connection herewith; and

(b) any breach or non-performance, partial or total, by IES of any covenant or agreement of IES (or any affiliate or subsidiary thereof) contained in this Agreement.

(c) the failure of IES and Surviving Corporation to fulfill their obligations described in Section 5.6.

SECTION 6.4. INDEMNIFICATION PROCEEDINGS. Promptly after a party indemnified pursuant to this Article VI ("Indemnitee") has received notice of or has knowledge of any claim by a person not a party to this Agreement ("third party") or the commencement of any action or proceeding by a third party, the Indemnitee shall promptly, and in any event within fifteen (15) days of the assertion of any claim or the discovery of any fact upon which Indemnitee intends to base a claim for indemnification under this Agreement ("Indemnitee Claim"), as a condition precedent to the Indemnitee Claim, give written notice to the party or parties from whom indemnification is sought ("Indemnitor") of such claim by the third party. Such notice shall state the nature and the basis of such claim and a reasonable estimate of the amount thereof. In the event of any Indemnitee Claim, Indemnitor, at its option, shall have the right to defend or settle, at its own expense and by its own counsel, any such matter so long as the Indemnitor pursues the same in good faith and diligently. If the Indemnitor undertakes to defend or settle, it shall promptly notify the Indemnitee of its intention to do so, and the Indemnitee shall cooperate with the Indemnitor and its counsel in the defense thereof and in any settlement thereof. Notwithstanding the foregoing, the Indemnitee shall have the right to participate in any matter through counsel of its own choosing at Indemnitee's own expense; provided that the Indemnitor's counsel shall always be lead counsel and shall determine all litigation and settlement steps, strategy and the like. Except as set forth in the preceding sentence, after the Indemnitor has notified the Indemnitee of its intention to undertake to defend or settle any such asserted liability, and for so long as the Indemnitor diligently pursues such defense, the Indemnitor shall not be liable for any additional legal expenses incurred by the Indemnitee in connection with any defense or settlement of such asserted liability, except to the extent such participation is requested by the Indemnitor, in which event the Indemnitee shall be reimbursed by the Indemnitor for reasonable additional legal expenses and out-of-pocket expenses. If the Indemnitor desires to accept a final and complete settlement of any such third party claim and the Indemnitee refuses to consent to any such settlement which contains a complete and irrevocable release of Indemnitee of all current and future claims related to or arising out of the matter in dispute, then the Indemnitor's liability under this Section with respect to such third party claim shall be limited to the amount so offered in settlement by said third party. If the Indemnitor does not undertake to defend such matter to which the Indemnitee is entitled to indemnification hereunder, or fails diligently to pursue such defense, the Indemnitee may undertake such defense through counsel of its choice, at the cost and expense of the Indemnitor, and the Indemnitee may settle such matter, without the consent of the Indemnitor, and the Indemnitor shall immediately reimburse the Indemnitee for the amount paid in such settlement and any other liabilities or expenses incurred (including all reasonable legal fees and expenses) by the Indemnitee in connection therewith as such amounts, liabilities, expenses and fees are incurred.

SECTION 6.5. SOLE REMEDY. In the absence of fraud or fraudulent misrepresentation, the indemnification provisions set forth in this Article VI shall be the exclusive basis for the assertion of a monetary claim pursuant to the Agreement or for the breach of a representation or warranty made pursuant to this Agreement.

SECTION 6.6. LIMITATIONS AND EXCEPTIONS. Notwithstanding any provision of this Agreement to the contrary, neither Company nor the Company Stockholders shall be liable or responsible in any manner to IES or Acquisition whether for indemnification or otherwise, except for the indemnity as expressly provided for in this Article VI. Neither party nor parties shall have any liability under this Article VI with respect to any Damages to the extent that such Damages are caused by the failure of the other party or parties to provide prompt notice as provided in Section 6.4.

SECTION 6.7. NO THIRD PARTY BENEFICIARIES. The foregoing indemnification is given solely for the purpose of protecting the IES Indemnitees and the Stockholder Indemnitees and shall not be deemed extended to, or interpreted in a manner to confer any benefit, right, or cause of action upon, any other Person.

SECTION 6.8. LIMITATION UPON INDEMNITY. The Company Stockholders, on the one hand, and IES, on the other hand, shall be entitled to indemnification from the other under the provisions of this Article VI for all claims subject to indemnification by such party, but only after such time that the amount of, and to the extent that, such claims for which the Indemnitee is entitled to be paid exceed, in the aggregate, $500,000, (the "Indemnification Threshold") at which time the indemnifying parties shall be liable for all Damages in excess of (but not including) the Indemnification Threshold; provided, however, that the foregoing limitation on liability shall not apply with respect to (a) indemnity obligations under (i) Section 6.1(a) relating to Section 3.2, (ii) any item disclosed on Schedule 3.18 hereto and (iii) Section 3.19 hereof, or (b) indemnity obligations under Section 6.3(a) relating to Section 4.2(b), or (c) indemnity obligations under Section 6.2, or (d) obligations under Section 5.17, or (e) indemnity obligations under Section 6.3(c) relating to Section 5.6, or (f) obligations under Section 5.11(d), or (g) the failure of IES and/or Acquisition to pay all or any part of the Merger Consideration; or (h) with respect to any Damages that relate to or occur as a result of fraudulent misrepresentations or fraudulent acts.

SECTION 6.9. PUNITIVE DAMAGES. Notwithstanding anything in this Agreement, in the absence of fraud or fraudulent acts, no party hereto shall be entitled to any punitive damages from any other party hereto.

ARTICLE VII

NONCOMPETITION COVENANTS

SECTION 7.1. PROHIBITED ACTIVITIES. The Company Stockholders will not, for a period of five (5) years following the Effective Time, directly or indirectly, for themselves or on behalf of or in conjunction with any other Person:

(a) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial or advisory capacity, whether as an employee, independent contractor, consultant, or advisor, or as a sales representative, in any business offering electrical contracting or instrumentation in direct competition with IES or any of its subsidiaries within 100 miles of where IES or any of its subsidiaries conducts business, including any territory serviced by IES or any of its subsidiaries (which subsidiaries, for purposes of this Article VII, shall include, without limitation, the Company) (the "Territory");

(b) except for Scottie Woods and Frank Mew, call upon any Person who is, at that time, within the Territory, an employee of IES or any of its subsidiaries for the purpose or with the intent of enticing such employee away from or out of the employ of IES or any of its subsidiaries;

(c) call upon any Person who is, at that time, or which has been, within one (1) year prior to that time, a customer of IES or any of its subsidiaries within the Territory for the purpose of soliciting or selling electrical contracting or instrumentation services or products in direct competition with IES or any of its subsidiaries within the Territory;

(d) call upon any prospective acquisition candidate, on any Company Stockholder's own behalf or on behalf of any competitor in the electrical contracting or instrumentation business, which candidate, to the actual knowledge of such Stockholder after due inquiry, was called upon by IES or any subsidiary thereof or for which, to the actual knowledge of such Company Stockholder after inquiry, IES or any subsidiary thereof made an acquisition analysis, for the purpose of acquiring such entity; or

(e) disclose customers, whether in existence or proposed, of the Company to any person, firm, partnership, corporation or business for any reason or purpose whatsoever except to the extent that the Company has in the past disclosed such information to the public for valid business reasons or as required by law or legal process.

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit any Company Stockholder from acquiring, as a passive investor with no involvement in the operations of the electrical contracting or instrumentation business, not more than two percent (2%) of the capital stock of a business providing services similar to those provided by IES whose stock is publicly traded on a national securities exchange or over the counter.

SECTION 7.2. EQUITABLE RELIEF. Because of the difficulty of measuring economic losses to IES as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to IES for which it would have no other adequate remedy, each Company Stockholder agrees that the foregoing covenant may be enforced by IES by injunctions, restraining orders, and other equitable actions and agrees to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief.

SECTION 7.3. REASONABLE RESTRAINT. It is agreed by the parties hereto that the foregoing covenants in this Article VII impose a reasonable restraint on the Company

Stockholders in light of the activities and business of IES on the date of the execution of this Agreement and the current plans of IES; but it is also the intent of IES and the Company Stockholders that such covenants be construed and enforced in accordance with the changing activities, business, and locations of IES and its subsidiaries throughout the term of this covenant.

SECTION 7.4. SEVERABILITY; REFORMATION. The covenants in this Article VII are severable and separate, and the unenforceability of any specific covenant shall not affect the continuing validity and enforceability of any other covenant. In the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth in this Article VII are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which the court deems reasonable, and this Agreement shall thereby be reformed.

SECTION 7.5. MATERIAL AND INDEPENDENT COVENANT. The Company Stockholders acknowledge that their agreements with the covenants set forth in this Article VII are material conditions to IES's agreement to execute and deliver this Agreement and to consummate the transactions contemplated hereby. All of the covenants in this Article VII shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of any Company Stockholder against IES or one of its subsidiaries, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by IES of such covenants. It is specifically agreed that the five (5) year period during which the agreements and covenants of each Company Stockholder made in this Article VII shall survive shall be computed by excluding from such computation any time during which such Company Stockholder is in violation of any provision of this Article VII. The covenants contained in this Article VII shall not be affected by any breach of any other provision hereby by any party hereto.

SECTION 7.6. MATERIALITY. The Company and the Stockholders hereby agree that this covenant is a material and substantial part of this transaction.

ARTICLE VIII

APPLICABLE SECURITIES LAWS/TRANSFER RESTRICTIONS

SECTION 8.1. COMPANY STOCKHOLDERS' REPRESENTATIONS AND WARRANTIES CONCERNING SECURITIES. As of the date hereof (which is the same date as the Effective Time), the Company Stockholders hereby make the following representations and warranties to and for the benefit of IES: (i) that the Company Stockholders have been provided with copies of the Prospectus and have been provided as much time and opportunity as they deemed appropriate to review and study such Prospectus, and to consult with IES regarding the merits and risks of the transactions contemplated by this Agreement; (ii) that the Company Stockholders have had adequate opportunity to ask questions of and receive answers from the officers of IES pertaining to the purchase of the IES Common Stock pursuant to the Merger, and (iii) all such questions have been answered to the satisfaction of the Company Stockholders, but receiving such information and receiving such answers does not diminish in any respect the representations, warranties and covenants of IES and Acquisition hereunder. The Company Stockholders acknowledge that the shares of IES Common Stock to be delivered to the Company Stockholders pursuant to this Agreement have not been registered under the 1933 Act and therefore may not be resold without compliance with the 1933 Act. The IES Common Stock to be acquired by such Company Stockholders pursuant to this Agreement is being acquired solely for their own respective accounts, for investment purposes only, and with no present intention of distributing, selling or otherwise disposing of it in connection with a distribution. The Company Stockholders are able to bear the economic risk of an investment in the IES Common Stock to be acquired pursuant to this Agreement and can afford to sustain a total loss of such investment. Each Company Stockholder has substantial knowledge and experience in making investment decisions of this type (or is relying on qualified purchaser representatives with such knowledge and experience in making this decision), and is capable, either individually or with such purchaser representatives, of evaluating the merits and risks of this investment. Each Company Stockholder is an "accredited investor" as defined in Rule 501(a) of the 1933 Act.

SECTION 8.2. TRANSFER RESTRICTIONS. Unless otherwise agreed by IES, except for transfers to immediate family members who agree to be bound by the restrictions set forth in this Section 8.2 (or trusts for the benefit of the Company Stockholders or family members, or trusts in which a Company Stockholder is both the grantor and the beneficiary, the trustees of which so agree) and except in the event of the death of a Company Stockholder, for a period of two years from the date of this Agreement, none of the Company Stockholders shall sell, assign, exchange, transfer, appoint, or otherwise dispose of any shares of IES Common Stock received by the Company Stockholders pursuant to this Agreement. The certificates evidencing the IES Common Stock delivered to the Company Stockholders pursuant to this Agreement will bear a legend substantially in the form set forth below and containing such other information as IES may deem necessary or appropriate:

> THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, EXCHANGED, TRANSFERRED, DISTRIBUTED, APPOINTED OR OTHERWISE DISPOSED OF WITHOUT THE WRITTEN CONSENT OF IES, AND THE ISSUER SHALL NOT BE REQUIRED TO GIVE EFFECT TO ANY ATTEMPTED SALE, ASSIGNMENT, EXCHANGE, TRANSFER, DISTRIBUTION, APPOINTMENT OR OTHER DISPOSITION PRIOR TO THE SECOND

ANNIVERSARY OF THE EFFECTIVE TIME. UPON THE WRITTEN REQUEST OF THE HOLDER OF THIS CERTIFICATE, THE ISSUER AGREES TO REMOVE THIS RESTRICTIVE LEGEND (AND ANY STOP ORDER PLACED WITH THE TRANSFER AGENT) AFTER THE DATE SPECIFIED ABOVE.

SECTION 8.3. RESALES. (a) In the event of the death of a Company Stockholder, to the extent that any Company Stockholder's estate desires to sell any IES Common Stock received by such Company Stockholder pursuant to this Agreement within a period of two (2) years from the date of this Agreement, IES shall, as soon as reasonably practicable, use reasonable efforts to register such stock for resale under its current acquisition shelf registration statement (or any successor acquisition shelf registration statement) and ensure that such registration statement remains available for resales of such stock.

(b) With a view to making available the benefits of certain rules and regulations of the SEC that may permit the sale of the IES Common Stock received hereunder to the public without registration, IES agrees to use its reasonable efforts to:

(i) make and keep public information regarding IES available as those terms are understood and defined in Rule 144 under the 1933 Act for a period of two years and 3 months following the Effective Time; and

(ii) file with the SEC in a timely manner all reports and other documents required of IES under the 1933 Act and the 1934 Act.

ARTICLE IX

NONDISCLOSURE OF CONFIDENTIAL INFORMATION

SECTION 9.1. GENERAL. The Company Stockholders recognize and acknowledge that they had in the past, currently have, and in the future may possibly have, access to certain confidential information of the Company or the Surviving Corporation, such as lists of customers or employees, operational policies, and pricing and cost policies that are valuable, special, and unique assets of the Company and will be valuable, special, and unique assets of the Surviving Corporation. The Company Stockholders agree that for a period of two (2) years following the Closing they will not disclose such confidential information to any Person for any purpose or reason whatsoever (except such information as the Company Stockholders may be required to disclose to any Governmental Authority or to authorized representatives of IES or in accordance with legal process or in order to enforce the terms of this Agreement). In the event of a breach or threatened breach by the Company Stockholders of the provisions of this Section, IES shall be entitled to an injunction restraining the Company Stockholders from disclosing, in whole or in part, such confidential information. Nothing herein shall be construed as prohibiting IES from pursuing any other available remedy for such breach or threatened breach, including the recovery of damages.

SECTION 9.2. EQUITABLE RELIEF. Because of the difficulty of measuring economic losses as a result of the breach of the foregoing covenants, and because of the immediate and irreparable damage that would be caused for which the Company, the Surviving Corporation, and/or IES would have no other adequate remedy, the Company Stockholders agree that the foregoing covenants may be enforced against them by injunctions, restraining orders, and other equitable actions and agree to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief.

SECTION 9.3. NON-PUBLIC INFORMATION. The Company Stockholders hereby acknowledge that if they become aware of "material non-public information" (as defined under applicable securities laws) regarding IES, that they will be required, under applicable securities laws, to refrain from trading in IES securities or disclosing any such information while such information is non-public.

SECTION 9.4. SURVIVAL. The obligations of the parties under this Article IX shall survive the Closing of this Agreement.

ARTICLE X

MISCELLANEOUS

SECTION 10.1. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas without reference to the choice of law principles thereof.

SECTION 10.2. ENTIRE AGREEMENT. This Agreement, together with the Schedules and Exhibits hereto, constitute the entire agreement between the parties with respect to the subject matter hereof, and there are no agreements, understandings, representations, or warranties between the parties other than those set forth or referred to herein.

SECTION 10.3. EXPENSES AND FEES. All costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense; provided, however, that IES shall pay all costs, including filing fees and attorneys' fees, with regard to the HSR filings.

SECTION 10.4. NOTICES. All notices hereunder shall be sufficient upon receipt for all purposes hereunder if in writing and delivered personally, sent by documented overnight delivery service or, to the extent receipt is confirmed, telecopy, telefax, or other electronic transmission service to the appropriate address or number as set forth below.

If to IES or Acquisition, to:

Integrated Electrical Services, Inc.
515 Post Oak Blvd., Suite 450
Houston, Texas 77027
Attention: John F. Wombwell
Fax Number: (713) 860-1599

if to the Company or the Company Stockholders, to:

Merline & Thomas, P.A.
665 North Academy Street (before September 12, 1998)
812 East North Street (on or after September 12, 1998)
Greenville, SC 29601
Attention: John R. Thomas
Fax Number: (864) 242-5758

SECTION 10.5. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that no party may assign, delegate, or otherwise transfer any of its rights or obligations under this Agreement without the consent of each other party hereto, except IES or Acquisition may transfer or assign, in whole or from time to time in part, to one or more of their affiliates, the right to enter into the transactions contemplated by this Agreement, but any such transfer or assignment will not relieve IES or Acquisition of its obligations hereunder. This Agreement is not intended to confer upon any Person not a party hereto any rights or remedies hereunder, and no Person other than the parties hereto or such Persons described above is entitled to rely on any representation, warranty, or covenant contained herein.

SECTION 10.6. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of the parties made herein and at the time of the Closing or in writing delivered pursuant to the provisions of this Agreement shall survive the consummation of the transactions contemplated hereby and any examination on behalf of the parties for a period of two years, following which date no party may bring any action or present any claim for a breach of any such representation or warranty, provided, however, that the representations and warranties in Sections 3.2, 3.19 and 4.2 and breaches that relate to or occur as a result of fraudulent misrepresentations or fraudulent acts and the obligations set forth in Section 5.11 and Section 6.2 will survive until the expiration of the applicable statute of limitations and be enforceable in accordance with Article VI; and, provided further, that such limitations will not affect any claims pending at the time of such expiration for which timely written notice pursuant to this Agreement has been given.

SECTION 10.7. HEADINGS; DEFINITIONS. The Section and Article headings contained in this Agreement are inserted for convenience of reference only and will not affect the meaning or interpretation of this Agreement. All references to Sections or Articles contained herein mean

Sections or Articles of this Agreement unless otherwise stated. All capitalized terms defined herein are equally applicable to both the singular and plural forms of such terms.

SECTION 10.8. AMENDMENTS AND WAIVERS. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Any party hereto may, only by an instrument in writing, waive compliance by any other party hereto with any term or provision of this Agreement on the part of such other party hereto to be performed or complied with. The waiver by any party hereto of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

SECTION 10.9. CONSTRUCTION OF CERTAIN PROVISIONS. It is understood and agreed that the specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Schedules or Exhibits is not intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material, and no party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Schedules in any dispute or controversy between the parties as to whether any obligation, item, or matter not described herein or included in a Schedule or Exhibit is or is not material for purposes of this Agreement. It is agreed that neither party shall allege that a provision of this Agreement shall be construed against a party because such party drafted such provision.

SECTION 10.10. SEVERABILITY. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated by this Agreement are fulfilled to the extent possible.

SECTION 10.11. JURISDICTION. Any legal action, suit, or proceeding in law or equity arising out of or relating to this Agreement and transactions contemplated by this Agreement may only be instituted in any state or federal court in Harris County, Houston, Texas, and each party agrees not to assert, by way of motion, as a defense, or otherwise, in any such action, suit, or proceeding, any claim that it is not subject personally to the jurisdiction of such court, that its property is exempt or immune from attachment or execution, that the action, suit, or proceeding is brought in an inconvenient forum, that the venue of the action, suit, or proceeding is improper or that this Agreement, or the subject matter hereof or thereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of any such court in any such action, suit, or proceeding. Any and all service of process and any other notice in any such action, suit, or proceeding shall be effective against any party if given by registered or certified mail, return receipt requested, or by any other means of mail which requires a signed receipt, postage prepaid, mailed to such party at the address listed in Section 10.4. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law.

SECTION 10.12. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 10.13. SPECIFIC PERFORMANCE. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof in addition to any other remedy to which they are entitled at law or in equity.

SECTION 10.14. COUNTERPARTS; EFFECTIVENESS. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. In making proof of this Agreement, it shall not be necessary to produce or account for more than one such counterpart. A telecopied facsimile of an executed counterpart of this Agreement shall be sufficient to evidence the binding agreement of each party to the terms hereof. However, each party agrees to promptly deliver to the other parties an original, duly executed counterpart of this Agreement.

SECTION 10.15. MUTUAL INDEMNIFICATION AGAINST CLAIMS OF BROKERS. Each party agrees to indemnify the other against all loss, cost, damages or expense arising out of claims for fees or commissions of brokers employed or alleged to have been employed by such party.

SECTION 10.16. DEFINITIONS AND USAGE. For the purposes of this Agreement:

"1933 Act" shall have the meaning specified in Section 3.5.

"1934 Act" shall have the meaning specified in Section 4.4.

"Acquisition" shall have the meaning specified in the introductory paragraph of this Agreement.

"Actions" shall mean any actions, suits, arbitrations, inquiries, proceedings or investigations by or before any Governmental Authority.

"affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person.

"Agreement" shall have the meaning specified in the introductory paragraph of this Agreement and Plan of Merger.

"CERCLA" shall have the meaning specified in Section 3.18.

"Certificates" shall have the meaning specified in Section 1.3.

"Certificate of Merger" shall have the meaning specified in Section 1.1(b).

"Closing" shall have the meaning specified in Section 1.1(a).

"Code" shall mean the Internal Revenue Code of 1986, as amended, and any successor thereto.

"Commitment" shall have the meaning specified in Section 3.2(a).

"Company" shall have the meaning specified in the introductory paragraph of this Agreement.

"Company Audited Financial Statements" shall have the meaning specified in Section 3.6.

"Company Benefit Plans" shall have the meaning specified in Section 3.20(a).

"Company Common Stock" shall have the meaning specified in Section 1.2(a).

"Company Material Adverse Effect" shall mean any fact, circumstance, event, or condition which has or would have a materially adverse effect on the business, operations, properties, condition (financial or otherwise), assets, liabilities, results of operations or prospects of the Company and the Subsidiaries, taken as a whole, provided, however, that Company Material Adverse Effect (and the word "material" and phrases of like import) shall exclude any adverse changes or conditions as and to the extent such changes or conditions relate to or result from general economic conditions or other conditions affecting the industry in which Company competes as a whole.

"Company Pension Plans" shall have the meaning specified in Section 3.20(a).

"Company Returns" shall mean all returns, declarations, reports, statements, and other documents required to be filed by the Company or the Subsidiaries in respect of Taxes, and the term "Company Return" means any one of the foregoing Company Returns.

"Company Shares" shall have the meaning specified in Section 3.2(a).

"Company Stockholders" shall have the meaning specified in the introductory paragraph of this Agreement.

"Company Unaudited Balance Sheet Date" shall have the meaning specified in Section 3.7.

"Company Unaudited Financial Statements" shall have the meaning specified in Section 3.6.

"Company Welfare Plan" shall have the meaning specified in Section 3.20(a).

"Damages" shall have the meaning specified in Section 6.1.

"Delaware Law" shall have the meaning specified in Section 1.1(a).

"Department" shall have the meaning specified in Section 5.12.

"disposal" or "disposed" shall have the meaning specified in Section 3.18.

"Effective Time" shall have the meaning specified in Section 1.1(b).

"Employment Agreements" shall have the meaning specified in Section 1.6(a)(i).

"Enforceability Exceptions" shall have the meaning specified in Section 3.9.

"Environmental Laws" shall have the meaning specified in Section 3.18.

"ERISA" shall have the meaning specified in Section 3.20(a).

"FTC" shall have the meaning specified in Section 5.12.

"GAAP" shall have the meaning specified in Section 3.6.

"Governmental Authority" shall mean (a) the United States of America, (b) any state, county, municipality, or other governmental subdivision within the United States of America, and (c) any court or any governmental department, commission, board, bureau, agency, or other instrumentality of the United States of America or of any state, county, municipality, water rights, taxing, or zoning authority, or other governmental subdivision within the United States of America.

"HSR Act" shall have the meaning specified in Section 1.7(d).

"IES" shall have the meaning specified in the introductory paragraph of this Agreement.

"IES Common Stock" shall have the meaning specified in Section 1.2(a).

"IES Indemnitees" shall have the meaning specified in Section 6.1.

"IES Material Adverse Effect" shall mean any fact, circumstance, event, or condition which has or would have a materially adverse effect on the business, operations, properties, condition (financial or otherwise), assets, liabilities, results of operations or prospects of IES and its subsidiaries, taken as a whole.

"IES SEC Filings" shall have the meaning specified in Section 4.5(a).

"Indemnification Threshold" shall have the meaning specified in Section 6.8.

"Indemnitee" shall have the meaning specified in Section 6.4.

"Indemnitee Claim" shall have the meaning specified in Section 6.4.

"Indemnitor" shall have the meaning specified in Section 6.4.

"Knowledge" when used in relation to any Person shall mean the actual (but not constructive) knowledge of such Person or such Person's officers, without investigation, inquiry or verification.

"Licenses" shall have the meaning specified in Section 3.11.

"Liens" shall mean all liens, mortgages, security interests, pledges, equities, claims, options, and other encumbrances of any kind.

"Merger" shall have the meaning specified in Section 1.1(a).

"Merger Consideration" shall have the meaning specified in Section 1.2(a).

"NYSE" shall have the meaning specified in Section 1.3.

"officer" means in the case of IES and the Company, any executive officer of IES or the Company, as applicable, within the meaning of Rule 3b-7 of the 1934 Act.

"Person" shall mean an individual, partnership, corporation, limited liability company, trust, incorporated or unincorporated association, joint venture, joint stock company, Governmental Authority or other legal entity of any kind.

"Prospectus" shall have the meaning specified in Section 4.5(d).

"Qualified Plans" shall have the meaning set forth in Section 3.20(b).

"RCRA" shall have the meaning specified in Section 3.18.

"release" shall have the meaning specified in Section 3.18.

"SEC" shall have the meaning specified in Section 4.5.

"Section 338(h)(10) Election" shall have the meaning specified in Section 5.11(d).

"Stockholder Indemnitees" shall have the meaning specified in Section 6.3.

"Subsidiaries" shall have the meaning specified in Section 3.1.

"subsidiary" means, with respect to any Person, any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions are at any time directly or indirectly owned by such Person.

"Subsidiary Shares" shall have the meaning specified in Section 3.2(b).

"Subsidiary Stock" shall have the meaning specified in Section 3.2(b).

"Surviving Corporation" shall have the meaning specified in Section 1.1(a).

"Tax" or "Taxes" shall have the meaning specified in Section 3.19(a).

"Territory" shall have the meaning specified in Section 7.1(a).

"third party" shall have the meaning specified in Section 6.4.

A reference in this Agreement to any statute shall be to such statute as amended from time to time, and the rules and regulations promulgated thereunder.

SECTION 10.17. DISCLOSURE SCHEDULE. Anything disclosed at any place in this Agreement or any Exhibit or Schedule shall be deemed to have been disclosed at all places for purposes of this Agreement and any and all Exhibits or Schedules to which said information relates.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ JOHN F. WOMBWELL
Name: John F. Wombwell
Title: Secretary

DAVIS ACQUISITION CORPORATION

By: /s JOHN F. WOMBWELL
Name: John F. Wombwell
Title: President

DAVIS ELECTRICAL CONSTRUCTORS, INC.

By: /s/ J. MICHAEL STEPHENS
Name: J. Michael Stephens
Title: President

/s/ JAMES B. STEPHENS
James B. Stephens, Company Stockholder

/s/ J. MICHAEL STEPHENS
J. Michael Stephens, Company Stockholder

/s/ WILLIAM N. BYRD
William N. Byrd, Company Stockholder

/s/ JAMES C. HENDERSON
James C. Henderson, Company Stockholder

/s/ J. LOWELL HUGHES
J. Lowell Hughes, Company Stockholder

/s/ WILLIAM M. SUMEREL
William M. Sumerel, Company Stockholder

EXHIBIT 10.5

[Execution Version]

CREDIT AGREEMENT

Among

INTEGRATED ELECTRICAL SERVICES, INC.
as Borrower,

THE FINANCIAL INSTITUTIONS
NAMED IN THIS CREDIT AGREEMENT
as Banks,

and

NATIONSBANK, N.A.,
as Agent for the Banks

$175,000,000

July 30, 1998

Arranged By:
NATIONSBANC MONTGOMERY SECURITIES LLC

TABLE OF CONTENTS

EXHIBITS

SCHEDULES

CREDIT AGREEMENT

This Credit Agreement dated as of July 30, 1998, is among Integrated Electrical Services, Inc., a Delaware corporation, as Borrower, the financial institutions named herein, as Banks, and NationsBank, N.A., successor in interest by merger to NationsBank of Texas, N.A., as Agent for the Banks.

The parties hereto agree as follows:

ARTICLE 1. DEFINITIONS AND ACCOUNTING TERMS.

1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (unless otherwise indicated, such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquisition" means the direct or indirect purchase or acquisition, whether in one or more related transactions, of any Person or group of Persons or any related group of assets, liabilities, or securities of any Person or group of Persons.

"Acquisition Certificate" means an acquisition certificate executed by a Responsible Officer of the Borrower in substantially the form of Exhibit H.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person or any Subsidiary of such Person. The term "control" (including the terms "controlled by" or "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership, by contract, or otherwise.

"Agent" means NationsBank in its capacity as an agent pursuant to Article 7 and any successor agent pursuant to Section 7.7.

"Agent Fee Letter" means the confidential letter agreement dated as of April 30, 1998, between the Borrower, the Agent and the Arranger regarding certain fees owed by the Borrower to the Agent in connection with this Agreement.

"Agreement" means this Credit Agreement.

"Applicable Margin" means, with respect to interest rates, unused commitment fees, and letter of credit fees and as of any date of its determination, an amount equal to the percentage amount set forth in the table below opposite the applicable ratio of (a) the consolidated Debt of the Borrower as of the end of the fiscal quarter then most recently ended to (b) the consolidated EBITDA of the Borrower for the four fiscal quarters then most recently ended:

Debt to EBITDA	Applicable Margin LIBOR Tranches and Letter of Credit Fee	Applicable Margin Prime Rate Tranche	Applicable Margin Commitment Fee
#1.00	1.00%	0.00%	0.250%
)1.00 but #1.50	1.25%	0.00%	0.250%
)1.50 but #2.00	1.50%	0.00%	0.300%
)2.00	2.00%	0.50%	0.375%

Until delivery of the first Compliance Certificate, the foregoing ratio shall be deemed to be 1.01. Thereafter, the ratio and resulting Applicable Margin shall be based upon Schedule C of the most recent Compliance Certificate delivered to the Agent pursuant to Section 5.2(a) or Section 5.2(b) (provided that for the period from the determination of the Applicable Margin based on the first Compliance Certificate until the date when the Applicable Margin is reset based upon the Compliance Certificate for the period ending December 31, 1998, the ratio shall be deemed to be the greater of the ratio as so determined or 1.01 and the Applicable Margin shall be set accordingly).

Any adjustments to the Applicable Margin shall become effective on the 45th day following the last day of each fiscal quarter or on the 90th day following the last day of each fiscal year as applicable; provided, however, that if any such Compliance Certificate is not delivered when required hereunder, the Applicable Margin shall be deemed to be the maximum percentage amount in each table from such 45th or 90th day until such Compliance Certificate is received by the Agent.

Upon any change in the Applicable Margin, the Agent shall promptly notify the Borrower and the Banks of the new Applicable Margin.

"Applicable Lending Office" means, with respect to each Bank and for any particular type of transaction, the office of such Bank set forth in Schedule I to this Agreement (or in the applicable Assignment and Acceptance by which such Bank joined this Agreement) as its applicable lending office for such type of transaction or such other office of such Bank as such Bank may from time to time specify in writing to the Borrower and the Agent for such particular type of transaction.

"Arranger" means NationsBanc Montgomery Securities LLC, formerly known as NationsBanc Montgomery Securities, Inc.

"Assignment and Acceptance" means an Assignment and Acceptance in substantially the form of Exhibit E executed by an assignor Bank, an assignee Bank, and the Agent, in accordance with Section 8.5.

"Banks" means the lenders listed as Banks on the signature pages of this Agreement and each Eligible Assignee that shall become a party to this Agreement pursuant to Section 8.5(b).

"Base Rate" means, for any day, the fluctuating rate per annum of interest equal to the greater of (a) the Prime Rate in effect on such day or (b) the Federal Funds Rate in effect on such day plus 0.50%.

"Borrower" means Integrated Electrical Services, Inc., a Delaware corporation.

"Business Day" means any Monday through Friday during which commercial banks are open for business in Houston, Texas, Dallas, Texas, and, if the applicable Business Day relates to any LIBOR Tranche, on which dealings are carried on in the London interbank market.

"Capital Expenditures" means, with respect to any Person and any period of its determination, the consolidated expenditures of such Person during such period that are required to be included in or are reflected by the consolidated property, plant, or equipment accounts of such Person, or any similar fixed asset or long term capitalized asset accounts of such Person, on the consolidated balance sheet of such Person in conformity with generally accepted accounting principles.

"Capital Leases" means, with respect to any Person, any lease of any property by such Person which would, in accordance with generally accepted accounting principles, be required to be classified and accounted for as a capital lease on the balance sheet of such Person.

"Cash Taxes" means, with respect to any Person and for any period of its determination, the consolidated cash taxes paid by such Person during such period, or with respect to any Persons which were organized as partnerships or subchapter S corporations during such period, all amounts owed by the respective partners or shareholders of such Persons with respect to taxes payable in connection with such partnership or equity ownership during such period.

"Change of Control" means, with respect to the Borrower, (a) the direct or indirect acquisition after the date hereof by any Person or related Persons constituting a group of (i) beneficial ownership of issued and outstanding shares of Voting Securities of the Borrower, the result of which acquisition is that such Person or such group possesses 35% or more of the combined voting power of all then-issued and outstanding Voting Securities of the Borrower or (ii) the power to elect, appoint, or cause the election or appointment of at least a majority of the members of the board of directors of the Borrower, or (b) the individuals who, at the beginning of any period of 12 consecutive months, constitute the Borrower's board of directors (together with any new director whose election by the Borrower's board of directors or whose nomination for election by the Borrower's stockholders entitled to vote thereon was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason (other than death or disability) to constitute a majority of the Borrower's board of directors then in office.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"Commonly Controlled Entity" means, with respect to any Person, any other Person which is under common control with such Person within the meaning of Section 414 of the Code.

"Compliance Certificate" means a compliance certificate executed by a Responsible Officer of the Borrower in substantially the form of Exhibit A, including the following attached Schedules:

Schedule A: The applicable financial reports provided under Section 5.2(a) or 5.2(b) ending on the date of the computation of the financial covenants.

Schedule B: A schedule of any adjustments to the financial reports in Schedule A to the Compliance Certificate, listed on a company-by-company basis, that are requested by the Borrower to reflect the financial results of Acquisitions made prior to the end of the applicable period, together with the supporting financial reports of the Acquisitions from which the Borrower prepared such adjustments, prepared in accordance with Section 1.3(c) and otherwise in a form acceptable to the Agent.

Schedule C: The computation of the financial covenants under this Agreement based upon the financial reports in Schedule B to the Compliance Certificate in a form acceptable to the Agent.

"Consent" means the Consent, dated as of July 30, 1998, made by the Subsidiaries of the Borrower in favor of the Agent, consenting to the security interests granted to the Agent under the Pledge Agreements, together with any future agreements made by any Subsidiaries of the Borrower consenting to the grant to the Agent of any such security interests.

"Continuation/Conversion Request" means a Continuation/Conversion Request in substantially the form of Exhibit C executed by a Responsible Officer of the Borrower and delivered to the Agent.

"Contract Status Report" means a report, in form and substance acceptable to the Agent, detailing the status of each contract of any Restricted Entity which contract has a value equal to or greater than $7,500,000.

"Credit Documents" means this Agreement, the Revolving Loan Notes, the Swing Line Note, the Fee Letter, the Agent Fee Letter, the Letter of Credit Documents, the Guaranty, the Security Documents, the Interest Hedge Agreements, and each other agreement, instrument, or document executed at any time in connection with this Agreement.

"Credit Obligations" means all principal, interest, fees, reimbursements, indemnifications, and other amounts now or hereafter owed by the Borrower to the Agent and the Banks (or with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under this Agreement, the Revolving Loan Notes, the Swing Line Note, the Letter of Credit Documents, and the other Credit

Documents and any increases, extensions, and rearrangements of those obligations under any amendments, supplements, and other modifications of the documents and agreements creating those obligations.

"Credit Parties" means the Borrower and the Guarantors.

"Debt" means, with respect to any Person, without duplication, (a) indebtedness of such Person for borrowed money, (b) obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments, (c) obligations of such Person to pay the deferred purchase price of property or services (other than trade debt and normal operating liabilities incurred in the ordinary course of business), (d) obligations of such Person as lessee under Capital Leases, (e) obligations of such Person under or relating to letters of credit, guaranties, purchase agreements, or other creditor assurances, in each case, assuring a creditor against loss in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (d) of this definition, (f) nonrecourse indebtedness or obligations of others of the kinds referred to in clauses (a) through (e) of this definition secured by any Lien on or in respect of any property of such Person, and (g) obligations of such Person evidenced by preferred stock or other equity interests in such Person which provide for mandatory redemption, mandatory payment of dividends, or similar rights to the payment of money. For the purposes of determining the amount of any Debt, the amount of any Debt described in clause (e) of the definition of Debt shall be valued at the maximum amount of the contingent liability thereunder, the amount of any Debt described in clause (f) that is not covered by clause (e) shall be valued at the lesser of the amount of the Debt secured or the book value of the property securing such Debt, and the amount of any Debt described in clause (g) shall be valued at the stated redemption value of such Debt as of the date of determination.

"Default" means (a) an Event of Default or (b) any event or condition which with notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Default Rate" means, with respect to any amount due hereunder, a per annum interest rate equal to (a) if such amount is either outstanding principal accruing interest based upon a rate established elsewhere in this Agreement or accrued but unpaid interest thereon, the sum of (i) the interest rate established elsewhere in this Agreement from time to time for such principal amount, including any applicable margin, plus (ii) 2.00% per annum or (b) in all other cases, the Base Rate in effect from time to time plus the Applicable Margin for the Prime Rate Tranche in effect from time to time plus 2.00% per annum.

"Derivatives" means any swap, hedge, cap, collar, or similar arrangement providing for the exchange of risks related to price changes in any commodity, including money.

"Dollars or $" means lawful money of the United States of America.

"EBITDA" means, with respect to any Person and for any period of its determination, the consolidated net income of such Person for such period, plus the consolidated interest expense and income taxes of such Person for such period, plus the consolidated depreciation and amortization of such Person for such period, minus all extraordinary gains and all other non-cash income added to the consolidated net income of such Person for such period, and further, excluding the $17,036,000 non-cash, non-recurring compensation charge in connection with the Acquisition disclosed in the Borrower's March 31, 1998, Form 10-Q.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Eligible Assignee" means, with respect to any assignment hereunder at the time of such assignment, any commercial bank organized under the laws of the United States or any of the countries parties to the Organization for Economic Cooperation and Development or any political subdivision of any thereof which has primary capital (or its equivalent) of not less than $250,000,000, is approved by the Agent, and, so long as no Event of Default exists, is approved by the Borrower, in either case, such approval not to be unreasonably withheld.

"Environmental Law" means all federal, state, and local laws, rules, regulations, ordinances, orders, decisions, agreements, and other requirements now or hereafter in effect relating to the pollution, destruction, loss, or injury of the environment, the presence of any contaminant in the environment, the protection, cleanup, remediation, or restoration of the environment, the creation, handling, transportation, use, or disposal of any waste product in the environment, exposure of persons to any contaminant, waste, or hazardous substance in the environment, and the health and safety of employees in relation to their environment.

"Event of Default" has the meaning specified in Section 6.1.

"Federal Funds Rate" means, for any period, a fluctuating per annum interest rate equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for any such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System or any of its successors.

"Fee Letter" means the letter agreement dated as of July 30, 1998, made by the Borrower in favor of the Banks, regarding the upfront fee payable to each Bank based upon such Bank's Revolving Loan Commitment.

"Guaranty" means the Guaranty dated as of July 30, 1998, made by the Subsidiaries of the Borrower in favor of the Agent guaranteeing the Credit Obligations.

"Guarantors" means (a) the Subsidiaries of the Borrower that have executed the Guaranty in connection with the execution of this Agreement and (b) any future Subsidiaries of the Borrower that join the Guaranty pursuant to Section 5.19.

"Hazardous Materials" means any substance or material identified as a hazardous substance pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended and as now or hereafter in effect; any substance or material regulated as a hazardous waste pursuant to the Resource Conservation and Recovery Act of 1976, as amended and as now or hereafter in effect; and any substance or material designated as a hazardous substance or hazardous waste pursuant to any other Environmental Law.

"Highest Lawful Rate" means the maximum lawful interest rate, if any, that at any time or from time to time may be contracted for, charged, or received under the laws applicable to the relevant Bank which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow. The maximum lawful rate under this Agreement shall be the weekly indicated rate ceiling under Chapter 1D of Article 5069 of the Texas Revised Civil Statutes, as amended, unless any other lawful rate ceiling exceeds the rate ceiling so determined, and then the higher rate ceiling shall apply.

"Interest Expense" means, with respect to any Person and for any period of its determination, the consolidated interest expense of such Person during such period.

"Interest Hedge Agreements" means any swap, hedge, cap, collar, or similar arrangement between the Borrower and any Bank (or any Affiliate of any Bank) providing for the exchange of risks related to price changes in the interest rate on the Revolving Loan Advances under this Agreement.

"Interest Period" means, with respect to each LIBOR Tranche, the period commencing on the date of such LIBOR Tranche and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three, or six months, in each case as the Borrower may select in the applicable Revolving Loan Borrowing Request or Continuation/Conversion Request (unless there shall exist any Default or Event of Default, in which case the Borrower may only select one month Interest Periods); provided, however, that:

(a) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that if such extension would cause the last day of such Interest

Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(b) any Interest Period which begins on the last Business Day of the calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month in which it would have ended if there were a numerically corresponding day in such calendar month; and

(c) the Borrower may not select an Interest Period for any LIBOR Tranche which ends after the Revolving Loan Maturity Date.

"Interim Financial Statements" means the consolidated financial statements of the Borrower dated as of March 31, 1998, including the consolidated balance sheets of the Borrower as of the end of such fiscal quarter and the consolidated statements of income and cash flows for such fiscal quarter and for the fiscal year to date period ending on the last day of such fiscal quarter.

"Issuing Bank" means NationsBank and any successor issuing bank pursuant to Section 7.7.

"LIBOR" means, for any LIBOR Tranche for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the term "LIBOR" shall mean, for any LIBOR Tranche for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates.

"LIBOR Tranche" shall mean any Tranche which bears interest based upon the LIBOR, as determined in accordance with Section 2.5.

"Letter of Credit" means any commercial or standby letter of credit issued by the Issuing Bank for the account of the Borrower pursuant to the terms of this Agreement.

"Letter of Credit Application" means the Issuing Bank's standard form letter of credit application for either a commercial or standby letter of credit, as the case may be, which has been executed by the Borrower and accepted by the Issuing Bank in connection with the issuance of a Letter of Credit.

"Letter of Credit Application Amendment" means the Issuing Bank's standard form application to amend a letter of credit for either a commercial or standby letter of credit, as the case may be, which has been executed by a Borrower and accepted by the Issuing Bank in connection with the increase or extension of a Letter of Credit.

"Letter of Credit Collateral Account" means a special cash collateral account pledged to the Agent containing cash deposited pursuant to Sections 2.2(d) or 6.4 to be maintained with the Agent in accordance with Section 2.2(g).

"Letter of Credit Documents" means all Letters of Credit, Letter of Credit Applications, Letter of Credit Application Amendments, and agreements, documents, and instruments entered into in connection with or relating thereto.

"Letter of Credit Exposure" means, as of any date of its determination, the aggregate outstanding undrawn amount of Letters of Credit plus the aggregate of the reimbursement obligations of the Borrower under the Letter of Credit Applications and this Agreement.

"Letter of Credit Sublimit" means $15,000,000.

"Lien" means any mortgage, lien, pledge, charge, deed of trust, security interest, encumbrance, or other type of preferential arrangement to secure or provide for the payment of any obligation of any Person, whether arising by contract, operation of law, or otherwise (including any title retention for such purposes under any conditional sale agreement, any Capital Lease, or any other title transfer or retention agreement).

"Majority Banks" means, at any time, Banks holding more than 50% of the then aggregate unpaid principal amount of the Revolving Loan Notes held by the Banks and the Letter of Credit Exposure of the Banks at such time; provided that if no such principal amount or Letter of Credit Exposure is then outstanding, "Majority Banks" shall mean Banks having more than 50% of the aggregate amount of the Revolving Loan Commitments at such time.

"Material Adverse Change" means any material adverse change in the business, operations, or financial condition of the Borrower and its Subsidiaries on a consolidated basis.

"NationsBank" means NationsBank, N.A., successor in interest by merger to NationsBank of Texas, N.A., in its individual capacity.

"Net Worth" means, with respect to any Person and as of any date of its determination, the excess of (a) the assets of such Person over (b) the liabilities of such Person.

"Partnership Pledge Agreement" means the Pledge Agreement dated as of July 30, 1998, made by the respective limited and general partners of each limited partnership Subsidiary of the

Borrower, in favor of the Agent granting the Agent a security interest in the partnership interests of such partners in such limited partnerships, to secure the Credit Obligations.

"PBGC" means Pension Benefit Guaranty Corporation or its successor.

"Permitted Debt" means all of the following Debt:

(a) Debt in the form of the Credit Obligations;

(b) Debt in the form of indebtedness for borrowed money and letters of credit owed by any Subsidiary of the Borrower prior to the acquisition of such Subsidiary by the Borrower in an Acquisition transaction, or owed by any Person that is the subject of any Acquisition assumed by the Borrower or any Subsidiary of the Borrower in connection with such Acquisition, provided that with respect to any such indebtedness, arrangements satisfactory to the Agent for the repayment of such indebtedness within 30 days following the closing of the Acquisition are made prior to the closing of the Acquisition and such arrangements are executed;

(c) Debt in the form of (i) purchase money indebtedness and Capital Leases, (ii) indebtedness for borrowed money and letters of credit owed by any Subsidiary of the Borrower prior to the acquisition of such Subsidiary by the Borrower in an Acquisition transaction, or owed by any Person that is the subject of any Acquisition assumed by the Borrower or any Subsidiary of the Borrower in connection with such Acquisition, and (iii) other indebtedness, which Debt under clauses (i), (ii), and (iii) together are in an aggregate outstanding amount not to exceed $7,500,000;

(d) Debt in the form of Subordinated Debt;

(e) Debt in the form of Qualified Preferred Stock; and

(f) Debt in the form of reimbursement obligations for performance bonds issued in the ordinary course of business.

"Permitted Investments" means all of the following investments:

(a) investments (including investments in the form of loans) in wholly-owned Subsidiaries of the Borrower;

(b) investments in the form of loans, guaranties, open accounts, and other extensions of trade credit in the ordinary course of business;

(c) investments in commercial paper, bankers' acceptances, loan participation agreements, and other similar investments, in each case, maturing in twelve months or less from the date of issuance and which, at the time of acquisition are rated A-2 or better by Standard & Poor's Corporation and P-2 or better by Moody's Investors Services, Inc;

(d) investments in direct obligations of the United States, or investments in any Person which investments are guaranteed by the full faith and credit of the United States, in either case maturing in twelve months or less from the date of acquisition thereof and repurchase agreements having a term of less than one year and fully collateralized by such obligations which are entered into with banks or trust companies described in clause (e) below or brokerage companies having net worth in excess of $250,000,000;

(e) investments in time deposits or certificates of deposit maturing within one year from the date such investment is made, issued by a bank or trust company organized under the laws of the United States or any state thereof having capital, surplus, and undivided profits aggregating at least $250,000,000 or a foreign branch thereof and whose long-term certificates of deposit are, at the time of acquisition thereof, rated A-2 by Standard & Poor's Corporation or Prime-2 by Moody's Investors Services, Inc.;

(f) investments in money market funds which invest solely in the types of investments described in paragraphs (c) through (e) above; and

(g) loans and advances to directors, officers, and employees of the Credit Parties made in the ordinary course of business in an aggregate outstanding amount not to exceed $250,000.

In valuing any investments for the purpose of applying the limitations set forth in this Agreement, such investments shall be taken at the original cost thereof (but without reduction for any subsequent appreciation or depreciation thereof) less any amount actually repaid or recovered on account of capital or principal (but without reduction for any offsetting investments made by the investee in the investor). For purposes of this Agreement, at any time when a corporation becomes a Subsidiary of the Borrower, all investments of such corporation at such time shall be deemed to have been made by such corporation at such time.

"Permitted Liens" means all of the following Liens:

(a) Liens securing the Credit Obligations;

(b) Liens securing purchase money debt, Capital Leases, and assumed or acquired indebtedness for borrowed money and letters of credit permitted under clause (b) of the definition of Permitted Debt provided that no such Lien is spread to cover any property not (i) purchased in connection with the incurrence of such Debt, in the case of purchase money debt, or (ii) covered by such Lien at the time of the assumption or acquisition of the indebtedness secured thereby, in the case of assumed or acquired indebtedness for borrowed money and letters of credit; and

(c) Liens arising in the ordinary course of business which are not incurred in connection with the borrowing of money, the obtaining of advances or credit, or payment of legal judgments and which do not materially detract from the value of any Restricted Entity's assets or materially interfere with any Restricted Entity's business, including such (i) Liens for taxes, assessments, or other governmental charges or levies; (ii) Liens in connection with worker's compensation, unemployment insurance, or other social security, old age pension, or public liability obligations; (iii) Liens in the form of legal or equitable encumbrances deemed to exist by reason of negative pledge covenants and other covenants or undertakings of like nature; (iv) Liens in the form of vendors', carriers', warehousemen's, repairmen's, mechanics', workmen's, materialmen's, construction, or other like Liens arising by operation of law in the ordinary course of business or incident to the construction or improvement of any property, including liens securing reimbursement obligations for performance bonds issued in the ordinary course of business; and (v) Liens in the form of zoning restrictions, easements, licenses, and other restrictions on the use of real property or minor irregularities in title thereto which do not materially impair the use of such property in the operation of the business of the applicable Restricted Entity or the value of such property.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, or other entity, or a government or any political subdivision or agency thereof, or any trustee, receiver, custodian, or similar official.

"Plan" means any (a) employee medical benefit plan under Section 3(1) of ERISA, (b) employee pension benefit plan under Section 3(2) of ERISA, (c) multiemployer plan under Section 4001(a)(3) of ERISA, and (d) employee account benefit plan under Section 3(2) of ERISA.

"Pledge Agreements" means, collectively (i) the Stock Pledge Agreement, (ii) the Partnership Pledge Agreement, and (iii) any future agreements granting the Agent a security interest in capital stock, partnership interests, or other membership interests of any Subsidiary (direct or indirect) of the Borrower, in each case, to secure the Credit Obligations.

"Prime Rate" means, for any day, the fluctuating per annum interest rate in effect on such day equal to the rate of interest publicly announced by the Agent as its prime rate, whether or not the Borrower has notice thereof.

"Prime Rate Borrowing" shall mean that portion of any Revolving Loan Borrowing which bears interest based upon the Base Rate as determined in accordance with Section 2.5.

"Prime Rate Tranche" shall mean the Tranche which bears interest based upon the Base Rate, as determined in accordance with Section 2.5.

"Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

"Qualified Preferred Stock" means, with respect to the Borrower and as of any date of its issuance, any shares of preferred stock of the Borrower that (a) is issued after the date of this Agreement, (b) provides for its mandatory redemption on a date, if at all, that is on or after the first anniversary of the latest maturity of any of the Credit Obligations at the time issued, and (c) provides in the applicable certificate of designation for the redemption of such shares and for the blockage of Restricted Payments in respect of such shares during the existence of a Default or an Event of Default (i) on the terms and conditions set forth on Schedule IV, or (ii) on terms approved by the Agent and the Majority Banks in their sole discretion, all such provisions to be in form and content satisfactory to the Agent and the Majority Banks in their sole discretion.

"ratable share" or "pro rata share" means, with respect to any Bank and as of any date of its determination, either (a) the ratio of such Bank's Revolving Loan Commitment at such time to the aggregate Revolving Loan Commitments at such time or (b) if the Revolving Loan Commitments have been terminated, the ratio of such Bank's aggregate outstanding Revolving Loan Advances and share of the Letter of Credit Exposure at such time to the aggregate outstanding Revolving Loan Advances and Letter of Credit Exposure at such time.

"Registration Statement" means the public offering registration statement of the Borrower as filed with the Securities and Exchange Commission on October 24, 1997, and as refiled on November 28, 1997, under Registration Number 333-38715.

"Related Parties" means, with respect to any Person, such Person's stockholders, directors, officers, employees, agents, Affiliates, successors, and assigns, and their respective stockholders, directors, officers, employees, and agents, and, with respect to any Person that is an individual, such Person's family relations and heirs.

"Reportable Event" means any of the events set forth in Section 4043 of ERISA.

"Responsible Officer" means, with respect to any Person, such Person's Chief Executive Officer, President, Chief Financial Officer, Secretary, Chief Accounting Officer, or any other officer of such Person designated by any of the foregoing in writing from time to time.

"Restricted Entities" means the Borrower and each Subsidiary of the Borrower.

"Restricted Payment" means the declaration or making by any Person of any (a) dividends; (b) purchase, redemption, retirement, or other acquisition for value any of its capital stock now or hereafter outstanding, or any distribution of assets to its stockholders as such, whether in cash, assets, or in obligations of it; (c) allocation or other setting apart of any sum for the payment of any dividend or distribution on, or for the purchase, redemption, or retirement of, any shares of its capital stock; or (d) making of any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock; in each case, other than any such dividends, distributions, and payments payable in such Person's common stock.

"Revolving Loan" means the aggregate outstanding principal amount of the Revolving Loan Borrowings.

"Revolving Loan Advance" means the outstanding principal from a Bank which represents such Bank's ratable share of a Revolving Loan Borrowing.

"Revolving Loan Borrowing" means any aggregate amount of principal advanced on the same day and pursuant to the same Revolving Loan Borrowing Request under the revolving loan facility created in Section 2.1.

"Revolving Loan Borrowing Request" means a Revolving Loan Borrowing Request in substantially the form of Exhibit B executed by a Responsible Officer of the Borrower and delivered to the Agent.

"Revolving Loan Commitment" means, for any Bank, the amount set forth below such Bank's name on the signature pages of this Agreement as its Revolving Loan Commitment, or if such Bank has entered into any Assignment and Acceptance since the date of this Agreement, as set forth for such Bank as its Revolving Loan Commitment in the Register maintained by the Agent pursuant to Section 8.5(c), in each case as such amount may be terminated pursuant to Section 6.2.

"Revolving Loan Maturity Date" means July 30, 2001.

"Revolving Loan Note" means a promissory note of the Borrower payable to the order of a Bank, in substantially the form of Exhibit D, evidencing the indebtedness of the Borrower to such Bank resulting from Revolving Loan Advances made by such Bank to the Borrower.

"Security Agreement" means the Security Agreement dated as of July 30, 1998, made by the Borrower and the Subsidiaries of the Borrower in favor of the Agent granting the Agent a security interest in the accounts receivable of each such Credit Party to secure the Credit Obligations.

"Security Documents" means the Security Agreement, the Pledge Agreements, the Consent, and any other document creating or consenting to Liens in favor of the Agent securing Credit Obligations.

"Stock Pledge Agreement" means, the Pledge Agreement, dated as of July 30, 1998, made by Borrower and certain Subsidiaries of Borrower in favor of the Agent granting the Agent a security interest in the capital stock or membership interests, as applicable, of each Subsidiary (whether direct or indirect) of Borrower, to secure the Credit Obligations.

"Subordinated Debt" means, with respect to the Borrower and as of any date of its issuance, any unsecured indebtedness for borrowed money for which the Borrower is directly and primarily obligated that (a) arises after the date of this Agreement, (b) does not have any stated maturity before the latest maturity of any of the Credit Obligations at the time incurred, (c) has terms that are no more restrictive than the terms of the Credit Documents, and (d) is expressly subordinated to the Credit Obligations (i) on the terms and conditions set forth on Schedule III, or (ii) on terms approved by the Agent and the Majority Banks in their sole discretion, including payment subordination, remedy subordination, and related terms satisfactory to the Agent and the Majority Banks in their sole discretion.

"Subsidiary" means, with respect to any Person, any other Person, a majority of whose outstanding Voting Securities (other than directors' qualifying shares) shall at any time be owned by such Person or one or more Subsidiaries of such person.

"Swing Line Lender" means NationsBank.

"Swing Line Loan" means the aggregate outstanding principal amount of the advances made under the Swing Line Note.

"Swing Line Note" means the promissory note of the Borrower in the principal amount of $5,000,000 payable to the order of the Swing Line Lender evidencing the indebtedness of the Borrower to the Swing Line Lender resulting from advances to the Borrower under the line of credit created thereunder.

"Tranche" means any tranche of principal outstanding under the Revolving Loan accruing interest on the same basis whether created in connection with new advances of principal under the Revolving Loan pursuant to Section 2.5(a)(i) or by the continuation or conversion of existing tranches of principal under such Loan pursuant to Section 2.5(a)(ii) and shall include the Prime Rate Tranche or any LIBOR Tranche.

"Type" has the meaning set forth in Section 1.4.

"Voting Securities" means (a) with respect to any corporation, any capital stock of the corporation having general voting power under ordinary circumstances to elect directors of such corporation, (b) with respect to any partnership, any partnership interest having general voting power under ordinary circumstances to elect the general partner or other management of the partnership, and (c) with respect to any other Person, such ownership interests in such Person having general voting power under ordinary circumstances to elect the management of such Person, in each case irrespective of whether at the time any other class of stock, partnership interests, or other ownership interest might have special voting power or rights by reason of the happening of any contingency.

1.2 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

1.3 Accounting Terms; Preparation of Financials.

(a) All accounting terms, definitions, ratios, and other tests described herein shall be construed in accordance with United States generally accepted accounting principles applied on a consistent basis with those applied in the preparation of the Registration Statement, except as expressly set forth in this Agreement.

(b) The Restricted Entities shall prepare their financial statements in accordance with United States generally accepted accounting principles applied on a consistent basis with those applied in the preparation of the Registration Statement, unless otherwise approved in writing by the Agent. In accordance with the foregoing, (i) any Acquisition which is permitted to be treated as a pooling transaction shall be treated as a pooling transaction, and following such an Acquisition the consolidated financial statements of the Borrower shall be adjusted to reflect the results of such Acquisition during the periods prior to such Acquisition in accordance with generally accepted accounting principles and (ii) any Acquisition which is not permitted to be treated as a pooling transaction shall be treated as an asset purchase, without adjustment for prior periods.

(c) Where expressly permitted in this Agreement, the Borrower may elect to use the compliance calculations set forth in Schedule C of a Compliance Certificate to calculate the Applicable Margin or compliance with a financial covenant under this Agreement. In such case the accounting terms, definitions, ratios, and other tests used in making such calculation shall be construed as required by paragraph (a) above except that the consolidated financial results of the Borrower shall be deemed to be the adjusted consolidated financial results of the Borrower set forth in Schedule B of the Compliance Certificate. The Borrower shall prepare Schedule B and C of the Compliance Certificate in accordance with the following provisions:

(i) The Borrower may select one or more Acquisitions for inclusion in the adjustments permitted in Schedule B or C of the Compliance Certificate; provided that if the inclusion of any Acquisition results in an increase in the consolidated EBITDA of the Borrower over the consolidated EBITDA of the Borrower required to be reported in Schedule A of the Compliance Certificate, then the Borrower must include all Acquisitions which would cause a decrease in the consolidated EBITDA of the Borrower in Schedule B and C of the Compliance Certificate.

(ii) If the Acquisition is treated as a pooling transaction, the Borrower shall adjust the pooling accounting treatment of the Acquisition to reflect nonrecurring items (both positive and negative) that are permitted to be adjusted in accordance with the pro forma financial statement guidelines established by the Securities and Exchange Commission for acquisition accounting for reported acquisitions by public companies or as approved by the Agent.

(iii) If the Acquisition is not treated as a pooling transaction, the financial results of the acquired Person or assets shall be added to the applicable financial results of the Borrower in the same manner as if such transaction were a pooling transaction with such adjustments thereto as are required to reflect nonrecurring items (both positive and negative) that are permitted to be adjusted in accordance with the pro forma financial statement guidelines established by the Securities and Exchange Commission for acquisition accounting for reported acquisitions by public companies or as approved by the Agent.

(iv) No Acquisition may be included in Schedule B or C of the Compliance Certificate at the request of the Borrower unless the financial reports of the acquired Person or assets from which Schedule B and C are prepared are (A) audited financial reports prepared by an independent certified public accounting firm, or (B) with respect to unaudited financial reports, are otherwise approved by the Agent.

1.4 Types. The "Type" of a Tranche refers to the determination whether such tranche is a LIBOR Tranche or the Prime Rate Tranche.

1.5 Interpretation. Article, Section, Schedule, and Exhibit references are to this Agreement, unless otherwise specified. All references to instruments, documents, contracts, and agreements are references to such instruments, documents, contracts, and agreements as the same may be amended, supplemented, and otherwise modified from time to time, unless otherwise specified. The word "including" shall mean "including but not limited to." The word "or" shall mean "and/or" wherever necessary to prevent interpretation of any provision against the Agent or the Banks. Whenever the Borrower has an obligation under this Agreement and the Credit Documents the expense of complying with that obligation shall be an expense of the Borrower unless otherwise specified. Whenever any determination is to be made by the Agent or any Bank, such determination shall be in such Person's sole discretion unless otherwise specified in this Agreement. If any provision in this Agreement and the Credit Documents is held to be illegal, invalid, not binding, or unenforceable, such provision shall be fully severable and this Agreement and the Credit Documents shall be construed and enforced as if such illegal, invalid, not binding, or unenforceable provision had never comprised a part of this Agreement and the Credit Documents, and the remaining provisions shall remain in full force and effect. This Agreement and the Credit Documents have been reviewed and negotiated by sophisticated parties with access to legal counsel and shall not be construed against the drafter. In the event of a conflict between this Agreement and any other Credit Documents, this Agreement shall control.

ARTICLE 2. CREDIT FACILITIES.

2.1 Revolving Loan Facility.

(a) Revolving Loan Commitments. Each Bank severally agrees, on the terms and conditions set forth in this Agreement and for the purposes set forth in Section 5.4, to make Revolving Loan Advances to the Borrower as such Bank's ratable share of Revolving Loan Borrowings requested by the Borrower from time to time on any Business Day during the period from the date of this Agreement until the Revolving Loan Maturity Date provided that the aggregate outstanding principal amount of Revolving Loan Advances made by such Bank plus such Bank's ratable share of the Swing Line Loan plus such Bank's ratable share of the Letter of Credit Exposure shall not exceed such Bank's Revolving Loan Commitment. Revolving Loan Borrowings must be made in an amount equal to or greater than $1,000,000, in the case of any Revolving Loan Borrowing comprised of a LIBOR Tranche, or $1,000,000, in the case of any Prime Rate Borrowing, and be made in multiples of $500,000, in the case of any Revolving Loan Borrowing comprised of a LIBOR Tranche, or $100,000, in the case of any Prime Rate Borrowing. Within the limits expressed in this Agreement, the Borrower may from time to time borrow, prepay, and reborrow Revolving Loan Borrowings. The indebtedness of the Borrower to the Banks resulting from the Revolving Loan Advances made by the Banks shall be evidenced by Revolving Loan Notes made by the Borrower.

(b) Method of Advancing

(i) Each Revolving Loan Borrowing shall be made pursuant to a Revolving Loan Borrowing Request given by the Borrower to the Agent in writing or by telecopy not later than the time required pursuant to Section 2.5(a)(i) to select the interest rate basis for the Revolving Loan Borrowing. Each Revolving Loan Borrowing Request shall be fully completed and shall specify the information required therein, and shall be irrevocable and binding on the Borrower. Upon receipt of the Revolving Loan Borrowing Request by the Agent, the Agent shall promptly forward notice of the Revolving Loan Borrowing to the Banks. Each Bank shall, before 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the date of the requested Revolving Loan Borrowing, make available from its Applicable Lending Office to the Agent at the Agent's Applicable Lending Office, in immediately available funds, such Bank's ratable share of such Revolving Loan Borrowing. Subject to the satisfaction of all applicable conditions precedent, after receipt by the Agent of such funds, the Agent shall, by 4:00 p.m. (local time at the Applicable Lending Office of the Agent), on the date requested for such Revolving Loan Borrowing make such Revolving Loan Borrowing available to the Borrower in immediately available funds at any account of Borrower which is designated in writing by the Borrower to the Agent.

(ii) Unless the Agent shall have received notice from a Bank before the date of any Revolving Loan Borrowing that such Bank shall not make available to the Agent such Bank's ratable share of such Revolving Loan Borrowing, the Agent may assume that such Bank has made its ratable share of such Revolving Loan Borrowing available to the Agent on the date of such Revolving Loan Borrowing in accordance with paragraph (i) above and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made its ratable share of such Revolving Loan Borrowing available to the Agent, such Bank agrees that it shall pay interest on such amount for each day from the date such amount is made available to the Borrower by the Agent until the date such amount is paid to the Agent by such Bank at the Federal Funds Rate in effect from time to time, provided that with respect to such Bank if such amount is not paid by such Bank by the end of the second day after the Agent makes such amount available to the Borrower, the interest rates specified above shall be increased by a per annum amount equal to 2.00% on the third day and shall remain at such increased rate thereafter. Interest on such amount shall be due and payable by such Bank upon demand by the Agent. If such Bank shall pay to the Agent such amount and interest as provided above, such amount so paid shall constitute such Bank's Revolving Loan Advance as part of such Revolving Loan Borrowing for all purposes of this Agreement even though not made on the same day as the other Revolving Loan Advances comprising such Revolving Loan Borrowing. In the event that such Bank has not repaid such amount by the end of the fifth day after such amount was made available to the Borrower, the Borrower agrees to repay to the Agent on demand such amount, together with interest on such amount for each day from the date such amount was made available to the Borrower until the date such amount is repaid to the Agent at the interest rate charged to the Borrower for such Revolving Loan Borrowing under the terms of this Agreement.

(iii) The failure of any Bank to make available its ratable share of any Revolving Loan Borrowing shall not relieve any other Bank of its obligation, if any, to make available its ratable share of such Revolving Loan Borrowing. No Bank shall be responsible for the failure of any other Bank to honor such other Bank's obligations hereunder, including any failure to make available any funds as part of any Revolving Loan Borrowing.

(c) Prepayment.

(i) The Borrower may prepay the outstanding principal amount of the Revolving Loan pursuant to written notice given by the Borrower to the Agent in writing or by telecopy not later than (A) 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of the proposed prepayment, in the case of the prepayment of any portion of the Revolving Loan which is comprised of LIBOR Tranches, or (B) 11:00 a.m. (local time at the Applicable Lending Office of the Agent) on the same Business Day of the proposed prepayment, in the case of the prepayment of any portion of the Revolving Loan comprised solely of the Prime Rate Tranche. Each such notice shall specify the principal amount and Tranche or Tranches of the Revolving Loan which shall be prepaid, the date of the prepayment, and shall be irrevocable and binding on the Borrower. Prepayments of the Revolving Loan shall be made in integral multiples of $500,000, in the case of prepayments of any LIBOR Tranches, or $100,000, in the case of prepayments of the Prime Rate Tranche. If the prepayment would cause the aggregate outstanding principal amount of any LIBOR Tranche comprising all or any part of the Revolving

Loan or the aggregate outstanding principal amount of the Prime Rate Tranche comprising all or any part of the Revolving Loan, to be less than $1,000,000, in the case of any such LIBOR Tranche, or $1,000,000, in the case of the Prime Rate Tranche, the prepayment must be in an amount equal to the entire outstanding principal amount of such LIBOR Tranche under the Revolving Loan or the entire outstanding principal amount of the Prime Rate Tranche under the Revolving Loan, as the case may be. Upon receipt of any notice of prepayment, the Agent shall give prompt notice of the intended prepayment to the Banks. For each such notice given by the Borrower, the Borrower shall prepay the Revolving Loan in the specified amount on the specified date as set forth in such notice. The Borrower shall have no right to prepay any principal amount of the Revolving Loan except as provided in this Section 2.1(c)(i).

(ii) Each prepayment of principal of any LIBOR Tranche under the Revolving Loan pursuant to this Section 2.1(c) shall be accompanied by payment of all accrued but unpaid interest on the principal amount prepaid and any amounts required to be paid pursuant to Section 2.6 as a result of such prepayment.

(d) Repayment. The Borrower shall pay to the Agent for the ratable benefit of the Banks the aggregate outstanding principal amount of the Revolving Loan on the Revolving Loan Maturity Date.

(e) Reduction of Commitments. The Borrower shall have the right, upon at least three Business Days' irrevocable notice to the Agent, to terminate in whole or reduce ratably in part the unused portion of the Commitments; provided that each partial reduction shall be in the aggregate amount of $5,000,000 or in integral multiples of $5,000,000 in excess thereof. Any reduction or termination of the Commitments pursuant to this Section 2.1(e) shall be permanent, with no obligation of the Banks to reinstate such Commitments and the commitment fees provided for in Section 2.4(a) shall thereafter be computed on the basis of the Commitments, as so reduced.

2.2 Letter of Credit Facility.

(a) Commitment for Letters of Credit. The Issuing Bank shall, on the terms and conditions set forth in this Agreement and for the purposes set forth in Section 5.4, issue, increase, and extend Letters of Credit at the request of the Borrower from time to time on any Business Day during the period from the date of this Agreement until the Revolving Loan Maturity Date provided that (i) the Letter of Credit Exposure shall not exceed the Letter of Credit Sublimit and (ii) the aggregate outstanding principal amount of Revolving Loan Borrowings plus the Letter of Credit Exposure plus the Swing Line Loan shall not exceed the aggregate amount of the Revolving Loan Commitments. No Letter of Credit may have an expiration date later than 12 months after its issuance date, and each Letter of Credit which is self-extending beyond its expiration date must be cancelable upon no more than 30 days notice prior to each extension period given by the Issuing Bank to the beneficiary of such Letter of Credit. No Letter of Credit may have an expiration date later than 12 months after the Revolving Loan Maturity Date unless approved by the Issuing Bank, the Agent, and the Banks. Each Letter of Credit must be in form and substance acceptable to the Issuing Bank. The indebtedness of the Borrower to the Issuing Bank resulting from Letters of Credit requested by the Borrower shall be evidenced by the Letter of Credit Applications made by the Borrower.

(b) Requesting Letters of Credit. Each Letter of Credit shall be issued, increased, or extended pursuant to a Letter of Credit Application or Letter of Credit Application Amendment, as applicable, given by the Borrower to the Issuing Bank in writing or by telecopy promptly confirmed in writing, such Letter of Credit Application or Letter of Credit Application Amendment being given not later than 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of the proposed issuance, increase, or extension of the Letter of Credit. Each Letter of Credit Application or Letter of Credit Application Amendment shall be fully completed and shall specify the information required therein (including the proposed form of the Letter of Credit or change thereto), and shall be irrevocable and binding on the Borrower. Upon receipt by the Issuing Bank of the Letter of Credit Application or Letter of Credit Application Amendment, the Issuing Bank shall give prompt notice thereof to the Agent, and the Agent shall promptly inform the Banks of the proposed Letter of Credit or change thereto. Subject to the satisfaction of all applicable conditions precedent, the Issuing Bank shall, by 4:00 p.m. (local time at the Applicable Lending Office of the Agent), on the date requested by the Borrower for the issuance, increase, or extension of such Letter of Credit issue, increase, or extend such Letter of Credit to the specified beneficiary. Upon the date of the issuance, increase, or extension of a Letter of Credit, the Issuing Bank shall be deemed to have sold to each other Bank and each other Bank shall be deemed to have purchased from the Issuing Bank a ratable participation in the related Letter of Credit or change thereto. The Issuing Bank shall notify the Agent of each Letter of Credit issued, increased, or extended and the date and amount of each Bank's participation in such Letter of Credit, and the Agent shall in turn notify the Banks.

(c) Reimbursements for Letters of Credit. With respect to any Letter of Credit and in accordance with the related Letter of Credit Application, the Borrower agrees to pay to the Issuing Bank on demand fees due with respect to such Letter of Credit as specified in Section 2.4(b)). If the Borrower does not pay upon demand of the Issuing Bank any amount due to the Issuing Bank under any Letter of Credit Application, in addition to any rights the Issuing Bank may have under such Letter of Credit Application, the Issuing Bank may upon written notice to the Agent request the satisfaction of such obligation by the making of a Revolving Loan Borrowing. Concurrently with such notice to the Agent, the Issuing Bank will use reasonable efforts provide like notice to the Borrower, provided that failure to provide such notice to the Borrower at such time shall not invalidate the effectiveness of such request for a Revolving Loan Borrowing. Upon such request, the Borrower shall be deemed to have requested the making of a Revolving Loan Borrowing in the amount of such obligation and the transfer of the proceeds thereof to the Issuing Bank. Such Revolving Loan Borrowing shall be a Prime Rate Borrowing. The Agent shall promptly forward notice of such Revolving Loan Borrowing to the Borrower and the Banks, and each Bank shall, in accordance with the procedures of Section 2.1(b), other than limitations on the size of Revolving

Loan Borrowings, and notwithstanding the failure of any conditions precedent, make available such Bank's ratable share of such Revolving Loan Borrowing to the Agent, and the Agent shall promptly deliver the proceeds thereof to the Issuing Bank for application to such Bank's share of the obligations under such Letter of Credit. The Borrower hereby unconditionally and irrevocably authorizes, empowers, and directs the Issuing Bank to make such requests for Revolving Loan Borrowings on behalf of the Borrower, and the Banks to make Revolving Loan Advances to the Agent for the benefit of the Issuing Bank in satisfaction of such obligations. The Agent and each Bank may record and otherwise treat the making of such Revolving Loan Borrowings as the making of Revolving Loan Borrowings to the Borrower under this Agreement as if requested by the Borrower. Nothing herein is intended to release the Borrower's obligations under any Letter of Credit Application, but only to provide an additional method of payment therefor. The making of any Revolving Loan Borrowing under this Section 2.2(c) shall not constitute a cure or waiver of any Default or Event of Default, other than the payment Default or Event of Default which is satisfied by the application of the amounts deemed advanced hereunder, caused by the Borrower's failure to comply with the provisions of this Agreement or any Letter of Credit Application.

(d) Prepayments of Letters of Credit. In the event that any Letters of Credit shall be outstanding according to their terms after the Revolving Loan Maturity Date, the Borrower shall pay to the Agent an amount equal to the Letter of Credit Exposure allocable to such Letters of Credit to be held in the Letter of Credit Collateral Account and applied in accordance with paragraph (g) below.

(e) Obligations Unconditional. The obligations of the Borrower and each Bank under this Agreement and the Letter of Credit Applications to make payments as required to reimburse the Issuing Bank for draws under Letters of Credit and to make other payments due in respect of Letters of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and the Letter of Credit Applications under all circumstances, including: (i) any lack of validity or enforceability of any Letter of Credit Document; (ii) any amendment, waiver, or consent to departure from any Letter of Credit Document; (iii) the existence of any claim, set-off, defense, or other right which the Borrower or any Bank may have at any time against any beneficiary or transferee of any Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), the Issuing Bank, or any other person or entity, whether in connection with the transactions contemplated in this Agreement or any unrelated transaction; (iv) any statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or (v) payment by the Issuing Bank under any Letter of Credit against presentation of a draft or certificate which does not comply with the terms of such Letter of Credit; provided, however, that nothing contained in this paragraph (d) shall be deemed to constitute a waiver of any remedies of the Borrower or any Bank in connection with the Letters of Credit or the Borrower's or such Bank's rights under paragraph (e) below.

(f) Liability of Issuing Bank. The Issuing Bank shall not be liable or responsible for: (i) the use which may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith; (ii) the validity, sufficiency, or genuineness of documents related to Letters of Credit, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent, or forged; (iii) payment by the Issuing Bank against presentation of documents which do not strictly comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the relevant Letter of Credit; or (iv) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit (INCLUDING THE ISSUING BANK'S OWN NEGLIGENCE); except that the Issuing Bank shall be liable to the Borrower or any Bank to the extent of any direct, as opposed to consequential, damages suffered by the Borrower or such Bank which the Borrower or such Bank proves were caused by (A) the Issuing Bank's gross negligence or willful misconduct in determining whether documents presented under a Letter of Credit comply with the terms of such Letter of Credit, (B) the Issuing Bank's willful failure to make or delay in making lawful payment under any Letter of Credit after the presentation to it of documentation strictly complying with the terms and conditions of such Letter of Credit or the Issuing Bank's payment of greater than the maximum amount permitted under any Letter of Credit, or (C) the Issuing Bank's negligence in the handling of money.

(g) Letter of Credit Collateral Account.

(i) If the Borrower is required to deposit funds in the Letter of Credit Collateral Account pursuant to Sections 2.2(d) or 6.4, then the Borrower and the Agent shall establish the Letter of Credit Collateral Account and the Borrower shall execute any documents and agreements, including the Agent's standard form assignment of deposit accounts, that the Agent reasonably requests in connection therewith to establish the Letter of Credit Collateral Account and grant the Agent a first priority security interest in such account and the funds therein. The Borrower hereby pledges to the Agent and grants the Agent a security interest in the Letter of Credit Collateral Account, whenever established, all funds held in the Letter of Credit Collateral Account from time to time, and all proceeds thereof as security for the payment of the Obligations.

(ii) Funds held in the Letter of Credit Collateral Account shall be held as cash collateral for obligations with respect to Letters of Credit and promptly applied by the Agent at the request of the Issuing Bank to any reimbursement or other obligations under Letters of Credit that exist or occur. To the extent that any surplus funds are held in the Letter of Credit Collateral Account above the Letter of Credit Exposure, during the existence of an Event of Default the Agent may (A) hold such surplus funds in the Letter of Credit Collateral Account as cash collateral for the Credit Obligations or (B) apply such surplus funds to any Credit Obligations in accordance with Section 6.9. If no Default exists, the Agent shall release to the Borrower at the Borrower's written request any funds held in the Letter of Credit Collateral Account above the amounts required by Section 2.2(d).

(iii) Funds held in the Letter of Credit Collateral Account shall be invested in money market funds of the Agent or in another investment if mutually agreed upon by the Borrower and the Agent, but the Agent shall have no other obligation to make any other investment of the funds therein. The Agent shall exercise reasonable care in the custody and preservation of any funds held in the Letter of Credit Collateral Account and shall be deemed to have exercised such care if such funds are accorded treatment substantially equivalent to that which the Agent accords its own property, it being understood that the Agent shall not have any responsibility for taking any necessary steps to preserve rights against any parties with respect to any such funds.

2.3 Swing Line Facility.

(a) Commitment. The Swing Line Lender agrees, on the terms and conditions set forth in the Swing Line Note, to make advances to the Borrower under the Swing Line Note. No Bank shall have any rights thereunder (but each Bank shall have the obligation to reimburse the Swing Line Lender in accordance with paragraph (b) below). The indebtedness of the Borrower to the Swing Line Lender resulting from the advances under the Swing Line Note made by the Swing Line Lender shall be evidenced by the Swing Line Note made by the Borrower.

(b) Reimbursements for Swing Line Loan Obligations. With respect to the Swing Line Loan and the interest, premium, fees, and other amounts owed by the Borrower to the Swing Line Lender in connection with the Swing Line Note, and in accordance with the terms of the Swing Line Note, the Borrower agrees to pay to the Swing Line Lender such amounts when due and payable to the Swing Line Lender under the Swing Line Note. If the Borrower does not pay to the Swing Line Lender any such amounts when due and payable to the Swing Line Lender under the Swing Line Note, in addition to any rights the Swing Line Lender may have under such Swing Line Note, the Swing Line Lender may upon written notice to the Agent request the satisfaction of such obligation by the making of a Revolving Loan Borrowing in the amount of any such amounts not paid when due and payable. Concurrently with such notice to the Agent, the Swing Line Lender will use reasonable efforts provide like notice to the Borrower, provided that failure to provide such notice to the Borrower at such time shall not invalidate the effectiveness of such request for a Revolving Loan Borrowing. Upon such request, the Borrower shall be deemed to have requested the making of a Revolving Loan Borrowing in the amount of such obligation and the transfer of the proceeds thereof to the Swing Line Lender. Such Revolving Loan Borrowing shall be a Prime Rate Borrowing. The Agent shall promptly forward notice of such Revolving Loan Borrowing to the Borrower and the Banks, and each Bank shall, in accordance with the procedures of Section 2.1(b), other than limitations on the size of Revolving Loan Borrowings, and notwithstanding the failure of any conditions precedent, make available such Bank's ratable share of such Revolving Loan Borrowing to the Agent, and the Agent shall promptly deliver the proceeds thereof to the Swing Line Lender for application to such amounts owed to the Swing Line Lender. The Borrower hereby unconditionally and irrevocably authorizes, empowers, and directs the Swing Line Lender to make such requests for Revolving Loan Borrowings on behalf of the Borrower, and the Banks to make Revolving Loan Advances to the Agent for the benefit of the Swing Line Lender in satisfaction of such obligations. The Agent and each Bank may record and otherwise treat the making of such Revolving Loan Borrowings as the making of a Revolving Loan Borrowing to the Borrower under this Agreement as if requested by the Borrower. Nothing herein is intended to release the Borrower's obligations under the Swing Line Note, but only to provide an additional method of payment therefor. The making of any Borrowing under this Section 2.3(b) shall not constitute a cure or waiver of any Default or Event of Default, other than the payment Default or Event of Default which is satisfied by the application of the amounts deemed advanced hereunder, caused by the Borrower's failure to comply with the provisions of this Agreement or the Swing Line Note.

2.4 Fees.

(a) Commitment Fees. The Borrower shall pay to the Agent for the ratable benefit of the Banks an unused commitment fee in an amount equal to the product of the Applicable Margin for unused commitment fees in effect from time to time multiplied by the average daily amount by which (i) the aggregate amount of the Revolving Loan Commitments exceeds (ii) the aggregate outstanding principal amount of the Revolving Loan plus the Letter of Credit Exposure. The unused commitment fee shall be due and payable in arrears on the last day of each calendar quarter and on the Revolving Loan Maturity Date.

(b) Fees for Letters of Credit. For each Letter of Credit issued by the Issuing Bank, the Borrower shall pay to the Agent for the ratable benefit of the Banks a letter of credit fee equal to the Applicable Margin for letter of credit fees per annum on the face amount of such Letter of Credit for the stated term of such Letter of Credit, with a minimum fee of $500. In addition, for each Letter of Credit issued by the Issuing Bank, the Borrower shall pay to the Agent for the benefit of the Issuing Bank a fronting fee of 0.125% per annum on the face amount of such Letter of Credit for the stated term of such Letter of Credit, with a minimum fee of $500. The Borrower shall pay each such letter of credit fee for each Letter of Credit quarterly in arrears within ten days after when billed therefor by the Issuing Bank.

(c) Agent Fee Letter. The Borrower shall pay to the parties specified therein the fees and other amounts payable under the Agent Fee Letter.

(d) Fee Letter. The Borrower shall pay to the Banks the upfront fee payable to each Bank under the Fee Letter, based upon such Bank's commitment amount.

2.5 Interest.

(a) Election of Interest Rate Basis. The Borrower may select the interest rate basis for the Revolving Loan in accordance with the terms of this Section 2.5(a):

(i) Under the Revolving Loan Borrowing Request provided to the Agent in connection with the making of each Revolving Loan Borrowing, the Borrower shall select the amount and the Type of the Tranches, and for each LIBOR Tranche selected, any permitted Interest Period for each such LIBOR Tranche, which will comprise such Revolving Loan Borrowing, provided that (A) at no time shall there be more than ten separate LIBOR Tranches outstanding and (B) each LIBOR Tranche must be in a principal amount equal to or greater than $1,000,000 and be made in multiples of $500,000, and the Prime Rate Tranche must be in a principal amount equal to or greater than$1,000,000 and be made in multiples of $100,000. Such interest rate elections must be provided to the Agent in writing or by telecopy not later than 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of any proposed Revolving Loan Borrowing comprised of a LIBOR Tranche or 11:00 a.m. (local time at the Applicable Lending Office of the Agent) on the same day of any proposed Revolving Loan Borrowing which is a Prime Rate Borrowing. The Agent shall promptly forward copies of such interest rate elections to the Banks. In the case of any Revolving Loan Borrowing comprised of a LIBOR Tranche, upon determination by the Agent, the Agent shall promptly notify the Borrower and the Banks of the applicable interest rate for such Tranche.

(ii) With respect to any Tranche, the Borrower may continue or convert any portion of any LIBOR Tranche or the Prime Rate Tranche to form new LIBOR Tranches or increase or decrease the amount of the Prime Rate Tranche in accordance with this paragraph. Each such continuation or conversion shall be deemed to create a new LIBOR Tranche or increase or decrease the amount of the Prime Rate Tranche, as applicable, for all purposes of this Agreement. Each such continuation or conversion shall be made pursuant to a Continuation/Conversion Request given by the Borrower to the Agent in writing or by telecopy not later than 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of the proposed continuation or conversion. Each Continuation/Conversion Request shall be fully completed and shall specify the information required therein, and shall be irrevocable and binding on the Borrower. The Agent shall promptly forward notice of the continuation or conversion to the Banks. In the case of any continuation or conversion into LIBOR Tranches, upon determination by the Agent, the Agent shall notify the Borrower and the Banks of the applicable interest rate. Continuations and conversions of LIBOR Tranches shall be made in integral multiples of $500,000, and continuations and conversions of the Prime Rate Tranche shall be made in integral multiples of $100,000. No continuation or conversion shall be permitted if such continuation or conversion would cause the aggregate outstanding principal amount of any LIBOR Tranche which would remain outstanding to be less than $1,000,000, or the aggregate outstanding principal amount of the Prime Rate Tranche which would remain outstanding to be less than $1,000,000. At no time shall there be more than ten separate LIBOR Tranches outstanding. Any conversion of an existing LIBOR Tranche is subject to Section 2.5. Subject to the satisfaction of all applicable conditions precedent, the Agent and the Banks shall before close of business on the date requested by the Borrower for the continuation or conversion, make such continuation or conversion.

(iii) At the end of the Interest Period for any LIBOR Tranche if the Borrower has not continued or converted such LIBOR Tranche into new Tranches as provided for in paragraph (ii) above, the Borrower shall be deemed to have continued such LIBOR Tranche as a new LIBOR Tranche with an Interest Period of one month. All of the Prime Rate Tranche shall continue as the Prime Rate Tranche unless the Borrower converts such Prime Rate Tranche as provided for in paragraph (ii) above.

(b) LIBOR Tranches. Each LIBOR Tranche shall bear interest during its Interest Period at a per annum interest rate equal to the sum of the LIBOR for such Tranche plus the Applicable Margin for LIBOR Tranches in effect from time to time. The Borrower shall pay to the Agent for the ratable benefit of the Banks all accrued but unpaid interest on each LIBOR Tranche on the last day of the applicable Interest Period for such LIBOR Tranche (and with respect to LIBOR Tranches with Interest Periods of greater than three months, on the date which is three months after the first date of the Interest Period for such LIBOR Tranche), when required upon prepayment as specified elsewhere in this Agreement, on any date when such LIBOR Tranche is prepaid in full, and on the Revolving Loan Maturity Date.

(c) Prime Rate Tranche. The Prime Rate Tranche shall bear interest at a per annum interest rate equal to the Base Rate in effect from time to time plus the Applicable Margin for the Prime Rate Tranche in effect from time to time. The Borrower shall pay to the Agent for the ratable benefit of the Banks all accrued but unpaid interest on the aggregate outstanding principal amount of the Prime Rate Tranche on the last day of each calendar quarter, when required upon prepayment as specified elsewhere in this Agreement, on any date the Prime Rate Tranche is prepaid in full, and on the Revolving Loan Maturity Date.

(d) Usury Protection.

(i) If, with respect to any Bank and the Borrower, the effective rate of interest contracted for by such Bank with the Borrower under the Credit Documents, including the stated rates of interest contracted for hereunder and any other amounts contracted for under the Credit Documents which are deemed to be interest, at any time exceeds the Highest Lawful Rate, then the outstanding principal amount of the loans made by such Bank to the Borrower hereunder shall bear interest at a rate which would make the effective rate of interest on the loans made by such Bank to the Borrower under the Credit Documents equal the Highest Lawful Rate until the difference between the amounts which would have been due by the Borrower to such Bank at the stated rates and the amounts which were due by the Borrower to such Bank at the Highest Lawful Rate (the "Lost Interest") has been recaptured by such Bank. If, when the loans made hereunder are repaid in full, the Lost Interest has not been fully recaptured by such Bank pursuant to the preceding paragraph, then, to the extent permitted by law, the interest rates charged by such Bank to the Borrower hereunder shall be retroactively increased such that the effective rate of interest on the loans made by such Bank to the Borrower under the Credit Documents was at the Highest Lawful Rate since the effectiveness of this Agreement to the extent necessary to recapture the Lost Interest not recaptured pursuant to the preceding sentence and, to the extent allowed by law, the Borrower shall pay to such Bank the amount of the Lost Interest remaining to be recaptured by such Bank.

(ii) In calculating all sums paid or agreed to be paid to any Bank by the Borrower for the use, forbearance, or detention of money under the Credit Documents, such amounts shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread in equal parts throughout the term of the Credit Documents.

(iii) NOTWITHSTANDING THE FOREGOING OR ANY OTHER TERM IN THIS AGREEMENT AND THE CREDIT DOCUMENTS TO THE CONTRARY, it is the intention of each Bank and the Borrower to conform strictly to any applicable usury laws. Accordingly, if any Bank contracts for, charges, or receives any consideration from the Borrower which constitutes interest in excess of the Highest Lawful Rate, then any such excess shall be canceled automatically and, if previously paid, shall at such Bank's option be applied to the outstanding amount of the loans made hereunder by such Bank to the Borrower or be refunded to the Borrower.

2.6 Breakage Costs. If (i) any payment of principal on or any conversion of any LIBOR Tranche is made on any date other than the last day of the Interest Period for such LIBOR Tranche, whether as a result of any voluntary or mandatory prepayment (other than a prepayment upon the occurrence of any event subject to Section 2.8 or 2.9), any acceleration of maturity, or any other cause, (ii) any payment of principal on any LIBOR Tranche is not made when due, or (iii) any LIBOR Tranche is not borrowed, converted, or prepaid in accordance with the respective notice thereof provided by the Borrower to the Agent, whether as a result of any failure to meet any applicable conditions precedent for borrowing, conversion, or prepayment, the permitted cancellation of any request for borrowing, conversion, or prepayment, the failure of the Borrower to provide the respective notice of borrowing, conversion, or prepayment, or any other cause not specified above which is created by the Borrower, then the Borrower shall pay to each Bank upon demand any amounts required to compensate such Bank for any losses, costs, or expenses, including lost profits and administrative expenses, which are reasonably allocable to such action, including losses, costs, and expenses related to the liquidation or redeployment of funds acquired or designated by such Bank to fund or maintain such Bank's ratable share of such LIBOR Tranche or related to the reacquisition or redesignation of funds by such Bank to fund or maintain such Bank's ratable share of such LIBOR Tranche following any liquidation or redeployment of such funds caused by such action. Such Bank need not prove matched funding of any particular funds, and a certificate as to the amount of such loss, cost, or expense detailing the calculation thereof and certifying that such Bank customarily charges such amounts to its other customers in similar circumstances submitted by such Bank to the Borrower shall be conclusive and binding for all purposes, absent manifest error.

2.7 Increased Costs.

(a) Cost of Funds. If due to either (i) any introduction of, change in, or change in the interpretation of any law or regulation, in each case, after the date of this Agreement or (ii) compliance with any guideline or request from any central bank or other governmental authority having appropriate jurisdiction (whether or not having the force of law) given after the date of this

Agreement, there shall be any increase in the costs of any Bank attributable to (x) committing to make any Revolving Loan Advance or obtaining funds for the making, funding, or maintaining of such Bank's ratable share of any LIBOR Tranche in the relevant interbank market or (y) committing to make Letters of Credit or issuing, funding, or maintaining Letters of Credit (including any increase in any applicable reserve requirement specified by the Federal Reserve Board, including those for emergency, marginal, supplemental, or other reserves), then the Borrower shall pay to such Bank upon demand any amounts required to compensate such Bank for such increased costs, such amounts being due and payable upon demand by such Bank. A certificate as to the cause and amount of such increased cost detailing the calculation of such cost and certifying that such Bank customarily charges such amounts to its other customers in similar circumstances submitted by such Bank to the Borrower shall be conclusive and binding for all purposes, absent manifest error. No Bank may make any claim for compensation under this Section 2.7(a) for increased costs incurred before 90 days prior to the delivery of any such certificate.

(b) Capital Adequacy. If, due to either (i) any introduction of, change in, or change in the interpretation of any law or regulation, in each case, after the date of this Agreement or (ii) compliance with any guideline or request from any central bank or other governmental authority having appropriate jurisdiction (whether or not having the force of law) given after the date of this Agreement, there shall be any increase in the capital requirements of any Bank or its parent or holding company attributable to (x) committing to make Revolving Loan Advances or making, funding, or maintaining Revolving Loan Advances or (y) committing to make Letters of Credit or issuing, funding, or maintaining Letters of Credit, as such capital requirements are allocated by such Bank, then the Borrower shall pay to such Bank upon demand any amounts required to compensate such Bank or its parent or holding company for such increase in costs (including an amount equal to any reduction in the rate of return on assets or equity of such Bank or its parent or holding company), such amounts being due and payable upon demand by such Bank. A certificate as to the cause and amounts detailing the calculation of such amounts and certifying that such Bank customarily charges such amounts to its other customers in similar circumstances submitted by such Bank to the Borrower shall be conclusive and binding for all purposes, absent manifest error. No Bank may make any claim for compensation under this Section 2.7(b) for increased costs incurred before 90 days prior to the delivery of any such certificate.

2.8 Illegality. Notwithstanding any other provision in this Agreement, if it becomes unlawful for any Bank to obtain deposits or other funds for making or funding such Bank's ratable share of any LIBOR Tranche in the relevant interbank market, such Bank shall so notify the Borrower and the Agent and such Bank's commitment to create LIBOR Tranches shall be suspended until such condition has passed, all LIBOR Tranches applicable to such Bank shall be converted to the Prime Rate Tranche as of the end of each applicable Interest Period or earlier if necessary, and all subsequent requests for LIBOR Tranches shall be deemed to be requests for Prime Rate Borrowings or continuations and conversions of the Prime Rate Tranche, as applicable, with respect to such Bank.

2.9 Market Failure. Notwithstanding any other provision in this Agreement, if the Agent determines that: (a) quotations of interest rates for the relevant deposits referred to in the definition of "LIBOR" are not being provided in the relevant amounts, or maturities for purposes of determining the rate of interest referred to in the definition of "LIBOR" or (b) the relevant rates of interest referred to in the definition of "LIBOR" which are used as the basis to determine the rate of interest for LIBOR Tranches will not adequately cover the cost to any Bank of making or maintaining such Bank's ratable share of any LIBOR Tranche, then if the Agent so notifies the Borrower, the Agent and the Banks' commitment to create LIBOR Tranches shall be suspended until such condition has passed, all LIBOR Tranches shall be converted to the Prime Rate Tranche as of the end of each applicable Interest Period or earlier if necessary, and all subsequent requests for LIBOR Tranches shall be deemed to be requests for Prime Rate Borrowings or continuations and conversions of the Prime Rate Tranche, as applicable, with respect to such Bank.

2.10 Payment Procedures and Computations.

(a) Payment Procedures. Time is of the essence in this Agreement and the Credit Documents. All payment hereunder shall be made in Dollars. The Borrower shall make each payment under this Agreement and under the Revolving Loan Notes not later than 12:00 noon (local time at the Applicable Lending Office of the Agent) on the day when due to the Agent at the Agent's Applicable Lending Office in immediately available funds. All payments by the Borrower hereunder shall be made without any offset, abatement, withholding, deduction, counterclaim, or reduction. Upon receipt of payment from the Borrower of any principal, interest, or fees due to the Banks, the Agent shall promptly after receipt thereof distribute to the Banks their ratable share of such payments for the account of their respective Applicable Lending Offices. If and to the extent that the Agent shall not have so distributed to any Bank its ratable share of such payments, the Agent agrees that it shall pay interest on such amount for each day after the day when such amount is made available to the Agent by the Borrower until the date such amount is paid to such Bank by the Agent at the Federal Funds Rate in effect from time to time, provided that if such amount is not paid by the Agent by the end of the third day after the Borrower makes such amount available to the Agent, the interest rates specified above shall be increased by a per annum amount equal to 2.00% on the fourth day and shall remain at such increased rate thereafter. Interest on such amount shall be due and payable by the Agent upon demand by such Bank. Upon receipt of other amounts due solely to the Agent, the Issuing Bank, the Swing Line Lender, or a specific Bank, the Agent shall distribute such amounts to the appropriate party to be applied in accordance with the terms of this Agreement.

(b) Agent Reliance. Unless the Agent shall have received written notice from the Borrower prior to any date on which any payment is due to the Banks that the Borrower shall not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such date an amount equal to the amount then due such Bank. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank, together with interest thereon from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at an interest rate equal to, the Federal Funds Rate in effect from time to time, provided that with respect to such Bank, if such amount is not repaid by such Bank by the end of the second day after the date of the Agent's demand, the interest rates specified above shall be increased by a per annum amount equal to 2.00% on the third day after the date of the Agent's demand and shall remain at such increased rate thereafter.

(c) Sharing of Payments. Each Bank agrees that if it should receive any payment (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker's lien, by counterclaim or cross action, by the enforcement of any right under the Credit Documents, or otherwise) in respect of any obligation of the Borrower to pay principal, interest, fees, or any other obligation incurred under the Credit Documents in a proportion greater than the total amount of such principal, interest, fees, or other obligation then owed and due by the Borrower to such Bank bears to the total amount of principal, interest, fees, or other obligation then owed and due by the Borrower to all of the Banks immediately prior to such receipt, then such Bank receiving such excess payment shall purchase for cash without recourse from the other Banks an interest in the obligations of the Borrower to such Banks in such amount as shall result in a participation by all of the Banks, in proportion with the Banks' respective pro rata shares, in the aggregate unpaid amount of principal, interest, fees, or any such other obligation, as the case may be, owed by the Borrower to all of the Banks; provided that if all or any portion of such excess payment is thereafter recovered from such Bank, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, in proportion with the Banks' respective pro rata shares, but without interest.

(d) Authority to Charge Accounts. The Agent, if and to the extent payment owed to the Agent or any Bank is not made when due, may charge from time to time against any account of the Borrower with the Agent any amount so due. The Agent agrees promptly to notify the Borrower after any such charge and application made by the Agent provided that the failure to give such notice shall not affect the validity of such charge and application.

(e) Interest and Fees. Unless expressly provided for in this Agreement, (i) all computations of interest based on the Prime Rate (including the Base Rate, when applicable) shall be made on the basis of a 365/366 day year, as the case may be, (ii) all computations of interest based on the Federal Funds Rate (including the Base Rate, when applicable) shall be made on the basis of a 360 day year, (iii) all computations of interest based upon the LIBOR shall be made on the basis of a 360 day year, and (iv) all computations of fees shall be made on the basis of a 360 day year, in each case for the actual number of days (including the first day, but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Agent of an interest rate or fee shall be conclusive and binding for all purposes, absent manifest error.

(f) Payment Dates. Whenever any payment shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be. If the time for payment for an amount payable is not specified in this Agreement or in any other Credit Document, the payment shall be due and payable on demand by the Agent or the applicable Bank.

2.11 Taxes.

(a) No Deduction for Certain Taxes. Any and all payments by the Borrower shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, other than taxes imposed on the income and franchise taxes imposed on the Agent, any Bank, or the Applicable Lending Office thereof by any jurisdiction in which any such entity is a citizen or resident or any political subdivision of such jurisdiction (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable to the Agent, any Bank, or the Applicable Lending Office thereof, (i) the sum payable shall be increased as may be necessary so that, after making all required deductions (including deductions applicable to additional sums payable under this Section 2.11), such Person receives an amount equal to the sum it would have received had no such deductions been made; (ii) the Borrower shall make such deductions; and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) Other Taxes. The Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made or from the execution, delivery, or registration of, or otherwise with respect to, this Agreement or the other Credit Documents (other than those which become due as a result of any Bank joining this Agreement as a result of any Assignment and Acceptance, which shall be paid by the Bank which becomes a Bank hereunder as a result of such Assignment and Acceptance).

(c) Foreign Bank Withholding Exemption. Each Bank and Issuing Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it shall deliver to the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor applicable form, as the case may be, certifying in each case that such Bank is entitled to receive payments under this Agreement and the Revolving Loan Notes payable to it, without deduction or withholding of any United States federal income taxes, (ii) if applicable, an Internal Revenue Service Form W-8 or W-9 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding tax, and (iii) any other governmental forms which are necessary or required under an applicable tax treaty or otherwise by law to reduce or eliminate any withholding tax, which have been reasonably requested by the Borrower. Each Bank which delivers to the Borrower and the Agent a Form 1001 or 4224 and Form W-8 or W-9 pursuant to the next preceding sentence further undertakes to deliver to the Borrower and the Agent two further copies of the said letter and Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms, or other manner of certification, as the case may be, on or before the date that any such letter or form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent letter and form previously delivered by it to the Borrower and the Agent, and such extensions or renewals thereof as may reasonably be requested by the Borrower and the Agent certifying in the case of a Form 1001 or 4224 that such Bank is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. If an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any delivery required by the preceding sentence would otherwise be required which renders all such forms inapplicable or which would prevent any Bank from duly completing and delivering any such letter or form with respect to it and such Bank advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax, and in the case of a Form W-8 or W-9, establishing an exemption from United States backup withholding tax, such Bank shall not be required to deliver such letter or forms. The Borrower shall withhold tax at the rate and in the manner required by the laws of the United States with respect to payments made to a Bank failing to provide the requisite Internal Revenue Service forms in a timely manner. Each Bank which fails to provide to the Borrower in a timely manner such forms shall reimburse the Borrower upon demand for any penalties paid by the Borrower as a result of any failure of the Borrower to withhold the required amounts that are caused by such Bank's failure to provide the required forms in a timely manner.

2.12 Change of Lending Office.

(a) Each Bank agrees that if it makes any demand for payment under Section 2.7 or 2.11(a), or if any adoption or change of the type described in Section 2.8 shall occur with respect to it, it will use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions and so long as such efforts would not be disadvantageous to it, as determined in its sole discretion) to designate a different lending office if the making of such a designation would reduce or obviate the need for the Borrower to make payments under Section 2.7 or 2.11(a), or would eliminate or reduce the effect of any adoption or change described in Section 2.8.

(b) If any Bank (including any participant Bank under Section 8.5) shall assert that any adoption or change of the type described in Section 2.8 hereof has occurred with respect to it, or if any Bank (including any participant Bank under Section 8.5) requests compensation under Section 2.7, or if the Borrower is required to pay any additional amount to any Bank or any authority for the account of any Bank pursuant to Section 2.11, then the Borrower may, at its expense and effort, upon notice to such Bank and the Agent, require such Bank to, and such Bank promptly shall, assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 8.5), all its interests, rights, and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Bank, if a Bank accepts such assignment); provided that (i) if such assignee is not a Bank or an Affiliate thereof, the Borrower shall have received the prior written consent of the Agent and the Issuing Bank which consents shall not unreasonably be withheld or delayed, (ii) such Bank shall have received payment of an amount equal to the aggregate outstanding principal of such Bank's Revolving Loan Advances and its participations in Letters of Credit, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (at least to the extent of such outstanding principal) and the Borrower (in the case of all other amounts), and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.7 or payment required to be made pursuant to Section 2.11, such assignment will result in a reduction in such compensation or payments compared to the compensation or payments payable to the assigning Bank. A Bank shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Bank or otherwise, the circumstances entitling the Borrower to require such assignment and delegation no longer exist or cease to apply.

ARTICLE 3. CONDITIONS PRECEDENT.

3.1 Conditions Precedent to Initial Extension of Credit. The obligation of each Bank to make the initial extension of credit under this Agreement, including the making of any Revolving Loan Advances and the issuance of any Letters of Credit, and the obligation of the Swing Line Lender to make any advances under the Swing Line Loan shall be subject to the following conditions precedent:

(a) Documents. The Borrower shall have delivered or shall have caused to be delivered the documents and other items listed on Exhibit F, together with any other documents requested by the Agent to document the agreements and intent of the Credit Documents, each in form and with substance satisfactory to the Agent;

(b) Material Adverse Change. No Material Adverse Change shall have occurred since March 31, 1998.

3.2 Conditions Precedent to Each Extension of Credit. The obligation of each Bank to make any extension of credit under this Agreement, including the making of any Revolving Loan Advances and the issuance, increase, or extension of any Letters of Credit, and the obligation of the Swing Line Lender to make any advances under the Swing Line Loan shall be subject to the further conditions precedent that on the date of such extension of credit:

(a) Representations and Warranties. As of the date of the making of any extension of credit hereunder, the representations and warranties contained in each Credit Document shall be true and correct in all material respects as of such date (and the Borrower's request for the making of any extension of credit hereunder shall be deemed to be a restatement, representation, and additional warranty of the representations and warranties contained in each Credit Document as of such date); and

(b) Default. As of the date of the making of any extension of credit hereunder, there shall exist no Default or Event of Default, and the making of the extension of credit would not cause a Default or Event of Default.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES. The Borrower represents and warrants to the Agent and each Bank, and with each request for any extension of credit hereunder, including the making of any Revolving Loan Advances, and the issuance, increase, or extension of any Letters of Credit, again represents and warrants to the Agent and each Bank, as follows:

4.1 Organization. As of the date of this Agreement, each Restricted Entity (a) is duly organized, validly existing, and in good standing under the laws of such Person's respective jurisdiction of organization and (b) is duly licensed, qualified to do business, and in good standing in each jurisdiction in which such Person is organized, owns property, or conducts operations to the extent that any failure to be so licensed, qualified, or in good standing in accordance with this clause (b) could reasonably be expected to cause a Material Adverse Change.

4.2 Authorization. The execution, delivery, and performance by each Credit Party of the Credit Documents to which such Credit Party is a party and the consummation of the transactions contemplated thereby (a) do not contravene the organizational documents of such Credit Party, (b) have been duly authorized by all necessary corporate action of each Credit Party, and (c) are within each Credit Party's corporate powers.

4.3 Enforceability. Each Credit Document to which any Credit Party is a party has been duly executed and delivered by each Credit Party which is a party to such Credit Document and constitutes the legal, valid, and binding obligation of each such Credit Party, enforceable against each such Credit Party in accordance with such Credit Document's terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws at the time in effect affecting the rights of creditors generally and subject to the availability of equitable remedies.

4.4 Absence of Conflicts and Approvals. The execution, delivery, and performance by each Credit Party of the Credit Documents to which such Credit Party is a party and the consummation of the transactions contemplated thereby, (a) do not result in any violation or breach of any provisions of, or constitute a default under, any note, indenture, credit agreement, security agreement, credit support agreement, or other similar agreement to which such Credit Party is a party or any other material contract or agreement to which such Credit Party is a party, (b) do not violate any law or regulation binding on or affecting such Credit Party, (c) do not require any authorization, approval, or other action by, or any notice to or filing with, any governmental authority, and (d) do not result in or require the creation or imposition of any Lien prohibited by this Agreement.

4.5 Investment Companies. No Restricted Entity or Affiliate thereof is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

4.6 Public Utilities. No Restricted Entity or Affiliate thereof is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding

Company Act of 1935, as amended. No Restricted Entity or Affiliate thereof is a regulated public utility.

4.7 Financial Condition.

(a) The Borrower has delivered to the Agent the Registration Statement, including therein the proforma combined balance sheet of the Borrower following the public offering of securities contemplated therein and proforma combined statement of income for the periods shown therein, which accurately and completely, in all material respects, present fairly the financial condition of Borrower as of such date. The Borrower has delivered to the Agent the Interim Financial Statements, and the Interim Financial Statements are accurate and complete in all material respects and present fairly the financial condition of Borrower as of their date and for their period in accordance with generally accepted accounting principles, as applicable to interim financial reports.

(b) As of the date of the Registration Statement and the Interim Financial Statements, there were no material contingent obligations, liabilities for taxes, unusual forward or long-term commitments, or unrealized or anticipated losses of the Borrower or any of the Borrower's Subsidiaries, except as disclosed in the Registration Statement and the Interim Financial Statements, and adequate reserves for such items have been made in accordance with generally accepted accounting principles. No Material Adverse Change has occurred since the date of the Registration Statement or the Interim Financial Statements. No Default exists.

4.8 Condition of Assets. Each Restricted Entity has good and indefeasible title to substantially all of its owned property and valid leasehold rights in all of its leased property, as reflected in the financial statements most recently provided to the Agent free and clear of all Liens except Permitted Liens. Each Restricted Entity possesses and has properly approved, recorded, and filed, where applicable, all permits, licenses, patents, patent rights or licenses, trademarks, trademark rights, trade names rights, and copyrights which are useful in the conduct of its business and which the failure to possess could reasonably be expected to cause a Material Adverse Change. The material properties used in the operations of each Restricted Entity are in good repair, working order, and condition, normal wear and tear excepted. The properties of each Restricted Entity have not been adversely affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of property or cancellation of contracts, permits, or concessions by a governmental authority, riot, activities of armed forces, or acts of God or of any public enemy in any manner which (after giving effect to any insurance proceeds) could reasonably be expected to cause a Material Adverse Change.

4.9 Litigation. There are no actions, suits, or proceedings pending or, to the knowledge of the Borrower, threatened against any Restricted Entity at law, in equity, or in admiralty, or by or before any governmental department, commission, board, bureau, agency, instrumentality, domestic or foreign, or any arbitrator which could reasonably be expected to cause a Material Adverse Change.

4.10 Subsidiaries. As of the date of this Agreement, the Borrower has no Subsidiaries except as disclosed in Schedule II. The Borrower has no Subsidiaries which have not been disclosed in writing to the Agent.

4.11 Laws and Regulations. Each Restricted Entity is in compliance with all federal, state, and local laws and regulations which are applicable to the operations and property of such Person where the failure to comply with the same could reasonably be expected to cause a Material Adverse Change.

4.12 Environmental Compliance. Each Restricted Entity has been and is in compliance with all Environmental Laws and has obtained and is in compliance with all related permits necessary for the ownership and operation of any such Person's properties, in each case, where the failure to be in compliance with the same could reasonably be expected to cause a Material Adverse Change. Each Restricted Entity has not received notice of and has not been investigated for any violation or alleged violation of any Environmental Law in connection with any such Person's presently or previously owned properties which currently threaten action or suggest liabilities which could reasonably be expected to cause a Material Adverse Change. Each Restricted Entity does not and has not created, handled, transported, used, or disposed of any Hazardous Materials on or about any such Person's properties (nor has any such Person's properties been used for those purposes); has never been responsible for the release of any Hazardous Materials into the environment in connection with any such Person's operations and has not contaminated any properties with Hazardous Materials; and does not and has not owned any properties contaminated by any Hazardous Materials, in each case in any manner which could reasonably be expected to cause a Material Adverse Change.

4.13 ERISA. Each Restricted Entity and each of their respective Commonly Controlled Entities are in compliance with all provisions of ERISA to the extent that the failure to be in compliance could reasonably be expected to cause a Material Adverse Change. No Restricted Entity nor any of their respective Commonly Controlled Entities participates in or during the past five years has participated in any employee pension benefit plan covered by Title IV of ERISA or any multiemployer plan under Section 4001(a)(3) of ERISA. With respect to the Plans of the Restricted Entities, no Material Reportable Event or Prohibited Transaction has occurred and exists that could reasonably be expected to cause a Material Adverse Change.

4.14 Taxes. Each Restricted Entity has filed all United States federal, state, and local income tax returns and all other domestic and foreign tax returns which are required to be filed by such Person and has paid, or provided for the payment before the same became delinquent of, all taxes due pursuant to such returns or pursuant to any assessment received by such Person except for tax payments being contested in good faith, for which adequate reserves have been established and reported in accordance with general accepted accounting principals, and which could not reasonably be expected to cause a Material Adverse Change. The charges, accruals, and reserves on the books of the Restricted Entities in respect of taxes are adequate in accordance with generally accepted accounting principles.

4.15 True and Complete Disclosure. All factual information furnished by or on behalf of any Credit Party in writing to the Agent or any Bank in connection with the Credit Documents and the transactions contemplated thereby is true and accurate in all material respects on the date as of which such information was dated or certified and does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained therein not misleading. All projections, estimates, and pro forma financial information furnished by any Credit Party were prepared on the basis of assumptions, data, information, tests, or conditions believed to be reasonable at the time such projections, estimates, and pro forma financial information were furnished.

4.16 Year 2000.

(a) Except to the extent that a failure to do so could not reasonably be expected to cause a Material Adverse Change, the Borrower (i) has begun analyzing the operations of the Restricted Entities that could be adversely affected by failure to become Year 2000 compliant (that is, that computer applications, imbedded microchips and other systems will be able to perform date-sensitive functions prior to and after December 31, 1999); and (ii) is developing a plan for becoming Year 2000 compliant in a timely manner. The Borrower reasonably believes that it will become Year 2000 compliant for its operations and those of its Subsidiaries and Affiliates on a timely basis except to the extent that a failure to do so could not reasonably be expected to cause a Material Adverse Change.

(b) The Borrower will promptly notify the Bank in the event the Borrower determines that any computer application which is material to the operations of the Borrower, its Subsidiaries, or its Affiliates or any of its material vendors or suppliers will not be fully Year 2000 compliant on a timely basis, except to the extent that such failure could not reasonably be expected to cause a Material Adverse Change.

ARTICLE 5. COVENANTS. Until the Agent and the Banks receive irrevocable payment of the Credit Obligations and have terminated this Agreement and each other Credit Document, the Borrower shall comply with and cause compliance with the following covenants:

5.1 Organization. The Borrower shall cause each Restricted Entity to (a) maintain itself as an entity duly organized, validly existing, and in good standing under the laws of such Person's respective jurisdiction of organization and (b) be duly licensed, qualified to do business, and in good standing in each jurisdiction in which such Person is organized, owns property, or conducts operations and which requires such licensing or qualification where failure to be so licensed, qualified, or in good standing as required by this clause (b) could reasonably be expected to cause a Material Adverse Change; provided, however, that nothing in this Section 5.1 shall be interpreted to be violated as a result of a transaction permitted by Section 5.9.

5.2 Reporting. The Borrower shall furnish to the Agent all of the following:

(a) Annual Reports. As soon as available and in any event not later than 90 days after the end of each fiscal year of the Borrower, (i) a copy of the annual audit report for such fiscal year for the Borrower, including therein the consolidated balance sheets of the Borrower as of the end of such fiscal year and the consolidated statements of income, stockholders' equity, and cash flows for the Borrower for such fiscal year, setting forth the consolidated financial position and results of the Borrower for such fiscal year and certified, without any qualification or limit of the scope of the examination of matters relevant to the financial statements, by a nationally recognized certified public accounting firm, (ii) a completed Compliance Certificate duly certified by a Responsible Officer of the Borrower, and (iii) a completed Contract Status Report duly certified by a Responsible Officer of the Borrower;

(b) Quarterly Reports. As soon as available and in any event not later than 45 days after the end of each of the first three fiscal quarters of the Borrower of each year, and in each case in form and substance acceptable to the Agent, (i) a copy of the internally prepared consolidated financial statements of the Borrower for such fiscal quarter and for the fiscal year to date period ending on the last day of such fiscal quarter, including therein the consolidated balance sheets of the Borrower as of the end of such fiscal quarter and the consolidated statements of income, and cash flows for such fiscal quarter and for such fiscal year to date period, setting forth the consolidated financial position and results of the Borrower for such fiscal quarter and fiscal year to date period, all in reasonable detail and duly certified by a Responsible Officer of the Borrower as having been prepared in accordance with generally accepted accounting principles, including those applicable to interim financial reports which permit normal year end adjustments and do not require complete financial notes, (ii) a completed Compliance Certificate duly certified by a Responsible Officer of the Borrower, and (iii) a completed Contract Status Report duly certified by a Responsible Officer of the Borrower;

(c) Semi-annual Subsidiary Update. As soon as available and in any event not later than 45 days after the end of the second fiscal quarter of the Borrower of each year and 90 days after the end of the fourth fiscal quarter of the Borrower of each year, an update of the information included in Schedule II, including all Subsidiaries acquired by the Borrower since the previous update of such scheduled information.

(d) Acquisition Information. As soon as available prior to the closing of any Acquisition requiring approval of the Majority Banks, and on or prior to the closing of any Acquisition not requiring such approval, a completed Acquisition Certificate duly certified by a Responsible Officer of the Borrower, which the Agent shall forward to the Banks for any Acquisition requiring approval of the Majority Banks (and prior to the consummation of the Acquisition, the

Borrower shall, upon request by the Agent, make available to the Agent at the Borrower's offices in Houston, Texas, the acquisition documents regarding the acquired assets, including schedules reflecting litigation liabilities, environmental liabilities, and other assumed liabilities, and any other information regarding the acquired assets as the Agent may reasonably request);

(e) SEC Filings. As soon as available and in any event not later than thirty days after the filing or delivery thereof, copies of all financial statements, reports, and proxy statements which the Borrower shall have sent to its stockholders generally and copies of all regular and periodic reports, if any, which any Restricted Entity shall have filed with the Securities and Exchange Commission;

(f) Defaults. Promptly, but in any event within five Business Days after the discovery thereof, a notice of any facts known to a Responsible Officer of any Restricted Entity which constitute a Default, together with a statement of a Responsible Officer of the Borrower setting forth the details of such facts and the actions which the Borrower has taken and proposes to take with respect thereto (and the Agent shall, promptly upon receipt from the Borrower of a notice pursuant to this Section 5.2(e), forward a copy of such notice to each Bank);

(g) Litigation. Promptly, but in any event within 10 Business Days after the commencement thereof, notice of all actions, suits, and proceedings before any court or governmental department, commission, board, bureau, agency, or instrumentality, domestic or foreign, affecting any Restricted Entity which, if determined adversely, could reasonably be expected to cause a Material Adverse Change;

(h) Material Agreement Default. Promptly, but in any event within 10 Business Days after a Responsible Officer obtains knowledge thereof, notice of any breach by any Restricted Entity of any contract or agreement which breach could reasonably be expected to cause a Material Adverse Change;

(i) Material Changes. Prompt written notice of any other condition or event of which a Responsible Officer of any Restricted Entity has knowledge, which condition or event has resulted or could reasonably be expected to cause a Material Adverse Change; and

(j) Other Information. Such other information respecting the business operations or property of any Restricted Entity, financial or otherwise, as the Agent or the Majority Banks may from time to time reasonably request.

5.3 Inspection. The Borrower shall cause each Restricted Entity to permit the Agent and the Banks to visit and inspect any of the properties of such Restricted Entity, to examine all of such Person's books of account, records, reports, and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances, and accounts with their respective officers, employees, and independent public accountants all at such reasonable times and as often as may be reasonably requested, provided that the Borrower is given at least 3 Business Days' advance notice thereof and reasonable opportunity to be present when independent public accountants or other third parties are contacted, and provided further that so long as no Default or Event of Default exists, the Agent and the Banks shall not exercise the foregoing inspection right more often than once in any calendar year.

5.4 Use of Proceeds. The proceeds of the Revolving Loan Borrowings shall be used by the Borrower for Acquisitions, working capital needs, Capital Expenditures, and for other lawful corporate purposes. The Borrower shall not, directly or indirectly, use any part of such proceeds for any purpose which violates, or is inconsistent with, Regulations T, U, or X of the Board of Governors of the Federal Reserve System.

5.5 Financial Covenants. The Agent shall determine compliance with the following financial covenants based upon the applicable Schedule of the most recent Compliance Certificate delivered to the Agent pursuant to Section 5.2(a) or 5.2(b).

(a) Net Worth. The Borrower shall not permit the consolidated Net Worth of the Borrower as of the last day of each fiscal quarter to be less than the sum of (i) $187,500,000, plus (ii) 90% of the cumulative quarterly consolidated net income of the Borrower after March 31, 1998, for each fiscal quarter of the Borrower during which the Borrower has positive consolidated net earnings; plus (iii) 100% of the net proceeds received by Borrower after March 31, 1998, from any sale or issuance of any equity securities of, or any other additions to capital by, the Borrower or its Subsidiaries; plus (iv) to the extent that the required consolidated Net Worth under this Section 5.5(a) was not increased in clauses (i) through (iii) above as a result of any Acquisition, 100% of any increase in the consolidated Net Worth of the Borrower resulting from any Acquisition. Compliance with this paragraph (a) shall be determined based upon Schedule C of the applicable Compliance Certificate.

(b) Maximum Debt to EBITDA Ratio. As of the last day of each fiscal quarter of the Borrower, the Borrower shall not permit the ratio of (i) the consolidated Debt of the Borrower as of end of such fiscal quarter to (ii) the consolidated EBITDA of the Borrower for the preceding four fiscal quarters then ended, to be greater than 2.50 to 1.00. Compliance with this paragraph (b) shall be determined based upon Schedule C of the applicable Compliance Certificate.

(c) Minimum Fixed Charge Coverage Ratio. As of the last day of each fiscal quarter, the Borrower shall not permit the ratio of (i) the consolidated EBITDA of the Borrower for the preceding four fiscal quarters then ended less consolidated Cash Taxes paid by the Borrower during such period to (ii) (A) the consolidated Interest Expense of the Borrower for the preceding four fiscal quarters then ended plus (B) the aggregate amount of Restricted Payments declared or paid by the Borrower during such period plus (C) the consolidated Capital Expenditures (other than Capital Expenditures that are deemed to occur solely because of the making of an Acquisition) of the Borrower during such period plus (D) the consolidated current maturities of the Borrower (including Capital Leases) plus (E) the greater of (1) 20% of the outstanding amount of the Revolving Loan as of the last day of such fiscal quarter or (2) $4,000,000, to be less than 1.75 to 1.00; provided, that with respect to a determination for which any component of such determination involves Persons which were not Restricted Entities for the entire applicable period of determination, the Cash Taxes paid by each such Person during such period may, at the election of the Borrower, be deemed to be equal to the product of (a) the EBITDA of such Person for the applicable period multiplied by (b) 39%. Compliance with this paragraph (c) shall be determined based upon Schedule C of the applicable Compliance Certificate.

(d) Capital Expenditures. The Borrower shall not permit the consolidated Capital Expenditures (other than Capital Expenditures that are deemed to occur because of the making of an Acquisition) of the Borrower during any four quarter period to exceed an amount equal to 6% of the consolidated Net Worth of the Borrower as of the end of the applicable four quarter period; provided, that with respect to a determination including any fiscal quarter which involves Persons which were not Restricted Entities for the entire applicable period of determination, the Capital Expenditures of each such Person for each such quarterly period shall be deemed to be equal to the quotient of (i) the consolidated Capital Expenditures of such Person for the fiscal year then most recently ended, divided by (ii) 4. Compliance with this paragraph (d) shall be determined based upon Schedule C of the applicable Compliance Certificate.

5.6 Debt.

(a) The Borrower shall not permit any Restricted Entity to create, assume, incur, suffer to exist, or in any manner become liable, directly, indirectly, or contingently in respect of, any Debt other than Permitted Debt.

(b) The Borrower shall, as soon as available but in any event not less than 10 Business Days prior to the issuance of any preferred stock or subordinated indebtedness, deliver to the Agent a copy of the certificate of designation or subordinated debt documents, as applicable, together with a certificate, signed by a Responsible Officer of the Borrower, certifying that such preferred stock or subordinated indebtedness constitutes Qualified Preferred Stock or Subordinated Debt pursuant to the terms of this Agreement.

5.7 Liens. The Borrower shall not permit any Restricted Entity to create, assume, incur, or suffer to exist any Lien on any of its real or personal property whether now owned or hereafter acquired, or assign any right to receive its income, except for Permitted Liens.

5.8 Other Obligations.

(a) The Borrower shall not permit any Restricted Entity to create, incur, assume, or suffer to exist any obligations in respect of unfunded vested benefits under any pension Plan or deferred compensation agreement in an aggregate outstanding amount in excess of $1,000,000.

(b) The Borrower shall not permit any Restricted Entity to create, incur, assume, or suffer to exist any obligations in respect of Derivatives, other than Derivatives used by any Restricted Entity in such Restricted Entity's respective business operations in aggregate notional quantities not to exceed the reasonably anticipated consumption of such Restricted Entity of the underlying commodity for the relevant period, but no Derivatives which are speculative in nature.

5.9 Corporate Transactions. The Borrower shall not, without the Agent's consent, permit any Restricted Entity to (a) merge, consolidate, or amalgamate with another Person, or liquidate, wind up, or dissolve itself (or take any action towards any of the foregoing), (b) convey, sell, lease, assign, transfer, or otherwise dispose of any of its property, businesses, or other assets outside of the ordinary course of business, or (c) make any Acquisition except that:

(i) Any Subsidiary of the Borrower may merge, consolidate, or amalgamate into the Borrower or any wholly owned Subsidiary of the Borrower, or convey, sell, lease, assign, transfer, or otherwise dispose of any of its assets to the Borrower or any wholly-owned Subsidiary of the Borrower (and if such disposition transfers all or substantially all of the assets of transferring Subsidiary, such subsidiary may then liquidate, wind up, or dissolve itself); provided that the Borrower or the wholly-owned Subsidiary, as applicable, is the surviving or acquiring entity; and

(ii) The Borrower or any Subsidiary of the Borrower may make any Acquisition (by purchase or merger) provided that (A) the Borrower or such Subsidiary of the Borrower is the acquiring or surviving entity, (B) the aggregate of all consideration (other than common stock of the Borrower) paid by the Restricted Entities in connection with any Acquisition made on or after the date of this Agreement does not exceed $10,000,000 without the prior consent of the Majority Banks, (C) the aggregate of all consideration (other than common stock of the Borrower) paid by the Restricted Entities in connection with all Acquisitions during any calendar year (exclusive of any such consideration paid prior to the date of this Agreement) does not exceed $30,000,000 without the prior consent of the Majority Banks, (D) no Default or Event of Default exists and the Acquisition would not reasonably be expected to cause a Default or Event of Default (including any default under Section 5.5 with respect to historical and future proforma financial status and results), and (E) the acquired assets are in substantially the same business as the Borrower; provided that to the extent that the Borrower obtains the consent of the Majority Banks to an Acquisition pursuant to subsections (B) or (C) above, the consideration paid by the Restricted Entities in connection with such Acquisition shall not be included in the calculations of the limitations contained in such subsections.

5.10 Distributions. The Borrower shall not (a) declare or pay any dividends; (b) purchase, redeem, retire, or otherwise acquire for value any of its capital stock now or hereafter outstanding; or make any distribution of assets to its stockholders as such, whether in cash, assets, or in obligations of it; (c) allocate or otherwise set apart any sum for the payment of any dividend or distribution on, or for the purchase, redemption, or retirement of, any shares of its capital stock; or (d) make any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock, except that the Borrower may make payments of dividends on Qualified Preferred Stock.

5.11 Transactions with Affiliates. The Borrower shall not permit any Restricted Entity to enter into any transaction directly or indirectly with or for the benefit of an Affiliate except transactions with an Affiliate for the leasing of property, the rendering or receipt of services, or the purchase or sale of inventory or other assets in the ordinary course of business if the monetary or business consideration arising from such a transaction would be substantially as advantageous to such Restricted Entity as the monetary or business consideration which such Restricted Entity would obtain in a comparable arm's length transaction.

5.12 Insurance.

(a) The Borrower shall cause each Restricted Entity to maintain insurance with responsible and reputable insurance companies or associations reasonably acceptable to the Agent in such amounts and covering such risks as are usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which such Persons operate. Without limiting the foregoing, the Borrower shall maintain insurance coverage for the Restricted Entities equal to or better than, on an item by item basis for each item, the coverage for the Restricted Entities existing on the date of this Agreement. The Borrower shall deliver to the Agent certificates evidencing such policies or copies of such policies at the Agent's request following a reasonable period to obtain such certificates taking into account the jurisdiction where the insurance is maintained.

(b) All policies representing liability insurance of the Restricted Entities shall name the Agent and the Banks as additional named insureds in a form satisfactory to the Agent. All proceeds of such liability insurance coverage for the Agent and the Banks shall be paid as directed by the Agent to indemnify the Agent or the applicable Bank for the liability covered. In the event that proceeds of property or liability insurance are paid to any Restricted Entity in violation of the foregoing, the Restricted Entity shall hold the proceeds in trust for the Agent, segregate the proceeds from the other funds of such Restricted Entity, and promptly pay the proceeds to the Agent with any necessary endorsement. The Agent shall have the right, but not the obligation, during the existence of an Event of Default, to make proof of loss under, settle and adjust any claim under, and receive the proceeds under the insurance, and the reasonable expenses incurred by the Agent in the adjustment and collection of such proceeds shall be paid by the Borrower. The Borrower irrevocably appoints the Agent as its attorney in fact to take such actions in its name. If the Agent does not take such actions, the Borrower may take such actions subject to the approval of any final action by the Agent. The Agent shall not be liable or responsible for failure to collect or exercise diligence in the collection of any proceeds.

5.13 Investments. The Borrower shall not permit any Restricted Entity to make or hold any direct or indirect investment in any Person, including capital contributions to the Person, investments in the debt or equity securities of the Person, and loans, guaranties, trade credit, or other extensions of credit to the Person, except for Permitted Investments.

5.14 Lines of Business. The Borrower shall not permit the Restricted Entities to change the character of their business as conducted on the date of this Agreement, or engage in any type of business not reasonably related to such business as presently and normally conducted.

5.15 Compliance with Laws. The Borrower shall cause each Restricted Entity to comply with all federal, state, and local laws and regulations which are applicable to the operations and property of such Persons, in each case, where the failure to comply could reasonably be expected to cause a Material Adverse Change.

5.16 Environmental Compliance. The Borrower shall cause each Restricted Entity to comply with all Environmental Laws and obtain and comply with all related permits necessary for the ownership and operation of any such Person's properties, in each case, where the failure to comply could reasonably be expected to cause a Material Adverse Change. The Borrower shall cause each Restricted Entity to promptly disclose to the Agent any notice to or investigation of such Persons for any violation or alleged violation of any Environmental Law in connection with any such Person's presently or previously owned properties which represent liabilities which could reasonably be expected to cause a Material Adverse Change. The Borrower shall not permit any Restricted Entity to create, handle, transport, use, or dispose of any Hazardous Materials on or about any such Person's properties; release any Hazardous Materials into the environment in connection with any such Person's operations or contaminate any properties with Hazardous Materials; or own properties contaminated by any Hazardous Materials, in each case in any manner that could reasonably be expected to cause a Material Adverse Change.

5.17 ERISA Compliance. The Borrower shall cause each Restricted Entity to (i) comply in all material respects with all applicable provisions of ERISA and prevent the occurrence of any Reportable Event or Prohibited Transaction with respect to, or the termination of, any of their respective Plans, in each case, where the failure to do so could reasonably be expected to cause a Material Adverse Change and (ii) not create or participate in any employee pension benefit plan covered by Title IV of ERISA or any multiemployer plan under Section 4001(a)(3) of ERISA.

5.18 Payment of Certain Claims. The Borrower shall cause each Restricted Entity to pay and discharge, before the same shall become delinquent, (a) all taxes, assessments, levies, and like charges imposed upon any such Person or upon any such Person's income, profits, or property by authorities having competent jurisdiction prior to the date on which penalties attach thereto except for tax payments being contested in good faith for which adequate reserves have been established and reported in accordance with generally accepted accounting principals which could not reasonably be expected to cause a Material Adverse Change and (b) all trade payables and current operating liabilities, unless the same are less than 90 days past due or are being contested in good faith, have adequate reserves established and reported in accordance with general accepted accounting principals, and could not reasonably be expected to cause a Material Adverse Change.

5.19 Subsidiaries. Upon the formation or acquisition of any new Subsidiary, the Borrower shall and shall cause such Subsidiary to promptly, but in any event within 30 days after the formation or acquisition of such new Subsidiary, execute and deliver to the Agent such guaranties, security agreements, pledge agreements, amendment agreements, consents, and other documents and agreements as the Agent requests so that such Subsidiary guarantees and secures the Credit Obligations on the same terms as the existing Subsidiaries of the Borrower (including the execution and delivery of a Joinder Agreement in substantially the form of Exhibit G for the purpose of joining such Subsidiary as a party to the Guaranty, the Security Agreement, and, if applicable, the Stock Pledge Agreement or the Partnership Pledge Agreement, or the execution of such new guaranties, pledge agreements, security agreements, and consents as the Agent determines are necessary to have the same effect in different jurisdictions). In connection therewith and within 30 days after the formation or acquisition of such new Subsidiary, the Borrower shall provide corporate documentation and opinion letters reasonably satisfactory to the Agent reflecting the corporate status of such new Subsidiary of the Borrower and the enforceability of such agreements.

ARTICLE 6. DEFAULT AND REMEDIES.

6.1 Events of Default. Each of the following shall be an "Event of Default" for the purposes of this Agreement and for each of the Credit Documents:

(a) Payment Failure. The Borrower (i) fails to pay when due any principal amounts due under this Agreement or any other Credit Document or (ii) fails to pay when due any interest, fees, reimbursements, indemnifications, or other amounts due under this Agreement or any other Credit Document and such failure has not been cured within five Business Days;

(b) False Representation. Any written representation or warranty made by any Credit Party or any Responsible Officer thereof in this Agreement or in any other Credit Document proves to have been false or erroneous in any material respect at the time it was made or deemed made;

(c) Breach of Covenant. (i) Any breach by the Borrower of any of the covenants contained in Sections 5.1(a) (with respect to the Borrower), 5.2, 5.3, 5.4, 5.6, 5.7, 5.8, 5.9, 5.10, 5.13 or 5.19 or (ii) any breach by any Credit Party of any other covenants contained in this Agreement, or any other Credit Document and such breach is not cured within 30 days following the earlier of knowledge of such breach by a Responsible Officer of such Credit Party or the receipt of written notice thereof from the Agent;

(d) Security and Support Documents. Any Security Document shall at any time and for any reason (other than one within the reasonable control of any Bank) cease to create the Lien on the property purported to be subject to such agreement in accordance with the terms of such agreement, or cease to be in full force and effect, or shall be contested by any party thereto;

(e) Guaranty. (i) the Guaranty shall at any time and for any reason cease to be in full force and effect with respect to any Guarantor (except as permitted under Section 5.9 hereof) or shall be contested by any Guarantor, or any Guarantor shall deny it has any further liability or obligation thereunder, or (ii) any breach by any Guarantor of any of the covenants contained in Section 1 of the Guaranty;

(f) Material Debt Default. (i) Any principal, interest, fees, or other amounts due on any Debt of any Restricted Entity (other than the Credit Obligations) is not paid when due, whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise, and such failure is not cured within the applicable grace period, if any, and the aggregate amount of all Debt of such Persons so in default exceeds $250,000; (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to any Debt of any such Person (other than the Credit Obligations) the effect of which is to accelerate or to permit the acceleration of the maturity of any such Debt, whether or not any such Debt is actually accelerated, and such event or condition shall not be cured within the applicable grace period, if any, and the aggregate amount of all Debt of such Persons so in default exceeds $1,000,000; (iii) any Debt of any such Person shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment) prior to the stated maturity thereof, and the aggregate amount of all Debt of such Persons so accelerated exceeds $1,000,000; or (iv) any default or event of default, however denominated, occurs under the Swing Line Note;

(g) Material Agreement Default. There shall occur any breach by any Restricted Entity of any contract or agreement which breach could reasonably be expected to cause a Material Adverse Change and such breach is not cured within the applicable grace period, if any;

(h) Bankruptcy and Insolvency. (i) there shall have been filed against any Restricted Entity or any such Person's properties, without such Person's consent, any petition or other request for relief seeking an arrangement, receivership, reorganization, liquidation, or similar relief under bankruptcy or other laws for the relief of debtors and such request for relief (A) remains in effect for 60 or more days, whether or not consecutive, or (B) is approved by a final nonappealable order, or (ii) any such Person consents to or files any petition or other request for relief of the type described in clause (i) above seeking relief from creditors, makes any assignment for the benefit of creditors or other arrangement with creditors, or admits in writing such Person's inability to pay such Person's debts as they become due (the occurrence of any Event of Default under clause (i) or (ii) of this paragraph being a "Bankruptcy Event of Default");

(h) Adverse Judgment. The aggregate outstanding amount of judgments against the Restricted Parties not discharged or stayed pending appeal or other court action within 30 days following entry is greater than $250,000; or

(i) Change of Control. There shall occur any Change of Control.

6.2 Termination of Revolving Loan Commitments. Upon the occurrence of any Bankruptcy Event of Default, all of the commitments of the Agent and the Banks hereunder shall terminate. During the existence of any Event of Default other than a Bankruptcy Event of Default, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower all of the commitments of the Agent and the Banks hereunder terminated, whereupon the same shall immediately terminate.

6.3 Acceleration of Credit Obligations. Upon the occurrence of any Bankruptcy Event of Default, the aggregate outstanding principal amount of all loans made hereunder, all accrued interest thereon, and all other Credit Obligations shall immediately and automatically become due and payable. During the existence of any Event of Default other than a Bankruptcy Event of Default, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower the aggregate outstanding principal amount of all loans made hereunder, all accrued interest thereon, and all other Credit Obligations to be immediately due and payable, whereupon the same shall immediately become due and payable. In connection with the foregoing, except for the notice provided for above in this Article VI, the Borrower waives notice of any Default or Event of Default, grace, notice of intent to accelerate, notice of acceleration, presentment, demand, notice of nonpayment, protest, and all other notices.

6.4 Cash Collateralization of Letters of Credit. Upon the occurrence of any Bankruptcy Event of Default, the Borrower shall pay to the Agent an amount equal to the Letter of Credit Exposure to be held in the Letter of Credit Collateral Account for disposition in accordance with Section 2.2(g). During the existence of any Event of Default other than a Bankruptcy Event of Default, the Agent shall at the request of the Majority Banks require by written notice to the Borrower that the Borrower pay to the Agent an amount equal to the Letter of Credit Exposure to be held in the Letter of Credit Collateral Account for disposition in accordance with Section 2.2(g), whereupon the Borrower shall pay to the Agent such amount for such purpose.

6.5 Default Interest. If any Event of Default exists based upon a default in the payment of any amounts owing hereunder, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower that the Credit Obligations specified in such notice shall bear interest beginning on the date specified in such notice until paid in full at the applicable Default Rate for such Credit Obligations, whereupon the Borrower shall pay such interest to the Agent for the benefit of the Agent and the Banks, as applicable, upon demand by the Agent. If any other Event of Default exists, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower that, unless such Event of Default is cured to the satisfaction of the Agent and the Majority Banks on or before the 30th day following the occurrence of such Event of Default, the Credit Obligations specified in such notice shall bear interest beginning on such 30th day until paid in full at the applicable Default Rate for such Credit Obligations, whereupon the Borrower shall, if such Event of Default is not cured by such date, pay such interest to the Agent for the benefit of the Agent and the Banks, as applicable, upon demand by the Agent after such date.

6.6 Right of Setoff. During the existence of an Event of Default, the Agent and each Bank is hereby authorized at any time, to the fullest extent permitted by law, to set off and apply any indebtedness owed by the Agent or such Bank to the Borrower against any and all of the obligations of the Borrower under this Agreement and the Credit Documents, irrespective of whether or not the Agent or such Bank shall have made any demand under this Agreement or the Credit Documents and although such obligations may be contingent and unmatured. The Agent and each Bank, as the case may be, agrees promptly to notify the Borrower after any such setoff and application made by such party provided that the failure to give such notice shall not affect the validity of such setoff and application.

6.7 Actions Under Credit Documents. Following an Event of Default, the Agent shall at the request of the Majority Banks take any and all actions permitted under the other Credit Documents, including the Guaranty and the Security Documents.

6.8 Remedies Cumulative. No right, power, or remedy conferred to the Agent or the Banks in this Agreement and the Credit Documents, or now or hereafter existing at law, in equity, by statute, or otherwise, shall be exclusive, and each such right, power, or remedy shall to the full extent permitted by law be cumulative and in addition to every other such right, power, or remedy. No course of dealing and no delay in exercising any right, power, or remedy conferred to the Agent or the Banks in this Agreement and the Credit Documents, or now or hereafter existing at law, in equity, by statute, or otherwise, shall operate as a waiver of or otherwise prejudice any such right, power, or remedy.

6.9 Application of Payments. Prior to the Revolving Loan Maturity Date or any acceleration of the Credit Obligations, all payments made hereunder shall be applied to the Credit Obligations as directed by the Borrower, subject to the rules regarding the application of payments to certain Credit Obligations provided for hereunder and in the Credit Documents. Following the Revolving Loan Maturity Date or any acceleration of the Credit Obligations, all payments and collections shall be applied to the Credit Obligations in the following order:

> First, to the payment of the costs, expenses, reimbursements (other than reimbursement obligations with respect to draws under Letters of Credit), and indemnifications of the Agent that are due and payable under the Credit Documents;

Then, ratably to the payment of the costs, expenses, reimbursements (other than reimbursement obligations with respect to draws under Letters of Credit), and indemnifications of the Banks that are due and payable under the Credit Documents;

Then, ratably to the payment of all accrued but unpaid interest and fees and obligations under Interest Hedge Agreements due and payable under the Credit Documents;

Then, ratably to the payment of all outstanding principal and reimbursement obligations for draws under Letters of Credit due and payable under the Credit Documents;

Then, ratably to the payment of any other amounts due and owing with respect to the Credit Obligations; and

Finally, any surplus held by the Agent and remaining after payment in full of all the Credit Obligations and reserve for Credit Obligations not yet due and payable shall be promptly paid over to the Borrower or to whomever may be lawfully entitled to receive such surplus. All applications shall be distributed in accordance with Section 2.10(a).

ARTICLE 7. THE AGENT AND THE ISSUING BANK

7.1 Authorization and Action. Each Bank hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof and of the other Credit Documents, together with such powers as are reasonably incidental thereto. Statements under the Credit Documents that the Agent may take certain actions, without further qualification, means that the Agent may take such actions with or without the consent of the Banks or the Majority Banks, but where the Credit Documents expressly require the determination of the Banks or the Majority Banks, the Agent shall not take any such action without the prior written consent thereof. As to any matters not expressly provided for by this Agreement or any other Credit Document (including, without limitation, enforcement or collection of the Revolving Loan Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the written instructions of the Majority Banks, and such instructions shall be binding upon all Banks and all holders of Revolving Loan Notes; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement, any other Credit Document, or applicable law.

7.2 Reliance, Etc. Neither the Agent, the Issuing Bank, nor any of their respective Related Parties (for the purposes of this Section 7.2, collectively, the "Indemnified Parties") shall be liable for any action taken or omitted to be taken by any Indemnified Party under or in connection with this Agreement or the other Credit Documents, INCLUDING ANY INDEMNIFIED PARTY'S OWN NEGLIGENCE, except for any Indemnified Party's gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent and the Issuing Bank: (a) may treat the payee of any Revolving Loan Note as the holder thereof until the Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to the Agent; (b) may consult with legal counsel (including counsel for the Borrower), independent public accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; (c) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties, or representations made in or in connection with this Agreement or the other Credit Documents; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of this Agreement or any other Credit Document on the part of the Credit Parties or to inspect the property (including the books and records) of the Credit Parties; (e) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement or any other Credit Document; and (f) shall incur no liability under or in respect of this Agreement or any other Credit Document by acting upon any notice, consent, certificate, or other instrument or writing (which may be by telecopier or telex) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

7.3 Affiliates. With respect to its Revolving Loan Commitments, the Revolving Loan Advances made by it, its interests in the Letters of Credit, and the Revolving Loan Notes issued to it, the Agent and the Issuing Bank shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent. The term "Bank" or "Banks" shall, unless otherwise expressly indicated, include the Agent and the Issuing Bank in their individual capacity. The Agent, the Issuing Bank, and their respective Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any Credit Party, and any Person who may do business with or own securities of any Credit Party, all as if the Agent were not an agent hereunder and the Issuing Bank were not the issuer of Letters of Credit hereunder and without any duty to account therefor to the Banks.

7.4 Bank Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on the Registration Statement, the Interim Financial Statements, and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it shall, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

7.5 Expenses. To the extent not paid by the Borrower, each Bank severally agrees to pay to the Agent and the Issuing Bank on demand such Bank's ratable share of the following: (a) all reasonable out-of-pocket costs and expenses of the Agent and the Issuing Bank in connection with the preparation, execution, delivery, administration, modification, and amendment of this Agreement and the other Credit Documents, including the reasonable fees and expenses of outside counsel for the Agent and the Issuing Bank with respect to advising the Agent and the Issuing Bank as to their respective rights and responsibilities under this Agreement and the Credit Documents, and (b) all out-of-pocket costs and expenses of the Agent and the Issuing Bank in connection with the preservation or enforcement of the rights of the Agent, the Issuing Bank, and the Banks under this Agreement and the other Credit Documents, whether through negotiations, legal proceedings, or otherwise, including fees and expenses of counsel for the Agent and the Issuing Bank. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

7.6 Indemnification. To the extent not reimbursed by the Borrower, each Bank severally agrees to protect, defend, indemnify, and hold harmless the Agent, the Issuing Bank, and each of their respective Related Parties (for the purposes of this Section 7.6, collectively, the "Indemnified Parties"), from and against all demands, claims, actions, suits, damages, judgments, fines, penalties, liabilities, and out-of-pocket costs and expenses, including reasonable costs of attorneys and related costs of experts such as accountants (collectively, the "Indemnified Liabilities"), actually incurred by any Indemnified Party which are related to any litigation or proceeding relating to this Agreement, the Credit Documents, or the transactions contemplated thereunder, INCLUDING ANY INDEMNIFIED LIABILITIES CAUSED BY ANY INDEMNIFIED PARTY'S OWN NEGLIGENCE, but not Indemnified Liabilities which are a result of any Indemnified Party's gross negligence or willful misconduct. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

7.7 Successor Agent and Issuing Bank. The Agent or the Issuing Bank may resign at any time by giving written notice thereof to the Banks and the Borrower and may be removed at any time with or without cause by the Majority Banks upon receipt of written notice from the Majority Banks to such effect. Upon receipt of notice of any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent or Issuing Bank with the consent of the Borrower, which consent shall not be unreasonably withheld. If no successor Agent or Issuing Bank shall have been so appointed by the Majority Banks with the consent of the Borrower, and shall have accepted such appointment, within 30 days after the retiring Agent's or Issuing Bank's giving of notice of resignation or the Majority Banks' removal of the retiring Agent or Issuing Bank, then the retiring Agent or Issuing Bank may, on behalf of the Banks and the Borrower, appoint a successor Agent or Issuing Bank, which shall be, in the case of a successor agent, a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000 and, in the case of the Issuing Bank, a Bank. Upon the acceptance of any appointment as Agent or Issuing Bank by a successor Agent or Issuing Bank, such successor Agent or Issuing Bank shall thereupon succeed to and become vested with all the rights, powers, privileges, and duties of the retiring Agent or Issuing Bank, and the retiring Agent or Issuing Bank shall be discharged from any duties and obligations under this Agreement and the other Credit Documents after such acceptance, except that the retiring Issuing Bank shall remain the Issuing Bank with respect to any Letters of Credit outstanding on the effective date of its resignation or removal and the provisions affecting the Issuing Bank with respect to such Letters of Credit shall inure to the benefit of the retiring Issuing Bank until the termination of all such Letters of Credit. After any Agent's or Issuing Bank's resignation or removal hereunder as Agent or Issuing Bank, the provisions of this Article 7 shall inure to such Person's benefit as to any actions taken or omitted to be taken by such Person while such Person was Agent or Issuing Bank under this Agreement and the other Credit Documents.

ARTICLE 8. MISCELLANEOUS.

8.1 Expenses. The Borrower shall pay on demand of the applicable party specified herein (a) all reasonable out-of-pocket costs and expenses of the Agent and the Issuing Bank in connection with the preparation, execution, delivery, administration, modification, and amendment of this Agreement and the other Credit Documents, including the reasonable fees and expenses of outside counsel for the Agent and the Issuing Bank, and (b) all out-of-pocket costs and expenses of the Agent, the Issuing Bank, and each Bank in connection with the preservation or enforcement of their respective rights under this Agreement and the other Credit Documents, whether through negotiations, legal proceedings, or otherwise, including fees and expenses of counsel for the Agent, the Issuing Bank, and each Bank. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

8.2 Indemnification. The Borrower agrees to protect, defend, indemnify, and hold harmless the Agent, the Issuing Bank, each Bank, and each of their respective Related Parties (for the purposes of this Section 8.2, collectively, the "Indemnified Parties"), from and against all demands, claims, actions, suits, damages, judgments, fines, penalties, liabilities, and out-of-pocket costs and expenses, including reasonable costs of attorneys and related costs of experts such as accountants (collectively, the "Indemnified Liabilities"), actually incurred by any Indemnified Party which are related to any litigation or proceeding relating to this Agreement, the Credit Documents, or the transactions contemplated thereunder, INCLUDING ANY INDEMNIFIED LIABILITIES CAUSED BY ANY INDEMNIFIED PARTY'S OWN NEGLIGENCE, but not Indemnified Liabilities which are a result of any Indemnified Party's gross negligence or willful misconduct. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

8.3 Modifications, Waivers, and Consents. No modification or waiver of any provision of this Agreement or the Revolving Loan Notes, nor any consent required under this Agreement or the Revolving Loan Notes, shall be effective unless the same shall be in writing and signed by the Majority Banks and the Borrower, and then such modification, waiver, or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no modification, waiver, or consent shall, unless in writing and signed by all the Banks and the Borrower do any of the following: (a) waive any of the conditions specified in Section 3.1 or 3.2, (b) increase the Revolving Loan Commitments of the Banks, (c) forgive or reduce the amount or rate of any principal, interest, or fees payable under the Credit Documents, or postpone or extend the time for payment thereof, (d) release any Guaranty or any material collateral securing the Credit Obligations (except as otherwise permitted or required herein), or (e) change the percentage of Banks required to take any action under this Agreement, the Revolving Loan Notes, or the Security Documents, including any amendment of the definition of "Majority Banks" or this Section 8.3. No modification, waiver, or consent shall, unless in writing and signed by the Agent or the Issuing Bank affect the rights or obligations of the Agent or the Issuing Bank, as the case may be, under the Credit Documents. The Agent shall not modify or waive or grant any consent under any other Credit Document of such action would be prohibited under this Section 8.3 with respect to the Credit Agreement or the Revolving Loan Notes.

8.4 Survival of Agreements. All representations, warranties, and covenants of the Borrower in this Agreement and the Credit Documents shall survive the execution of this Agreement and the Credit Documents and any other document or agreement.

8.5 Assignment and Participation. This Agreement and the Credit Documents shall bind and inure to the benefit of the Borrower and their respective successors and assigns and the Agent and the Banks and their respective successors and assigns. The Borrower may not assign its rights or delegate its duties under this Agreement or any Credit Document.

(a) Assignments. Any Bank may assign to one or more banks or other entities all or any portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Loan Commitments, the Revolving Loan Advances owing to it, the Revolving Loan Notes held by it, and the participation interest in the Letters of Credit owned by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all of such Bank's rights and obligations under this Agreement, (ii) assignments of Revolving Loan Commitments shall be made in minimum amounts of $5,000,000 and be made in integral multiples of $1,000,000 and the assigning Bank, if it retains any Revolving Loan Commitments, shall maintain at least $5,000,000 in Revolving Loan Commitments, (iii) each such assignment shall be to an Eligible Assignee, (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with the Revolving Loan Notes subject to such assignment, and (v) each Eligible Assignee (other than the Eligible Assignee of the Agent) shall pay to the Agent a $3,500 administrative fee. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least three Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto for all purposes and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and (B) such Bank thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of such Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(b) Term of Assignments. By executing and delivering an Assignment and Acceptance, the Bank thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency of value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Credit Party or the performance or observance by any Credit Party of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the Registration Statement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee shall, independently and without reliance upon the Agent, such Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it shall perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(c) The Register. The Agent shall maintain at its address referred to in Section 8.6 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Banks and the Revolving Loan Commitments of each Bank from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent, the Issuing Bank, and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Procedures. Upon its receipt of an Assignment and Acceptance executed by a Bank and an Eligible Assignee, together with the Revolving Loan Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed in the appropriate form, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower shall execute and deliver to the Agent in exchange for the surrendered Revolving Loan Notes a new Revolving Loan Note to the order of such Eligible Assignee in an amount equal to the Revolving Loan Commitment assumed by it pursuant to such Assignment and Acceptance and, if such Bank has retained any Revolving Loan Commitment hereunder, a new Revolving Loan Note to the order of such Bank in an amount equal to the Revolving Loan Commitment retained by it hereunder. Such new Revolving Loan Notes shall be dated the effective date of such Assignment and Acceptance and shall be in the appropriate form.

(e) Participation. Each Bank may sell participation to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Loan Commitments, the Revolving Loan Advances owing to it, its participation interest in the Letters of Credit, and the Revolving Loan Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement (including, without limitation, its Revolving Loan Commitments to the Borrower hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Revolving Loan Notes for all purposes of this Agreement, (iv) the Borrower, the Agent, and the Issuing Bank and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and (v) such Bank shall not require the participant's consent to any matter under this Agreement, except that upon 10 days' written notice of such participation to the Agent and the Borrower, such Bank may permit the participant to possess consent rights with respect to changes in the principal amount of the Revolving Loan Notes, reductions in fees or interest, extensions of the applicable maturity date, or releases of any collateral or guarantor (except to the extent otherwise permitted herein or in any of the other Credit Documents). The Borrower hereby agrees that participants shall have the same rights under Sections 2.6, 2.7, 2.8, 2.9, 2.10, and 8.2 as a Bank to the extent of their respective participation.

(f) Assignments or Pledges to Federal Reserve Banks. In addition to the foregoing rights of assignment and participation, any Bank may assign or pledge any portion of its rights under this Agreement (including the Revolving Loan Advances owed to such Bank) to any Federal Reserve Bank in accordance with applicable law without notice to or the consent of the Borrower or the Agent, provided that (i) such Bank shall not be relieved of its obligations under this Agreement as a result thereof and (ii) in no event shall the Federal Reserve Bank be entitled to direct the actions of the pledging or assigning Bank under this Agreement.

8.6 Notice. All notices and other communications under this Agreement and the Revolving Loan Notes shall be in writing and mailed by certified mail (return receipt requested), telecopied, telexed, hand delivered, or delivered by a nationally recognized overnight courier, to the address for the appropriate party specified in Schedule I or at such other address as shall be designated by such party in a written notice to the other parties. Mailed notices shall be effective when received. Telecopied or telexed notices shall be effective when transmission is completed or confirmed by telex answerback. Delivered notices shall be effective when delivered by messenger or courier. Notwithstanding the foregoing, notices and communications to the Agent pursuant to Article 2 or 7 shall not be effective until received by the Agent.

8.7 Choice of Law. This Agreement and the Revolving Loan Notes have been prepared, are being executed and delivered, and are intended to be performed in the State of Texas, and the substantive laws of the State of Texas and the applicable federal laws of the United States shall govern the validity, construction, enforcement, and interpretation of this Agreement and the Revolving Loan Notes; provided however, Chapter 15 of the Texas Credit Code does not apply to this Agreement or the Revolving Loan Notes. Each Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 500 (1993 version).

8.8 Forum Selection. THE BORROWER IRREVOCABLY CONSENTS TO THE JURISDICTION OF THE COURTS OF THE STATE OF TEXAS AND OF ANY FEDERAL COURT LOCATED IN SUCH STATE IN CONNECTION WITH ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATED THERETO. THE BORROWER AGREES AND SHALL NOT CONTEST THAT PROPER FORUM AND VENUE FOR ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO ARE IN THE COURTS OF THE STATE OF TEXAS IN HARRIS COUNTY, TEXAS, AND THE FEDERAL COURTS LOCATED IN HARRIS COUNTY, TEXAS. THE BORROWER IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE FOREGOING BASED UPON CLAIMS THAT THE FOREGOING COURTS ARE AN INCONVENIENT FORUM.

8.9 Service of Process. IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO, THE BORROWER WAIVES PERSONAL SERVICE OF ANY SUMMONS,

COMPLAINT, OR OTHER PROCESS OR NOTICE AND AGREES THAT SERVICE BY FIRST CLASS MAIL, RETURN RECEIPT REQUESTED, TO THE BORROWER AT ITS ADDRESS FOR NOTICES HEREUNDER, OR ANY OTHER FORM OF SERVICE PROVIDED FOR IN THE TEXAS CIVIL PRACTICE LAW AND RULES THEN IN EFFECT SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE UPON THE BORROWER.

8.10 Waiver of Jury Trial. THE BORROWER IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO.

8.11 Amendment and Restatement. This Agreement represents a full and complete amendment and restatement of the Credit Agreement dated as of January 30, 1998, among the Borrower, NationsBank of Texas, N.A., as predecessor in interest to NationsBank, N.A., as the Agent, and the Banks named therein, and that prior version is deemed replaced hereby as of the effectiveness of this Agreement. The indebtedness under such prior version of this Agreement continues under this Agreement (as reallocated among the Banks in connection with the effectiveness of this Agreement) and the execution of this Agreement does not indicate a payment, satisfaction, novation, or discharge thereof. All security and support for the indebtedness under the prior version of this Agreement continues to secure and support the indebtedness hereunder. Upon the effectiveness of this Agreement, all outstanding Revolving Loan Advances shall be reallocated among the Banks ratably in accordance with their Commitments. Amounts payable under the prior version of this Agreement shall accrue thereunder until the effectiveness of this Agreement and the Agent shall arrange with the Borrower and the Banks to prorate and ratably distribute to the Agent and the Banks all amounts payable under the prior version of this Agreement for the periods prior to the effectiveness of this Agreement.

8.12 Counterparts. This Agreement may be executed in multiple counterparts which together shall constitute one and the same instrument.

8.13 No Further Agreements. THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EXECUTED as of the date first above written.

BORROWER:

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ JIM P. WISE

Jim P. Wise
Senior Vice President and
Chief Financial Officer

AGENT:

NATIONSBANK, N.A., as Agent

By: /s/ ALBERT L. WELCH

Albert L. Welch
Vice President

BANKS:

NATIONSBANK, N.A.

Revolving Loan Commitment: $30,000,000	By: /s/ ALBERT L. WELCH --------------------------------- Albert L. Welch Vice President

BANK OF SCOTLAND

Revolving Loan Commitment: $25,000,000	By: /s/ ANNIE CHIN TAT --------------------------------- Annie Chin Tat Senior Vice President

COMERICA BANK - TEXAS

Revolving Loan Commitment: $25,000,000	By: /s/ BART BEARDEN --------------------------------- Bart Bearden Vice President

NATIONAL CITY BANK OF KENTUCKY

Revolving Loan Commitment: $15,000,000	By: /s/ TOM GURBACH --------------------------------- Tom Gurbach Vice President

PARIBAS

Revolving Loan Commitment: $15,000,000

By: /s/ ROSINE K. MATHEWS
Name: Rosine K. Mathews
Title: Vice President

By: /s/ LARRY ROBINSON
Name: Larry Robinson
Title: Vice President

THE BANK OF NOVA SCOTIA

Revolving Loan Commitment: $15,000,000

By: /s/ F.C.H. ASHBY
Name: F.C.H. Ashby
Title: Senior Manager Loan Operations

CENTURA BANK

Revolving Loan Commitment: $15,000,000

By: /s/ LOWRY D. PERRY
Name: Lowry D. Perry
Title: Bank Officer

CREDIT LYONNAIS NEW YORK BRANCH

Revolving Loan Commitment: $15,000,000

By: /s/ PASCAL POUPELLE
Name: Pascal Poupelle
Title: Executive Vice President

FIRST AMERICAN NATIONAL BANK

Revolving Loan Commitment:
$10,000,000

By: /s/ STEPHEN ARNOLD
Name: Stephen Arnold
Title: A.V.P.

SUNTRUST BANK

Revolving Loan Commitment:
$10,000,000

By: /s/ JOHN A. FIELDS, JR.
Name: John A. Fields, Jr.
Title: Vice President

By: /s/ STEVEN NEWBY
Name: Steven Newby
Title: Corporate Banking Officer

[Execution Version]

GUARANTY
(Subsidiaries of Integrated Electrical Services, Inc.)

This Guaranty dated as of July 30, 1998 ("Agreement"), is made by the undersigned subsidiaries of Integrated Electrical Services, Inc., a Delaware corporation (each a "Guarantor"), in favor of NationsBank, N.A., successor in interest by merger to NationsBank of Texas, N.A., in its capacity as agent ("Agent") for certain financial institutions which are or may become parties to the Credit Agreement described below.

INTRODUCTION

This Agreement is given in connection with the Credit Agreement dated as of July 30, 1998 (as modified from time to time, the "Credit Agreement"), among Integrated Electrical Services, Inc., a Delaware corporation ("Borrower"), certain financial institutions which are or may become parties thereto, and the Agent, the defined terms of which are used herein unless otherwise defined herein. It is a condition precedent to the obligation of the Banks to make any extension of credit under the Credit Agreement that the Guarantors execute and deliver this Agreement to the Agent. Each Guarantor is a Subsidiary of the Borrower. Because each Guarantor receives and, as a result of its ownership by the Borrower, expects to continue to receive financial and management support from the Borrower, each Guarantor will obtain substantial benefit from the extensions of credit expected to be made to the Borrower under the Credit Agreement.

Therefore, to induce the Agent and such financial institutions to enter into the Credit Agreement, the Guarantors jointly and severally agree with the Agent as follows:

Section 1. Guaranty. The Guarantors irrevocably and jointly and severally guarantee to the Agent the full payment when due of (a) all principal, interest, fees, reimbursements, indemnifications, and other amounts now or hereafter owed by the Borrower to the Agent and the Banks (and with respect to the Interest Hedge Agreements, the Affiliates of the Banks) under the terms of the Credit Agreement and the other Credit Documents, including amounts owed under the terms of the Credit Agreement and the other Credit Documents for which the Borrower has obtained relief under bankruptcy or other laws providing for relief from creditors, and (b) any increases, extensions, and rearrangements of the foregoing obligations under any amendments, supplements, and other modifications of the documents and agreements creating the foregoing obligations (collectively, the "Guaranteed

Obligations"). This is a guaranty of payment and not merely a guaranty of collection, and each Guarantor is liable as a primary obligor. If any of the Guaranteed Obligations are not punctually paid when due, whether by maturity, acceleration, or otherwise, and the Agent shall notify any Guarantor of such default and make demand for payment hereunder, such Guarantor shall immediately pay to the Agent the full amount of the Guaranteed Obligations which are due and payable. Each Guarantor shall make each payment to the Agent in U.S. Dollars in immediately available funds as directed by the Agent. The Agent is hereby authorized at any time following any demand for payment hereunder to set off and apply any indebtedness owed by the Agent to any Guarantor against any and all of the obligations of such Guarantor under this Agreement. The Agent agrees to promptly notify such Guarantor after any such setoff and application, but the failure to give such notice shall not affect the validity of such setoff and application.

Section 2. Guaranty Absolute.

2.1 This Agreement shall be deemed accepted by the Agent upon receipt, and the obligations of the Guarantors under this Agreement are effective immediately and are continuing and cover all Guaranteed Obligations arising prior to and after the date hereof. This Agreement may not be revoked by any Guarantor and shall continue to be effective with respect to Guaranteed Obligations arising or created after any attempted revocation by any Guarantor.

2.2 Each Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Credit Agreement and the other Credit Documents, regardless of any law, regulation, or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Banks with respect thereto. Each Guarantor agrees that such Guarantor's obligations under this Agreement shall not be released, diminished, or impaired by, and waives any rights which such Guarantor might otherwise have which relate to:

(a) Any lack of validity or enforceability of the Guaranteed Obligations, any Credit Document, or any other agreement or instrument relating thereto; any increase, reduction, extension, or rearrangement of the Guaranteed Obligations; any amendment, supplement, or other modification of the Credit Documents; any waiver or consent granted under the Credit Documents, including waivers of the payment and performance of the Guaranteed Obligations; or any sale, assignment, delegation, or other transfer of the Guaranteed Obligations or the Credit Documents;

(b) Any grant of any security or support for the Guaranteed Obligations or any impairment of any security or support for the Guaranteed Obligations, including any full or partial release, exchange, subordination, or waste of any collateral for the Guaranteed Obligations or any full or partial release of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations; any change in the organization or structure of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations; or the insolvency, bankruptcy, liquidation, or dissolution of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations;

(c) The manner of applying payments on the Guaranteed Obligations or the proceeds of any security or support for the Guaranteed Obligations against the Guaranteed Obligations;

(d) The failure to give notice of the occurrence of any of the events or actions referred to in this Section 2.2, notice of any default or event of default, however denominated, under the Credit Documents, notice of intent to demand, notice of demand, notice of presentment for payment, notice of nonpayment, notice of intent to protest, notice of protest, notice of grace, notice of dishonor, notice of intent to accelerate, notice of acceleration, notice of bringing of action to enforce the payment or performance of the Guaranteed Obligations, notice of any sale or foreclosure of any collateral for the Guaranteed Obligations, notice of any transfer of the Guaranteed Obligations, notice of the financial condition of or other circumstances regarding the Borrower, any Guarantor, or any other Person liable for the Guaranteed Obligations, or any other notice of any kind relating to the Guaranteed Obligations (and the parties intend that no Guarantor shall be considered a "Debtor" as defined in Section 9.105 of the Texas Business and Commerce Code for the purpose of notices required to be given to a Debtor thereunder); or

(e) Any other action taken or omitted which affects the Guaranteed Obligations, whether or not such action or omission prejudices any Guarantor or increases the likelihood that any Guarantor will be required to pay the Guaranteed Obligations pursuant to the terms hereof--it is the unambiguous and unequivocal intention of each Guarantor that such Guarantor shall be obligated to pay the Guaranteed Obligations when due, notwithstanding any occurrence, circumstance, event, action, or omission whatsoever, whether contemplated or uncontemplated, and whether or not particularly described herein.

2.3 This Agreement shall continue to be effective or be reinstated, as the case may be, if any payment on the Guaranteed Obligations must be refunded for any reason including any bankruptcy proceeding. In the event that the Agent or any Bank must refund any payment received against the Guaranteed Obligations, any prior release from the terms of this Agreement given to any Guarantor by the Agent shall be without effect, and this Agreement shall be reinstated in full force and effect. It is the intention of each Guarantor that such

Guarantor's obligations hereunder shall not be discharged except by final payment of the Guaranteed Obligations.

2.4 (a) Each Guarantor is a Subsidiary of the Borrower and receives and, because of its ownership by the Borrower, expects to continue to receive business opportunities, financial support, and management support from the Borrower. Each Guarantor has agreed to enter into this Agreement so that the Borrower can receive the benefits of the Guaranteed Obligations and continue to provide these services to such Guarantor.

(b) In consummating the transactions contemplated by the Credit Documents, no Guarantor intends to disturb, delay, hinder, or defraud either present or future creditors of such Guarantor. Each Guarantor is familiar with, and has independently reviewed books and records regarding, the financial condition of the Borrower and is familiar with the value of the security and support for the payment and performance of the Guaranteed Obligations. Based upon such examination, and taking into account the fairly discounted value of such Guarantor's contingent obligations under this Agreement and the value of the subrogation and contribution claims such Guarantor could make in connection with this Agreement, and assuming each of the transactions contemplated by the Credit Documents is consummated and the Borrower makes full use of the credit facilities thereunder, the present realizable fair market value of the assets of such Guarantor exceeds the total obligations of such Guarantor, and such Guarantor is able to realize upon its assets and pay its obligations as such obligations mature in the normal course of business.

(c) If notwithstanding the foregoing it is judicially determined with respect to any Guarantor that entering into this Agreement would violate Section 548 of the United States Bankruptcy Code or any comparable provisions of any state law, then such Guarantor shall be liable under this Guaranty only for amounts aggregating up to the largest amount that would not render such Guarantor's obligations hereunder subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provisions of any state law.

(d) Each Guarantor agrees that each Guarantor shall have rights of contribution and subrogation against each other Guarantor with respect to any payments made in connection with the Guaranteed Obligations.

Section 3. Unimpaired Collection.

3.1 There are no conditions precedent to the enforcement of this Agreement, except as expressly contained herein. It shall not be necessary for the Agent, in order to enforce payment by any Guarantor under this Agreement, to show any proof of the Borrower's default, to exhaust the Agent's remedies against the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations, to enforce any security or support for the payment or performance of the Guaranteed Obligations, or to enforce any other means of obtaining payment or performance of the Guaranteed Obligations. Each Guarantor waives any rights under Chapter 34 of the Texas Business and Commerce Code, Section 17.001 of the Texas Civil Practice and Remedies Code, and Rule 31 of the Texas Rules of Civil Procedure related to the foregoing. Neither the Agent nor the Banks shall be required to mitigate damages or take any other action to reduce, collect, or enforce the Guaranteed Obligations.

3.2 With respect to each Guarantor, all Subordinated Obligations of such Guarantor (as defined below) shall be subordinate and junior in right of payment and collection to the payment and collection in full of all Guaranteed Obligations as described below:

(a) As used herein, the term "Subordinated Obligations" for such Guarantor means: (i) all present and future indebtedness, liabilities, and obligations of any kind owed by the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations to such Guarantor, including debt obligations, equity obligations, and other contractual obligations requiring payments of any kind to be made to such Guarantor and including any right of subrogation (including any statutory rights of subrogation under Section 509 of the Bankruptcy Code, 11 U.S.C. Section 509, or under Chapter 34 of the Texas Business and Commerce Code), contribution, indemnification, reimbursement, exoneration, or any right to participate in any claim or remedy of the Agent against the Borrower, any Guarantor, or any Person liable for the payment or performance of the Guaranteed Obligations, or any collateral which the Agent now has or may acquire, and (ii) any increases, extensions, and rearrangements of the foregoing obligations under any amendments, supplements, and other modifications of the documents and agreements creating the foregoing obligations.

(b) Until all Guaranteed Obligations have been irrevocably paid in full (and therefore the payment thereof is no longer subject to being set aside or returned under the law), such Guarantor agrees not to take any action to enforce payment of such the Subordinated Obligations of such Guarantor, but this standstill is not intended as a permanent waiver of the subrogation, contribution, indemnification, reimbursement, exoneration, participation, or other rights of such Guarantor.

(c) Upon any receivership, insolvency proceeding, bankruptcy proceeding, assignment for the benefit of creditors, reorganization, arrangement with creditors, sale of assets for creditors, dissolution, liquidation, or marshaling of the assets of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations, all amounts due with respect to the Guaranteed Obligations shall be paid in full before such Guarantor shall be entitled to collect or receive any payment with respect to the Subordinated Obligations of such Guarantor, and all payments to which such Guarantor would be entitled to collect or receive on the Subordinated Obligations of such Guarantor shall be paid over to the Agent for application to the Guaranteed Obligations.

(d) Following notice from the Agent to the Borrower that an Event of Default exists and that no further payments shall be made on the Subordinated Obligations of such Guarantor until (i) all amounts due with respect to the Guaranteed Obligations shall be paid in full or (ii) the Agent revokes such notice, such Guarantor shall not be entitled to collect or receive any payment with respect to the Subordinated Obligations of such Guarantor.

(e) Any lien, security interest, or assignment securing the repayment of the Subordinated Obligations of such Guarantor shall be fully subordinate to any lien, security interest, or assignment in favor of the Agent which secures the Guaranteed Obligations. At the request of the Agent, such Guarantor will take any and all steps necessary to fully evidence the subordination granted hereunder, including amending or terminating financing statements and executing and recording subordinations of liens.

(f) This is an absolute and irrevocable agreement of subordination and the Agent may, without notice to such Guarantor, take any action described in Section 2.2 without impairing or releasing the obligations of such Guarantor hereunder.

(g) Such Guarantor shall not assign or otherwise transfer to any other Person any interest in the Subordinated Obligations of such Guarantor unless such Guarantor causes the assignee or other transferee to execute and deliver to the Agent a subordination agreement in substantially the form of the subordination provisions in this Agreement.

(h) If any amount shall be paid to such Guarantor in violation of this Section 3.2, such amount shall be held in trust for the benefit of the Agent and immediately turned over to the Agent, with any necessary endorsement, to be applied to the Guaranteed Obligations.

Section 4. Miscellaneous.

4.1 Each Guarantor hereby affirms and shall comply with the representations, warranties, and covenants made by the Borrower in the Credit Agreement to the extent that such representations, warranties, and covenants are applicable to such Guarantor, including all of the representations and warranties in Section 4 of the Credit Agreement and all of the covenants in Section 5 of the Credit Agreement.

4.2 Each Guarantor shall pay to the Agent on demand (a) all reasonable out-of-pocket costs and expenses of the Agent in connection with the preparation, execution, delivery, administration, modification, and amendment of this Agreement and the other Credit Documents to which such Guarantor is a party, including the reasonable fees and out-of-pocket expenses of outside counsel for the Agent with respect to advising the Agent as to its rights and responsibilities under this Agreement and the Credit Documents to which such Guarantor is a party, and (b) all costs and expenses of the Agent in connection with the enforcement of the Agent's rights under this Agreement and the other Credit Documents to which such Guarantor is a party, whether through negotiations, legal proceedings, or otherwise, including fees and expenses of counsel for the Agent. The provisions of this paragraph shall survive any purported termination of this Agreement and the Credit Documents that does not expressly reference this paragraph.

4.3 Each Guarantor agrees to protect, defend, indemnify, and hold harmless the Agent, each Bank, and each of their respective Related Parties (collectively, the "Indemnified Parties"), from and against all demands, claims, actions, suits, damages, judgments, fines, penalties, liabilities, and costs and expenses, including reasonable costs of attorneys and related costs of experts such as accountants (collectively, the "Indemnified Liabilities"), actually incurred by the Indemnified Parties which are related to any litigation or proceeding relating to this Agreement, the Credit Documents, or the transactions contemplated thereunder, INCLUDING INDEMNIFIED LIABILITIES CAUSED BY ANY INDEMNIFIED PARTIES' OWN NEGLIGENCE, but not Indemnified Liabilities which are a result of any Indemnified Parties' gross negligence or willful misconduct or negligence in the handling of money. The provisions of this paragraph shall survive any purported termination of this Agreement and the Credit Documents that does not expressly reference this paragraph.

4.4 Each Guarantor agrees that this Agreement shall be governed by the laws of the State of Texas. If any provision in this Agreement is held to be unenforceable, such provision shall be severed and the remaining provisions shall remain in full force and effect. All representations, warranties, and covenants of any Guarantor in this Agreement shall survive the execution of this Agreement and any other contract or agreement. The Agent's remedies under this Agreement and the Credit Documents to which any Guarantor is a party shall be cumulative, and no delay in enforcing this Agreement and the Credit Documents to which such Guarantor is a party shall act as a waiver of the Agent's rights thereunder. The provisions of this Agreement may be waived or amended only in a writing signed by the party against whom enforcement is sought. This Agreement shall bind and inure to the benefit of each Guarantor and the Agent and their respective successors and assigns. Each Guarantor may not assign its rights or delegate its duties under this Agreement. The Agent may assign its rights and delegate its duties under this Agreement in accordance with the terms of the Credit Agreement. This Agreement may be executed in multiple counterparts each of which shall constitute one and the same agreement. Unless otherwise specified, all notices and other communications between such Guarantor and the Agent provided for in this Agreement and the Credit Documents to which such Guarantor is a party shall be in writing, including telecopy, and delivered or transmitted to the addresses set forth below, or to such other address as shall be designated by such Guarantor or the Agent in written notice to the other party. Notice sent by telecopy shall be deemed to be given and received when receipt of such transmission is acknowledged, and delivered notice shall be deemed to be given and received when receipted for by, or actually received by, an authorized officer of such Guarantor or the Agent, as the case may be.

If to any Guarantor:

[Guarantor]
c/o Integrated Electrical Services, Inc.
2301 Preston
Houston, Texas 77003
Attn: Jim P. Wise
telephone: 713-222-1875
telecopier: 713-222-1214

If to the Agent:

NationsBank, N.A.,
as Agent under the Credit Agreement
dated as of July 30, 1998, among
Integrated Electrical Services, Inc., the financial
institutions parties thereto, and the Agent
700 Louisiana, 7th Floor
Houston, Texas 77002
Attn: Mr. Albert L. Welch, Vice President
telephone: 713-247-6631
telecopier: 713-247-7748

4.5 Any present or future Subsidiary of the Borrower may become a Guarantor under and a party to this Agreement by executing and delivering to the Agent a Joinder

Agreement in accordance with Section 5.19 of the Credit Agreement or by otherwise assuming in writing in favor of the Agent the liabilities of a Guarantor under this Agreement. Upon execution and delivery of a Joinder Agreement or otherwise assuming the liabilities of a Guarantor under this Agreement such Subsidiary shall be deemed to be a Guarantor under this Agreement and a party to this Agreement for all purposes hereunder.

4.6 WAIVER OF JURY TRIAL. EACH GUARANTOR IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO.

THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

EXECUTED as of the date first above written.

ACE ELECTRIC, INC.
H.R. ALLEN, INC.
AMBER ELECTRIC, INC.
BW CONSOLIDATED, INC.
BW/CEC, INC.
BW/BEC, INC.
BW/CEC, L.L.C.
BW/BEC, L.L.C.
CHARLES P. BAGBY COMPANY, INC.
DANIEL ELECTRICAL CONTRACTORS, INC.
DANIEL ELECTRICAL OF TREASURE COAST INC.
FLORIDA INDUSTRIAL ELECTRIC, INC.
GENERAL PARTNER, INC.
J.W. GRAY ELECTRIC CO., INC.
J.W. GRAY MANAGEMENT LLC
HATFIELD ELECTRIC, INC.
HAYNES ELECTRICAL SUPPLY, INC.
MARK HENDERSON, INCORPORATED
HOLLAND ELECTRICAL SYSTEMS, INC.
SPECTROL, INC.
HOUSTON-STAFFORD ELECTRIC, INC.
HOUSTON-STAFFORD MANAGEMENT LLC
MENNIGA ELECTRIC, INC.
MID-STATES ELECTRIC COMPANY, INC.
MILLS ELECTRICAL CONTRACTORS, INC.
MILLS MANAGEMENT LLC
MUTH ELECTRIC, INC.
PAULIN ELECTRIC COMPANY, INC.
THOMAS POPP & COMPANY
REYNOLDS ELECTRIC CORP.
RODGERS ELECTRIC COMPANY, INC.
STARK INVESTMENTS, INC.
THURMAN & O'CONNELL CORPORATION
WRIGHT ELECTRICAL CONTRACTORS, INC.

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

ALADDIN-WARD ELECTRIC & AIR, INC.
CYPRESS ELECTRICAL CONTRACTORS, INC.
HAMER ELECTRIC ACQUISITION CORPORATION
HOWARD BROTHERS ELECTRIC CO., INC.
INTEGRATED ELECTRICAL FINANCE, INC.
INTEGRATION COMMUNICATION SERVICES, INC.
POLLOCK ELECTRIC INC.
SUMMIT ELECTRIC OF TEXAS, INCORPORATED

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Secretary

J.W. GRAY HOLDINGS LLC
HOUSTON-STAFFORD HOLDINGS LLC
IES HOLDINGS LLC
MILLS ELECTRICAL HOLDINGS LLC
POLLOCK SUMMIT HOLDINGS, INC.

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

BEXAR ELECTRIC COMPANY, LTD.

By: BW/BEC, INC., its General Partner
BW/BEC, LLC, its Limited Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

CALHOUN ELECTRIC COMPANY, LTD.

By: BW/CEC, INC., its General Partner
BW/CEC, LLC, its Limited Partner

By: /s/ JOHN F. WOMBWELL
\---
John F. Wombwell
Assistant Secretary

J.W. GRAY ELECTRICAL CONTRACTORS LP

By: J.W. GRAY MANAGEMENT LLC, its General Partner

By: /s/ JOHN F. WOMBWELL
\---
John F. Wombwell
Assistant Secretary

By: J.W. GRAY HOLDINGS LLC, its Limited Partner

By: /s/ TERRY EARNHART
\---
Terry Earnhart
Manager

HATFIELD REYNOLDS ELECTRIC CO.

By: HATFIELD ELECTRIC, INC., its General Partner
REYNOLDS ELECTRIC, CORP., its General Partner

By: /s/ JOHN F. WOMBWELL
\---
John F. Wombwell
Assistant Secretary

HAYMAKER ELECTRIC, LTD

By: GENERAL PARTNER, INC., its General Partner
CHARLES P. BAGBY COMPANY, INC., its
Limited Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

HOUSTON-STAFFORD ELECTRICAL CONTRACTORS LP

By: HOUSTON-STAFFORD MANAGEMENT LLC, its
General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

By: HOUSTON-STAFFORD HOLDINGS LLC, its
Limited Partner

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

IES MANAGEMENT LP

By: INTEGRATED ELECTRICAL FINANCE, INC., its
General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Secretary

By: IES HOLDINGS, LLC , its Limited Partner

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

MILLS ELECTRIC LP

By: MILLS MANAGEMENT LLC, its General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

By: MILLS ELECTRICAL HOLDINGS LLC, its Limited Partner

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

POLLOCK SUMMIT ELECTRIC LP

By: POLLOCK ELECTRIC INC., its General Partner and its Limited Partner
SUMMIT ELECTRIC OF TEXAS, INCORPORATED, its General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Secretary

NATIONSBANK, N.A., as Agent

By: /s/ ALBERT L. WELCH

Albert L. Welch
Vice President

[Execution Version]

Exhibit D

FORM OF
PROMISSORY NOTE
([Bank Name])

$[Amount] Houston, Texas [date]

For value received, the undersigned INTEGRATED ELECTRICAL SERVICES, INC., a Delaware corporation ("Borrower"), hereby promises to pay to the order of [Bank Name] ("Bank"), the principal amount of [Amount] ($[ ]) or, if less, the aggregate outstanding principal amount of the Revolving Loan Advances (as defined in the Credit Agreement referred to below) made by the Bank to the Borrower, together with accrued but unpaid interest on the principal amount of each such Revolving Loan Advance from the date of such Revolving Loan Advance until such principal amount is paid in full, at such interest rates, and at such times, as are specified in the Credit Agreement.

This Note is one of the Notes referred to in, and is entitled to the benefits of, and is subject to the terms of, the Credit Agreement dated as of July 30, 1998 (as the same may be modified from time to time, the "Credit Agreement"), among the Borrower, the financial institutions parties thereto ("Banks"), and NationsBank, N.A., successor in interest by merger to NationsBank of Texas, N.A., as agent for the Banks ("Agent"). Capitalized terms used herein but not defined herein shall have the meanings specified by the Credit Agreement. The Credit Agreement, among other things, (a) provides for the making of Revolving Loan Advances by the Bank to the Borrower from time to time, the indebtedness of the Borrower resulting from each such Revolving Loan Advance being evidenced by this Note, and (b) contains provisions for acceleration of the maturity of this Note upon the happening of certain events stated in the Credit Agreement and for prepayments of principal prior to the maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Both principal and interest are payable to the Agent in the currency, at the times, in the locations, and in the manner specified in the Credit Agreement. The Bank shall record all Revolving Loan Advances and payments of principal made under this Note, but no failure of the Bank to make such recordings shall affect the Borrower's repayment obligations under this Note.

It is contemplated that because of prepayments there may be times when no indebtedness is owed under this Note. Notwithstanding such prepayments, this Note shall remain valid and shall be in force as to Revolving Loan Advances made pursuant to the Credit Agreement after such prepayments.

It is the intention of the Bank and the Borrower to conform strictly to any applicable usury laws. Accordingly, the terms of the Credit Agreement relating to the prevention of usury will be strictly followed.

No Further Agreements. THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EXECUTED as of the date first above written.

INTEGRATED ELECTRICAL SERVICES, INC.

By: ----------------------------

Name: --------------------------

Title: -------------------------

[Execution Version]

PROMISSORY NOTE
(Swing Line)

$5,000,000.00 July 30, 1998

INTEGRATED ELECTRICAL SERVICES, INC., a Delaware corporation ("Borrower"), for value received, hereby promises to pay to the order of NATIONSBANK, N.A., successor in interest by merger to NationsBank of Texas, N.A. ("Lender"), the principal sum of FIVE MILLION AND NO/100 DOLLARS ($5,000,000.00) or, if less, the outstanding principal amount advanced under this Promissory Note ("Note") and interest thereon, all as required by this Note.

This Note is the Swing Line Note referred to in, and is entitled to the benefits of, and is subject to the terms of, the Credit Agreement dated as of July 30, 1998 (as modified from time to time, the "Credit Agreement"), among the Borrower, the financial institutions parties thereto ("Banks"), and NationsBank, N.A., successor in interest by merger to NationsBank of Texas, N.A., as agent for the Banks ("Agent"). Capitalized terms used herein but not defined herein shall have the meanings specified by the Credit Agreement.

Subject to the terms of this Note, the Lender shall from time to time prior to the Maturity Date (hereinafter defined) make advances ("Advances") to the Borrower under this Note. The aggregate outstanding principal amount of such advances shall not exceed the face amount of this Note. The Borrower shall request Advances by providing the Lender with notice not later than 11:00 a.m., Houston, Texas, time on the date of the requested Advance. The request must specify the amount of the requested Advance and the date of funding for such Advance. The Lender shall, before 4:00 p.m., Houston, Texas, time on the date of such Advance, make such Advance available to the Borrower in immediately available funds at the Borrower's account with the Lender.

Subject to the terms hereof, the Borrower may prepay the Advances on this Note by providing the Lender with notice of the intended prepayment not later than 11:00 a.m., Houston, Texas, time on the date of prepayment, specifying the amount and the date of such prepayment. Each partial prepayment of the Advances shall be in a minimum amount of $100,000 or an integral multiple thereof or, if the aggregate outstanding principal amount of the Advances would be less than $100,000 following the prepayment, in the remaining aggregate outstanding principal amount of the Advances, together with accrued interest to the date of such prepayment on the principal amount prepaid. Amounts prepaid shall be applied in the inverse order of maturity.

Notwithstanding anything herein to the contrary, the Borrower shall pay to the Lender the outstanding principal balance of this Note on July 30, 2001 ("Maturity Date").

It is contemplated that because of prepayments there may be times when no indebtedness is owed under this Note. Notwithstanding such prepayments, this Note shall remain valid and shall be in force as to Advances made pursuant to the Credit Agreement after such prepayments.

The Advances shall bear interest at a per annum rate equal to the difference of (a) (i) the Adjusted Base Rate in effect from time to time plus (ii) the Applicable Margin for the Prime Rate Tranche in effect from time to time, calculated on the basis of a 365/366-day year for the actual number of days elapsed, minus (b) the Applicable Margin for Commitment Fees in effect from time to time, calculated on the basis of a 360-day year for the actual number of days elapsed.

The Borrower shall pay to the Lender all accrued but unpaid interest on the aggregate outstanding principal amount of the Advances on the last day of each calendar quarter, when the Advances are prepaid in full, and on the Maturity Date.

The Lender shall record in its records all Advances made under this Note and all payments of principal and interest on the Advances. Any failure of the Lender to make such recordings, however, shall not affect the Borrower's repayment obligations. The Lender's records shall be presumptive evidence of the principal and interest owed by the Borrower.

The Borrower shall make each payment required under this Note not later than 12:00 noon, Houston, Texas, time on the date when due in Dollars to the Lender at such location as is specified by the Lender in writing in immediately available funds. During the existence of an Event of Default, the Borrower hereby authorizes the Lender, if and to the extent payment is not made when due under this Note, to charge from time to time against any account of the Borrower with the Lender any amount so due. Whenever any payment to be made under this Note shall be stated to be due on a day other than a day on which the Lender is open for business in Houston, Texas ("Business Day"), such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of the payment of interest. All payments shall be applied as directed by the Borrower or, if not directed by the Borrower, as determined by the Lender.

Each of the following shall be an "Event of Default" for the purposes of this Note: (a) the Borrower (i) fails to pay when due any principal amounts due under this Note or (ii) fails to pay when due any interest or other amounts due under this Note and such failure has not been cured within five Business Days, (b) there shall occur any Event of Default under the Credit Agreement, or (c) the Lender shall resign or be removed as Agent under the Credit Agreement.

During the continuation of any Event of Default, the Lender may declare by written notice to the Borrower all of the commitments of the Lender hereunder terminated (whereupon the same shall terminate) and the Lender may declare by written notice to the Borrower the aggregate outstanding principal amount of the Advances, all accrued interest thereon, and all other amounts payable by the Borrower under this Note to be immediately due and payable (whereupon the same shall immediately and automatically become due and payable). Upon the occurrence of any Event of Default relating to bankruptcy or insolvency, all of the commitments of the Lender hereunder shall terminate, and the aggregate outstanding principal amount of all Advances made under this Note, all accrued interest thereon, and all other amounts payable by the Borrower under this Note shall immediately and automatically become due and payable.

Except for the notices provided for above and in the Credit Agreement, the Borrower waives notice of intent to demand, demand, presentment for payment, notice of nonpayment, protest, notice of setoff, notice of protest, notice of dishonor, notice of intent to accelerate, notice of acceleration, and all other notices in connection with the foregoing.

During the existence of an Event of Default, the Lender is authorized at any time, to the fullest extent permitted by law, to setoff and apply any indebtedness owed by the Lender to the Borrower against any and all of the obligations of the Borrower under this Note, irrespective of whether or not the Lender shall have made any demand under this Note and although such obligations may be contingent and unmatured. Following an Event of Default, the Lender may exercise (a) all of its rights under this Note and the Credit Agreement (including Section 2.3(b) thereof) (such agreements being the "Loan Documents") and (b) all other rights at law or in equity. During the existence of an Event of Default, all payments and collections shall be applied in the order determined by the Lender.

No right, power, or remedy conferred to the Lender in the Credit Agreement or any Loan Document, or now or hereafter existing at law, in equity, by statute, or otherwise shall be exclusive, and each such right, power, or remedy shall to the full extent permitted by law be cumulative and in addition to every other such right, power or remedy. No course of dealing and no delay in exercising any right, power, or remedy conferred to the Lender in this Note, or now or hereafter existing at law, in equity, by statute, or otherwise shall operate as a waiver of or otherwise prejudice any such right, power, or remedy. No notice to or demand upon the Borrower shall entitle the Borrower to similar notices or demands in the future.

If the Borrower fails to pay when due any amount payable under this Note, at the request of the Lender the amount not paid when due shall bear interest beginning on the date due until paid in full at the rate otherwise set for outstanding principal hereunder plus 2.00%.

It is the intention of the Lender and the Borrower to conform strictly to any applicable usury laws. Accordingly, the terms of the Credit Agreement relating to the prevention of usury will be strictly followed.

This Note shall be governed by the laws of the State of Texas without regard to any principles of conflicts of laws. If any provision in this Note is held to be unenforceable, such provision shall be severed and the remaining provisions shall remain in full force and effect. All representations, warranties, and covenants of the Borrower in this Note shall survive the execution of this Note, the other Loan Documents, and any other contract or agreement. The Lender's remedies under this Note and the Loan Documents shall be cumulative, and no delay in enforcing this Note or the other Loan Documents shall act as a waiver of the Lender's rights hereunder. The provisions of this Note may be waived or amended only in a writing signed by the party against whom enforcement of such waiver or amendment is sought. This Note shall bind the Borrower and the Borrower's successors and assigns and shall inure to the benefit of the Lender and the Lender's successors and assigns. The Borrower may not assign the Borrower's rights or delegate the Borrower's duties under this Note or the other Loan Documents. The Lender may assign and participate the Lender's rights and delegate the Lender's duties under this Note. Unless otherwise specified, all notices provided for in this Note shall be made in accordance with the terms of the Credit Agreement.

This Note evidences a modification and extension of certain indebtedness previously evidenced by that certain promissory note of the Borrower in favor of NationsBank of Texas, N.A., predecessor in interest to NationsBank, N.A., dated as of January 30, 1998, in the maximum principal amount of $5,000,000 (such promissory note is referred to as the "Original Note"). The indebtedness represented by the Original Note continues under this Note and the execution of this Note does not indicate a payment, satisfaction, novation, or discharge thereof. All security and support for the Original Note and the indebtedness represented thereby continues to secure and support this Note and the indebtedness hereunder.

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EXECUTED as of the date first above written.

INTEGRATED ELECTRICAL SERVICES, INC.

By:

Jim P. Wise
Senior Vice President and
Chief Financial Officer

[Execution Version]

SECURITY AGREEMENT
(Integrated Electrical Services, Inc., and Subsidiaries)

This Security Agreement dated as of July 30, 1998 ("Agreement"), is made by Integrated Electrical Services, Inc., a Delaware corporation ("Borrower"), and the undersigned subsidiaries of the Borrower (the Borrower and such undersigned subsidiaries being the "Debtors") in favor of NationsBank, N.A., successor in interest by merger to NationsBank of Texas, N.A., in its capacity as agent ("Secured Party") for certain financial institutions which are or may become parties to the Credit Agreement described below.

INTRODUCTION

Reference is made to the Credit Agreement dated as of July 30, 1998 (as modified from time to time, the "Credit Agreement"), among the Borrower, certain financial institutions which are or may become parties thereto, and the Secured Party. Each of the undersigned subsidiaries of the Borrower has entered into the Guaranty dated as of July 30, 1998 (as modified from time to time, the "Guaranty"), in favor of the Secured Party guaranteeing the payment of the obligations of the Borrower under the Credit Agreement. It is a condition precedent to the effectiveness of the Credit Agreement that the Debtors secure the Credit Agreement and the Guaranty with this Agreement.

Therefore, for the consideration expressed in the Credit Agreement and the Guaranty, and in order to induce the Secured Party to enter into the Credit Agreement, the Debtors jointly and severally agree with the Secured Party as follows:

Section 1. Interpretation; Definitions.

1.1 Terms defined above and elsewhere in this Agreement shall have their specified meanings. Capitalized terms used herein but not defined herein shall have the meanings specified by the Credit Agreement. Terms defined in Article 9 of the UCC shall have the meanings specified in Article 9 of the UCC.

1.2 The following terms shall have the following meanings:

"Chief Executive Office Location" means, with respect to each Debtor, the location of the chief executive office of such Debtor as specified in Schedule I.

"Collateral" has the meaning specified in Section 2.1.

"Collateral Account" means any deposit account with the Secured Party which is designated, maintained, and under the sole control of the Secured Party and is pledged to the Secured Party which has been established pursuant to the provisions of this Agreement for the purposes described in this Agreement including collecting, holding, disbursing, or applying certain funds, all in accordance with this Agreement. Each Debtor agrees to execute any documents reasonably requested by the Secured Party to create any Collateral Account and pledge it to the Secured Party.

"Proceeds" means all of each Debtor's present and future (a) proceeds of the Collateral, whether arising from the collection, sale, lease, exchange, assignment, licensing, or other disposition of the Collateral, (b) proceeds of any casualty or condemnation of the Collateral (including insurance proceeds and condemnation awards), (c) claims against third parties for impairment, loss, damage, or impairment of the value of the Collateral, and (d) rights under any insurance, indemnity, warranty, or guaranty of or for any of the foregoing, in each case whether represented as money, deposit accounts, accounts, general intangibles, securities, instruments, documents, chattel paper, inventory, equipment, fixtures, or goods.

"Receivables" means all of each Debtor's present and future accounts, accounts from governmental agencies, instruments, chattel paper, income tax refunds, and any other rights to the payment of money.

"Related Rights" means all of each Debtor's present and future sale contracts, chattel paper, licenses, permits, contracts, ledgers, files, records, computer files, computer programs, and general intangibles related to any other items of Collateral.

"Secured Obligations" means (a) all principal, interest, fees, reimbursements, indemnifications, and other amounts now or hereafter owed by the Borrower to the Secured Party and the Banks (and with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under the Credit Agreement and the other Credit Documents; (b) all amounts now or hereafter owed by the Debtors to the Secured Party and the Banks (and with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under the Guaranty, this Agreement, and the other Credit Documents; and (c) any increases, extensions, and rearrangements of the foregoing obligations under any amendments, supplements, and other modifications of the agreements creating the foregoing obligations.

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of Texas, as amended from time to time, and any successor statute.

Section 2. Grant of Security Interest.

2.1 Grant of Security Interest. Each Debtor hereby grants to the Secured Party, for the benefit of the holders of the Secured Obligations, a security interest in all of such Debtor's right, title, and interest in and to the following property (the "Collateral") to secure the payment and performance of the Secured Obligations:

All Receivables;

All Related Rights; and

All Proceeds.

To the extent that the Collateral is not subject to the UCC, each Debtor collaterally assigns all of such Debtor's right, title, and interest in and to such Collateral to the Secured Party to secure the payment and performance of the Secured Obligations to the full extent that such a collateral assignment is possible under the relevant law.

2.2 Debtor Remains Liable. Anything herein to the contrary notwithstanding: (a) each Debtor shall remain liable under any contracts and agreements included in the Collateral to the extent set forth therein to perform such Debtor's obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by Secured Party of any rights hereunder shall not release any Debtor from any obligations under any contracts and agreements included in the Collateral; and (c) Secured Party shall not have any obligation under any contracts and agreements included in the Collateral by reason of this Agreement, nor shall Secured Party be obligated to perform or fulfill any of the obligations of any Debtor thereunder, including any obligation to make any inquiry as to the nature or sufficiency of any payment any Debtor may be entitled to receive thereunder, to present or file any claim, or to take any action to collect or enforce any claim for payment thereunder.

Section 3. General Provisions. Each Debtor represents and warrants to and agrees with the Secured Party as follows:

3.1 Ownership. Such Debtor has good and indefeasible title to the assets which comprise the Collateral of such Debtor as reflected in such Debtor's financial statements free from any liens, security interests, assignments, adverse claims, restrictions, or other encumbrances whatsoever except the Permitted Liens. No effective recorded interest, financing statement, or similar recording or filing covering any part of the Collateral of such Debtor is on file in any recording office, except those filed in connection with Permitted Liens. Such Debtor shall not, without the prior written consent of the Secured Party, grant any lien, security interest, assignment, restriction, claim, or other encumbrance on or against the Collateral, or lease, sell, or otherwise transfer any of such Debtor's rights in the Collateral except as otherwise permitted under this Agreement.

3.2 Perfection.

(a) General.

(i) As of the date of this Agreement, the true and correct name of such Debtor as listed on such Debtor's certificate of incorporation is the name specified for such Debtor on the signature pages of this Agreement. Such Debtor has had no prior names other than those listed for such Debtor in Schedule I. Such Debtor has not used and does not use any trade names other than those listed in Schedule I. Without ten days' advance written notice to the Secured Party, such Debtor shall not change such Debtor's name.

(ii) As of the date of this Agreement, such Debtor's chief executive office is located at the Chief Executive Office Location for such Debtor. Without ten days' advance written notice to the Secured Party, such Debtor shall not change the location of such Debtor's chief executive office from the Chief Executive Office Location for such Debtor.

(iii) A carbon, photographic, or other reproduction of this Agreement shall be sufficient as a financing statement and may be filed in any appropriate office in lieu thereof.

(b) Perfection of Receivables.

(i) Such Debtor shall provide the Secured Party with advance written notice of any material increase in the amount of Receivables in the form of accounts or general intangibles for the payment of money from governmental agencies that require consents or other actions to assign, perfect, or realize upon (including Receivables from the federal government that are subject to the Federal Assignment of Claims Act), instruments, and chattel paper and the opportunity to perfect a first priority security interest (subject only to Permitted Liens) in any such Receivables of such Debtor. Upon written request of the Secured Party, such Debtor shall take such actions as the Secured Party may reasonably request to permit the Secured Party to perfect a first priority security interest in any such Receivables of such Debtor, including obtaining necessary consents from governmental agencies, delivery of instruments to the Secured Party with all necessary endorsements, and delivery of assignment agreements requested by the Secured Party.

(ii) With respect to Receivables of such Debtor in the form of chattel paper, such Debtor shall, upon written request from the Agent, mark conspicuously all such Collateral with a legend, in form and substance reasonably satisfactory to the Secured Party, indicating that such Collateral is subject to the security interests granted hereunder. Such Debtor shall, during the existence of an Event of Default and upon request by the Secured Party, promptly deliver to the Secured Party possession of the Receivables of such Debtor in the form of chattel paper.

(iii) No authorization, consent, or other action is necessary to allow such Debtor to perform such Debtor's obligations hereunder with respect to the Receivables of such Debtor in the form of accounts and general intangibles for the payment of money.

3.3 Priority.

(a) The security interests created by this Agreement are or, with respect to any security interest in Collateral of any Subsidiary acquired by the Borrower in an Acquisition transaction, will be within 30 days following the closing of such Acquisition, first priority except as set forth below, subject only to the Permitted Liens, and such Debtor shall preserve and maintain the status of such security interests to the end that such security interests remain first priority security interests, except as set forth below, in the Collateral subject only to the Permitted Liens. Permitted Liens for taxes, assessments, or other governmental charges or levies may be first priority to the extent required by applicable law.

(b) If the proceeds of the Secured Obligations are used to pay any indebtedness secured by prior liens, the Secured Party is subrogated to all of the rights and liens of the holders of such indebtedness.

3.4 Further Assurances.

(a) There are no actions, suits, proceedings, or investigations pending or, to the knowledge of such Debtor, threatened against or affecting any material portion of the Collateral, or involving the validity or enforceability of this Agreement or the priority of the liens, security interests, or assignments created hereunder with respect to any material portion of the Collateral. If the validity or priority of this Agreement or of any liens, security interests, or assignments created or purported to be created hereunder or the title of such Debtor to any Collateral of such Debtor shall be endangered, questioned, or attacked in any material respect or if any material legal proceedings are instituted against such Debtor with respect thereto, such Debtor shall give prompt written notice thereof to the Secured Party, and the action proposed to be taken by such Debtor in connection therewith. During the existence of an Event of Default, such Debtor shall not initiate any action with respect to such material matters without granting the Secured Party advance written notice of such Debtor's intent to initiate such actions and the opportunity to consult with such Debtor regarding such Debtor's proposed actions (unless immediate action is necessary to prevent loss to such Debtor). At the Secured Party's request, during the existence of an Event of Default, such Debtor shall take any actions reasonably requested by the Secured Party with respect to such matters, including diligently endeavoring to cure any material defect existing or claimed, and taking all reasonably necessary and desirable steps for the defense of any legal proceedings, including the employment of counsel, the prosecution or defense of litigation, and the release or discharge of all adverse claims. During the existence of an Event of Default, the Secured Party, whether or not named as a party to any legal proceedings, is authorized to take any additional steps as the Secured Party deems necessary or desirable for the defense of any such legal proceedings or the protection of the validity or priority of this Agreement and the liens, security interests, and assignments created hereunder, including the employment of independent counsel, the prosecution or defense of litigation, the compromise or discharge of any adverse claims made with respect to any Collateral of such Debtor and the payment or removal of prior liens or security interests, and the reasonable expenses of the Secured Party in taking such action shall be paid by such Debtor. Provided, that the Secured Party shall first request in writing that such Debtor take such additional steps and such Debtor shall, after reasonable opportunity, have failed to do so.

(b) Such Debtor agrees that at any time such Debtor shall promptly execute and deliver all further agreements, and take all further action, that the Secured Party may reasonably request, in order to further evidence the liens, security interests, and assignments granted or purported to be granted hereunder and perfect and protect the same or to enable the Secured Party to exercise and enforce the Secured Party's rights and remedies hereunder. Without limiting the foregoing, such Debtor shall at the Secured Party's reasonable request execute financing statements, assignments, notices, certificates of title and applications therefor, and such other documents and agreements as the Secured Party may reasonably request in order to perfect and preserve the security interests granted or purported to be granted hereunder. Such Debtor shall furnish to the Secured Party from time to time any statements and schedules further identifying and describing any Collateral of such Debtor and such other reports in connection with the Collateral of such Debtor as the Secured Party may reasonably request.

(c) During the existence of an Event of Default, such Debtor agrees that, if such Debtor fails to perform under this Agreement, the Secured Party may, but shall not be obligated to, after written request to such Debtor to perform, perform such Debtor's obligations under this Agreement, and any reasonable expenses incurred by the Secured Party in performing such Debtor's obligations shall be paid by such Debtor. Any such performance by the Secured Party may be made by the Secured Party in reasonable reliance on any statement, invoice, or claim, without inquiry into the validity or accuracy thereof. The amount and nature of any expense of the Secured Party hereunder shall be conclusively established by a certificate of any officer of the Secured Party absent manifest error.

(d) Such Debtor irrevocably appoints the Secured Party as such Debtor's attorney in fact, with full authority to act during the existence of an Event of Default for such Debtor and in the name of such Debtor, to take any action and execute any agreement which the Secured Party deems necessary or advisable to accomplish the purposes of this Agreement, including the matters that the Secured Party is expressly authorized to take pursuant to this Agreement (including the matters described in paragraph (c) above), and instituting proceedings the Secured Party deems necessary or desirable to enforce the rights of the Secured Party with respect to this Agreement. Provided, that the Secured Party shall first request in writing that such Debtor take such actions and such Debtor shall, after reasonable opportunity, have failed to do so.

(e) The powers conferred on the Secured Party under this Agreement are solely to protect the Secured Party's rights under this Agreement and shall not impose any duty upon it to exercise any such powers. Except as elsewhere provided hereunder, the Secured Party shall have no duty as to any of the Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to the Collateral.

3.5 Insurance. With respect to any casualty or condemnation to the Collateral, all proceeds of such casualty or condemnation which are due to such Debtor, including any property insurance proceeds, condemnation awards, proceeds from actions, and any other proceeds, are assigned to the Secured Party and shall be paid directly to the Secured Party for disposition in accordance with Section 5.12 of the Credit Agreement.

3.6 Value of Receivables. Such Debtor shall use such Debtor's commercially reasonable efforts to collect payments on the Receivables of such Debtor when due. Unless otherwise specified herein, such Debtor shall use commercially reasonable efforts to perform such Debtor's obligations under each contract giving rise to any Receivables of such Debtor.

Section 4. General Remedies. During the existence of an Event of Default, the Secured Party may, at the Secured Party's option, exercise one or more of the remedies specified elsewhere in this Agreement or the following remedies:

4.1 Interim Remedies.

(a) To the extent permitted by law, the Secured Party may exercise all the rights and remedies of a secured party under the UCC.

(b) The Secured Party may prosecute actions in equity or at law for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted or for the enforcement of any other appropriate legal or equitable remedy.

(c) The Secured Party may occupy any premises owned or leased by any Debtor where any Collateral is assembled for a reasonable period in order to effectuate the Secured Party's rights and remedies hereunder or under law, without obligation to any Debtor with respect to such occupation.

4.2 Remedies - Receivables.

(a) During the existence of an Event of Default, the Secured Party may establish Collateral Accounts for the purpose of collecting the Receivables of such Debtor and holding the proceeds thereof, and may direct such Debtor to instruct all account debtors and obligors on the Receivables of such Debtor to make all payments on the Receivables of such Debtor directly to the Secured Party for deposit into such Collateral Account. After such direction to such Debtor and until such direction has been rescinded (i) all collections and proceeds of the Receivables of such Debtor shall be directed to such Collateral Accounts, (ii) all proceeds of the Receivables of such Debtor which may from time to time come into the possession of such Debtor shall be held in trust for the Secured Party, segregated from the other funds of such Debtor, and delivered immediately to the Secured Party in the form received with any necessary endorsement for deposit into such Collateral Account, such delivery in no event to be later than one Business Day after receipt thereof by such Debtor, and (iii) such Debtor shall not adjust, settle, or compromise the amount or payment of any Receivable of such Debtor, release wholly or partly any account debtor or obligor for any Receivable of such Debtor, or allow any credit or discount on any Receivable of such Debtor, without the advanced written consent of the Secured Party.

(b) In connection with the foregoing, the Secured Party shall have the right at any time during the existence of an Event of Default to take any of the following actions, in the Secured Party's own name or in the name of such Debtor: change the accounts which shall be the Collateral Accounts for the Receivables of such Debtor; compromise or extend the time for payment of the Receivables of such Debtor upon such terms as the Secured Party may determine; endorse the name of such Debtor on checks, instruments, or other evidences of payment on the Receivables of such Debtor; make written or verbal requests for verification of amount owing on the Receivables of such Debtor from any Persons which the Secured Party believes are account debtors or obligors on the Receivables of such Debtor; open mail addressed to such Debtor and, to the extent of checks or other proceeds of the Receivables of such Debtor, dispose of same in accordance with this Agreement; take action in the Secured Party's name or such Debtor's name to enforce collection; and take all other action necessary to carry out this Agreement and give effect to the Secured Party's rights hereunder. Costs and expenses incurred by the Secured Party in collection and enforcement of the Receivables of such Debtor, including attorneys' fees and out-of-pocket expenses, shall be reimbursed by such Debtor to the Secured Party on demand.

4.3 Foreclosure.

(a) The Secured Party may foreclose on any Collateral in any manner permitted by the courts of or in the State of Texas or the State in which any Collateral is located. If the Secured Party should institute a suit for the collection of the Secured Obligations and for foreclosure under this Agreement, the Secured Party may at any time before the entry of a final judgment dismiss the same, and take any other action permitted by this Agreement.

(b) To the extent permitted by law, the Secured Party may exercise all the foreclosure rights and remedies of a secured party under the UCC. In connection therewith, the Secured Party may sell any Collateral at public or private sale, at the office of the Secured Party or elsewhere, for cash or credit and upon written notice to such Debtor, such other terms as the Secured Party deems commercially reasonable. The Secured Party may sell any Collateral at one or more sales, and the security interest granted hereunder shall remain in effect as to the unsold portion of the Collateral. Each Debtor hereby deems ten days advance notice of the time and place of any public or private sale reasonable notification, recognizing that if the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, shorter notice may be reasonable. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any sale by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. In the event that any sale hereunder is not completed or is defective in the opinion of the Secured Party, the Secured Party shall have the right to cause subsequent sales to be made hereunder. Any statements of fact or other recitals made in any bill of sale, assignment, or other document representing any sale hereunder, including statements relating to the occurrence of an Event of Default, acceleration of the Secured Obligations, notice of the sale, the time, place, and terms of the sale, and other actions taken by the Secured Party in relation to the sale may be conclusively relied upon by the purchaser at any sale hereunder. The Secured Party may delegate to any agent the performance of any acts in connection with any sale hereunder, including the sending of notices and the conduct of the sale.

4.4 Application of Proceeds. Unless otherwise specified herein, any cash proceeds received by the Secured Party from the sale of, collection of, or other realization upon any part of the Collateral or any other amounts received by the Secured Party hereunder may be, at the discretion of the Secured Party (a) held by the Secured Party in one or more Collateral Accounts as cash collateral for the Secured Obligations or (b) applied to the Secured Obligations. Amounts applied to the Secured Obligations shall be applied in the following order:

First, to the payment of the costs and expenses of exercising the Secured Party's rights hereunder, whether expressly provided for herein or otherwise; and

Second, to the payment of the Secured Obligations in the order set forth in Section 6.9 of the Credit Agreement.

Any surplus cash collateral or cash proceeds held by the Secured Party after payment in full of the Secured Obligations and the termination of all commitments of the Secured Party to all Debtors shall be paid over by the Secured Party to the Borrower for distribution to the Debtors entitled to receive such surplus or to any other Persons that may be lawfully entitled to receive such surplus.

4.5 Waiver of Certain Rights. To the full extent each Debtor may do so, such Debtor shall not insist upon, plead, claim, or take advantage of any law providing for any appraisement, valuation, stay, extension, or redemption, and such Debtor hereby waives and releases the same, and all rights to a marshaling of the assets of such Debtor, including the Collateral, or to a sale in inverse order of alienation in the event of foreclosure of the liens and security interests hereby created. Such Debtor shall not assert any right under any law pertaining to the marshaling of assets, sale in inverse order of alienation, the administration of estates of decedents or other matters whatever to defeat, reduce, or affect the right of the Secured Party under the terms of this Agreement.

Section 5. Miscellaneous.

5.1 Choice of Law. Except to the extent that the validity, perfection, or effect of perfection or nonperfection of the security interests created hereunder, or the remedies hereunder, in respect of any particular Collateral are required to be governed by the laws of a jurisdiction other than the State of Texas, this Agreement shall be subject to and construed and enforced in accordance with the substantive laws of the State of Texas.

5.2 Notice. Unless otherwise specified, all notices and other communications between each Debtor and the Secured Party provided for in this Agreement and the Credit Documents to which such Debtor is a party shall be in writing, including telecopy, and delivered or transmitted to the addresses set forth below, or to such other address as shall be designated by such Debtor or the Secured Party in written notice to the other party. Notice sent by telecopy shall be deemed to be given and received when receipt of such transmission is acknowledged, and delivered notice shall be deemed to be given and received when receipted for by, or actually received by, an authorized officer of such Debtor or the Secured Party, as the case may be.

If to any Debtor:

[Debtor]
c/o Integrated Electrical Services, Inc.
2301 Preston
Houston, Texas 77003
Attn: Jim P. Wise
telephone: 713-222-1875
telecopier: 713-222-1214

If to the Secured Party:

NationsBank, N.A.,
as Agent under the Credit Agreement
dated as of July 30, 1998, among
Integrated Electrical Services, Inc., the financial
institutions parties thereto, and the Agent
700 Louisiana, 7th Floor
Houston, Texas 77002
Attn: Mr. Albert L. Welch, Vice President
telephone: 713-247-6631
telecopier: 713-247-7748

5.3 General. If any provision in this Agreement is held to be unenforceable, such provision shall be severed and the remaining provisions shall remain in full force and effect. All representations, warranties, and covenants of any Debtor in this Agreement shall survive the execution of this Agreement and any other contract or agreement. If a due date for an amount payable is not specified in this Agreement, the due date shall be the date on which the Secured Party demands payment therefor. The Secured Party's remedies under this Agreement and the Credit Documents shall be cumulative, and no delay in enforcing this

Agreement and the Credit Documents shall act as a waiver of the Secured Party's rights thereunder. The provisions of this Agreement may be waived or amended only in a writing signed by the party against whom enforcement is sought. This Agreement shall bind and inure to the benefit of each Debtor and the Secured Party and their respective successors and assigns. Each Debtor may not assign its rights or delegate its duties under this Agreement. The Secured Party may assign its rights and delegate its duties under this Agreement in accordance with the terms of the Credit Agreement. This Agreement may be executed in multiple counterparts each of which shall constitute one and the same agreement.

5.4 Joinder. Any present or future Subsidiary of the Borrower may become a Debtor under and a party to this Agreement by executing and delivering to the Secured Party a Joinder Agreement in accordance with Section 5.19 of the Credit Agreement or by otherwise assuming in writing in favor of the Secured Party the liabilities of a Debtor under this Agreement. Upon execution and delivery of a Joinder Agreement or otherwise assuming the liabilities of a Debtor under this Agreement such Subsidiary shall be deemed to be a Debtor under this Agreement and a party to this Agreement for all purposes hereunder.

5.5 Amendment and Restatement. This Agreement represents an amendment and restatement of the Security Agreement dated as of January 30, 1998, made by certain of the Debtors in favor of NationsBank of Texas, N.A., predecessor in interest to NationsBank, N.A., as Secured Party, and all previous versions are deemed replaced hereby. The indebtedness secured under the prior versions of this Agreement continues to be secured under this version of this Agreement and the execution of this Agreement does not indicate a payment, satisfaction, novation, or discharge thereof. All security interests under the prior versions of this Agreement continue to secure such indebtedness under this version of this Agreement without impairment or interruption.

THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EXECUTED as of the date first above written.

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ JIM P. WISE

Jim P. Wise
Senior Vice President and
Chief Financial Officer

[signatures continued on next page]

ACE ELECTRIC, INC.
H.R. ALLEN, INC.
AMBER ELECTRIC, INC.
BW CONSOLIDATED, INC.
BW/CEC, INC.
BW/BEC, INC.
BW/CEC, L.L.C.
BW/BEC, L.L.C.
CHARLES P. BAGBY COMPANY, INC.
DANIEL ELECTRICAL CONTRACTORS, INC.
DANIEL ELECTRICAL OF TREASURE COAST INC.
FLORIDA INDUSTRIAL ELECTRIC, INC.
GENERAL PARTNER, INC.
J.W. GRAY ELECTRIC CO., IN.C
J.W. GRAY MANAGEMENT LLC
HATFIELD ELECTRIC, INC.
HAYNES ELECTRICAL SUPPLY, INC.
MARK HENDERSON, INCORPORATED
HOLLAND ELECTRICAL SYSTEMS, INC.
SPECTROL, INC.
HOUSTON-STAFFORD ELECTRIC, INC.
HOUSTON-STAFFORD MANAGEMENT LLC
MENNIGA ELECTRIC, INC.
MID-STATES ELECTRIC COMPANY, INC.
MILLS ELECTRICAL CONTRACTORS, INC.
MILLS MANAGEMENT LLC
MUTH ELECTRIC, INC.
PAULIN ELECTRIC COMPANY, INC.
THOMAS POPP & COMPANY
REYNOLDS ELECTRIC CORP.
RODGERS ELECTRIC COMPANY, INC.
STARK INVESTMENTS, INC.
THURMAN & O'CONNELL CORPORATION
WRIGHT ELECTRICAL CONTRACTORS, INC.

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

ALADDIN-WARD ELECTRIC & AIR, INC.
CYPRESS ELECTRICAL CONTRACTORS, INC.
HAMER ELECTRIC ACQUISITION CORPORATION
HOWARD BROTHERS ELECTRIC CO., INC.
INTEGRATED ELECTRICAL FINANCE, INC.
INTEGRATION COMMUNICATION SERVICES, INC.
POLLOCK ELECTRIC INC.
SUMMIT ELECTRIC OF TEXAS, INCORPORATED

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Secretary

J.W. GRAY HOLDINGS LLC
HOUSTON-STAFFORD HOLDINGS LLC
IES HOLDINGS LLC
MILLS ELECTRICAL HOLDINGS LLC
POLLOCK SUMMIT HOLDINGS, INC.

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

BEXAR ELECTRIC COMPANY, LTD.

By: BW/BEC, INC., its General Partner
BW/BEC, LLC, its Limited Partner

By /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

CALHOUN ELECTRIC COMPANY, LTD.

By: BW/CEC, INC., its General Partner
BW/CEC, LLC, its Limited Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

J.W. GRAY ELECTRICAL CONTRACTORS LP

By: J.W. GRAY MANAGEMENT LLC, its
General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

By: J.W. GRAY HOLDINGS LLC, its Limited
Partner

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

HATFIELD REYNOLDS ELECTRIC CO.

By: HATFIELD ELECTRIC, INC., its General Partner
REYNOLDS ELECTRIC, CORP., its General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

HAYMAKER ELECTRIC, LTD

By: GENERAL PARTNER, INC., its General Partner
CHARLES P. BAGBY COMPANY, INC., its Limited Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

HOUSTON-STAFFORD ELECTRICAL CONTRACTORS LP

By: HOUSTON-STAFFORD MANAGEMENT LLC, its General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

By: HOUSTON-STAFFORD HOLDINGS LLC,
its Limited Partner

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

IES MANAGEMENT LP

By: INTEGRATED ELECTRICAL FINANCE, INC.,
its General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Secretary

By: IES HOLDINGS, LLC , its Limited
Partner

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

MILLS ELECTRIC LP

By: MILLS MANAGEMENT LLC, its General
Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

By: MILLS ELECTRICAL HOLDINGS LLC, its
Limited Partner

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

POLLOCK SUMMIT ELECTRIC LP

By: POLLOCK ELECTRIC INC., its General Partner and its Limited Partner SUMMIT ELECTRIC OF TEXAS, INCORPORATED, its General Partner

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Secretary

NATIONSBANK, N.A., as Agent

By: /s/ ALBERT L. WELCH

Albert L. Welch
Vice President

Schedule I
to Security Agreement

Collateral Information
(For Each Debtor)

[Note: To be supplied by Borrower.]

PLEDGE AGREEMENT

This Pledge Agreement dated as of July 30, 1998 ("Agreement"), is made by the undersigned partners of the Partnerships described below (each of the undersigned, individually, a "Pledgor," and collectively, the "Pledgors"), in favor of NationsBank, N.A., successor in interest by merger to NationsBank of Texas, N.A., as agent under the Credit Agreement described below ("Secured Party").

INTRODUCTION

Reference is made to the Credit Agreement dated as of July 30, 1998 (as modified from time to time, the "Credit Agreement"), among Integrated Electrical Services, Inc., a Delaware corporation ("Borrower"), certain financial institutions which are or may become parties thereto (the "Banks"), and the Secured Party. It is a condition precedent to the obligation of the Banks to make any extension of credit under the Credit Agreement that the Pledgors shall have entered into this Agreement. Therefore, in consideration of the credit expected to be received in connection with the Credit Agreement, the Pledgors jointly and severally agree with the Secured Party as follows:

Section 1. Definitions. The terms "deposit account," "account," "general intangible," "security," "instrument," "document," "chattel paper," "equipment," "fixture," "inventory," "goods," and "proceeds" shall have the meanings specified by Article 9 of the Uniform Commercial Code ("UCC"). Capitalized terms used but not defined herein shall have the meanings set forth in the Credit Agreement. As used herein, the following terms shall have the following meanings:

"Collateral" means the Partnership Agreements, Pledged Interests, Records, and Proceeds.

"Partnerships" means Haymaker Electric, Ltd., an Alabama limited partnership, Calhoun Electric Company, Ltd., a Texas limited partnership, Bexar Electric Company, Ltd., a Texas limited partnership, J.W. Gray Electrical Contractors, LP, a Texas limited partnership, Hatfield Reynolds Electric Company, a Delaware partnership, Houston-Stafford Electrical Contractors LP, a Texas limited partnership, IES Management LP, a Texas limited partnership, Mills Electric LP, a Texas limited partnership, Pollock-Summit Electric LP, a

Texas limited partnership, and any partnership the interests in which are hereafter pledged by any Pledgor to the Secured Party to secure the payment and performance of the Secured Obligations.

"Partnership Agreements" means (a) the Agreement of Limited Partnership of Haymaker Electric, Ltd., dated as of December 30, 1992, (b) the Second Amended and Restated Limited Partnership Agreement of Calhoun Electric Company, Ltd., dated as of October 1, 1997, (c) the Amended and Restated Limited Partnership Agreement of the Partnership, dated as of January 2, 1996, as amended by the First Amendment to Amended and Restated Limited Partnership Agreement, dated as of May 1, 1997, (d) the Agreement of Limited Partnership of J.W. Gray Electrical Contractors LP, dated as of June 1, 1998, (e) the Agreement of General Partnership of Hatfield Reynolds Electric Company, dated as of February 2, 1998, (f) the Agreement of Limited Partnership of Houston-Stafford Electrical Contractors LP, dated as of June 5, 1998, (g) the agreement of limited partnership of IES Management LP, (h) the Agreement of Limited Partnership of Mills Electric LP, dated as of June 3, 1998, (i) the Agreement of Limited Partnership of Pollock Summit Electric LP, dated as of May 4, 1998, and (j) any partnership agreement of any future Partnership, in each case, as the same may be amended, restated, supplemented, or otherwise modified from time to time.

"Pledged Interests" means all of the outstanding limited and general partnership interests in the Partnerships, together with all distributions, cash, instruments, and other proceeds from time to time received or otherwise distributed in respect of the foregoing, including partnership interest rights, options, liquidating distributions, new partnership interests, or other properties or benefits to which any Pledgor may become entitled to receive on account of such property.

"Proceeds" means all present and future proceeds of the Pledged Interests, whether arising from the collection, sale, exchange, assignment, or other disposition of any Pledged Interests, the realization upon any Pledged Interests, or any other transaction or occurrence, including all claims of such Pledgor against third parties for impairment, loss, or damage to any Pledged Interests, all proceeds payable under any put, call, hedge, or other protection for the value of any Pledged Interests, and all rights under any indemnity, warranty, or guaranty of or for any of the foregoing, whether such proceeds are represented as money, deposit accounts, accounts, general intangibles, securities, instruments, documents, chattel paper, inventory, equipment, fixtures, or goods.

"Records" means all present and future contracts, accounting records, files, computer files, computer programs, and other records relating to the Partnership Agreements, Pledged Interests, and Proceeds.

"Secured Obligations" means (a) all principal, interest, premium, fees, reimbursements, indemnifications, and other amounts now or hereafter owed by the Borrower to the Secured Party and the Banks (and with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under the Credit Agreement and the other Credit Documents, (b) all amounts now or hereafter owed by the Pledgors to the Secured Party and the Banks (and with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under the Guaranty, this Agreement, and the other Credit Documents, and (c) any increases, extensions, renewals, replacements, and rearrangements of the foregoing obligations under any amendments, supplements, and other modifications of the agreements creating the foregoing obligations.

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of Texas, as amended from time to time, and any successor statute.

Section 2. Grant of Security Interest. Each Pledgor hereby grants to the Secured Party a security interest in all of such Pledgor's right, title, and interest in and to the Collateral to secure the payment and performance of the Secured Obligations.

Section 3. General Provisions. Each Pledgor represents and warrants to and agrees with the Secured Party as follows:

3.1 Ownership. Such Pledgor owns all of its rights in the Pledged Interests as set forth next to its name on Schedule I attached hereto, free and clear of any liens, security interests, assignments, options, adverse claims, restrictions, and other encumbrances whatsoever, and has the capacity to enter into modifications of the Partnership Agreement applicable to the Pledged Interests of such Pledgor without the consent of any other party other than the Secured Party. The Pledged Interests are duly authorized and validly issued and are fully paid and nonassessable. The Pledged Interests constitute 100% of the limited and general partnership interests in the Partnerships. No effective pledge or other transfer regarding the Pledged Interests of such Pledgor is in effect. No recorded financing statement or similar recording or filing covering any part of the Collateral is in effect or on file in any recording office, except those filed in connection with this Agreement. No Pledgor shall, without the prior written consent of the Secured Party, grant any lien, security interest, assignment, option, restriction, claim, or other encumbrance on or against the Collateral, or lease, sell, or otherwise transfer any of its rights in the Collateral, except (a) as permitted under the Credit Agreement, or (b) to the Secured Party pursuant to the terms of this Agreement.

3.2 Perfection.

(a) Such Pledgor waives any provision of the Partnership Agreement applicable to the Pledged Interests of such Pledgor prohibiting or otherwise restricting the grant of the security interest hereunder. No consent of any Person is required for the grant by such Pledgor of the security interest in the Collateral granted hereunder or for the exercise by the Secured Party of its rights hereunder.

(b) As of the date of this Agreement, the true and correct name of such Pledgor as listed on such Pledgor's certificate of incorporation or formation is the name specified for such Pledgor on the signature pages of this Agreement. Such Pledgor has had no prior names other than those listed for such Pledgor in Schedule I to the Credit Agreement. Such Pledgor has not used and does not use any trade names other than those listed in Schedule I to the Credit Agreement. Without advance written notice to the Secured Party and reasonable opportunity for the Secured Party to take action to protect the Secured Party's interests hereunder, such Pledgor shall not change such Pledgor's name.

(c) As of the date of this Agreement, such Pledgor's chief executive office is located at the address listed for such Pledgor in Schedule I to the Credit Agreement. Without advance written notice to the Secured Party and reasonable opportunity for the Secured Party to take action to protect the Secured Party's interests hereunder, such Pledgor shall not change the location of such Pledgor's chief executive office.

(d) A carbon, photographic, or other reproduction of this Agreement shall be sufficient as a financing statement and may be filed in any appropriate office in lieu thereof.

3.3 Priority. The security interest created by this Agreement is first priority (except to the extent otherwise permitted in the Credit Agreement), and each Pledgor shall preserve and maintain the status of such security interest to the end that this Agreement shall remain a first priority security interest in the Collateral.

3.4 Value.

(a) The Partnership Agreement applicable to the Pledged Interests of such Pledgor has been duly authorized, executed, and delivered by all parties thereto, and is in full force and effect, enforceable against all parties thereto in accordance with its terms, subject to bankruptcy and general principles of equity. An accurate and complete copy of such Partnership Agreement has been made available for review by the Secured Party in connection with the execution of this Agreement, and such Partnership Agreement has not been amended, supplemented, or otherwise modified, or performance thereunder waived.

(b) Such Pledgor shall furnish to the Secured Party promptly upon the giving or receipt thereof, copies of all material notices, requests, and other documents given to any party to the Partnership Agreement applicable to the Pledged Interests of such Pledgor or received by such Pledgor under such Partnership Agreement, and from time to time furnish to the Secured Party such information and reports regarding the Collateral as the Secured Party may reasonably request.

(c) Such Pledgor has performed all of its obligations under the Partnership Agreement applicable to the Pledged Interests of such Pledgor, and has no liability with respect to any additional capital contributions or other payment obligations thereunder. Such Pledgor shall use its commercially reasonable efforts to maintain the Partnership Agreement applicable to the Pledged Interests of such Pledgor in full force and effect.

(d) Such Pledgor shall not without the advance written consent of the Secured Party amend, supplement, or otherwise modify the Partnership Agreement applicable to the Pledged Interests of such Pledgor as in effect on the date hereof, waive performance under or terminate any provisions thereof, or consent to any of those actions. Such Pledgor shall not take any action in connection with such Partnership Agreement which materially impairs the value of the rights of the Secured Party therein, or consent to any such actions. If the Secured Party so requests, such Pledgor shall withhold from taking any action under such Partnership Agreement, or shall take such actions under such Partnership Agreement as the Secured Party may request.

(e) Such Pledgor shall not initiate any remedies or take any action to enforce such Pledgor's rights under the Partnership Agreement applicable to the Pledged Interests of such Pledgor without giving the Secured Party advance written notice of such Pledgor's intent to initiate such remedies or take such actions thereunder and the opportunity to consult with such Pledgor regarding such Pledgor's proposed actions.

3.5 Use and Condition.

(a) So long as no Default or Event of Default shall exist and be continuing and until the Borrower has received notice from the Secured Party pursuant to Section 4.1(c) of this Agreement (which notice the Borrower shall promptly forward to the Pledgors), each Pledgor shall be entitled to receive and retain any cash dividends or distributions distributed in respect of the Pledged Interests of such Pledgor, provided that any: (i) non-cash dividends, distributions, instruments, and other property received or otherwise distributed in respect of or in substitution for any such Pledged Interests; (ii) cash dividends and other distributions in connection with a partial or total liquidation or dissolution of any Partnership or in connection with a reduction of capital, capital surplus, or paid-in-surplus of any Partnership; and (iii) cash distributed in respect of a redemption of principal of, or in exchange for, any such Pledged Interests, shall be promptly delivered to the Secured Party for disposition in accordance with Section 4.3 and shall, if received by any Pledgor, be received in trust for the benefit of the Secured Party, be segregated from the other property or funds of such Pledgor, and be promptly delivered to the Secured Party as Collateral in the same form as so received, with any necessary endorsement.

(b) With regard to the Pledged Interests of each Pledgor, so long as no Default or Event of Default shall exist and be continuing and until the Borrower has received notice from the Secured Party pursuant to Section 4.1(d) of this Agreement (which notice the Borrower shall promptly forward to the Pledgors), each Pledgor shall be entitled to exercise any voting and other consensual rights pertaining to the Pledged Interests of such Pledgor for any purpose not inconsistent with the terms of this Agreement. The Secured Party shall execute and deliver (or cause to be executed and delivered) to such Pledgor any instruments that such Pledgor may reasonably request to enable such Pledgor to exercise the voting and other rights which it is entitled to exercise hereunder and to receive the dividends, distributions, or interest payments which it is authorized to receive and retain hereunder.

3.6 Further Assurances.

(a) Each Pledgor agrees that at any time such Pledgor shall promptly execute and deliver all further agreements, and take all further action, that may be necessary or that the Secured Party may reasonably request, in order to further evidence the security interests granted or purported to be granted hereunder and perfect and protect the same or to enable the Secured Party to exercise and enforce its rights and remedies hereunder. Without limiting the foregoing, each Pledgor shall at the Secured Party's reasonable request: (i) mark conspicuously any tangible Collateral with a legend, in form and substance satisfactory to the Secured Party, indicating that such Collateral is subject to the security interest granted or purported to be granted hereunder; and (ii) execute financing statements, amendments and continuations of financing statements, and such other documents and agreements as the Secured Party may reasonably request in order to perfect and preserve the security interests granted or purported to be granted hereunder. Each Pledgor shall furnish to the Secured Party from time to time any statements and schedules further identifying and describing any of the Collateral and such other reports in connection with the Collateral as the Secured Party may reasonably request.

(b) During the existence of an Event of Default, each Pledgor agrees that, if such Pledgor fails to perform under this Agreement, the Secured Party may, but shall not be obligated to, after written request to such Pledgor to perform, perform such Pledgor's obligations under this Agreement and any expenses reasonably incurred by the Secured Party in performing such Pledgor's obligations shall be paid by such Pledgor. Any such performance by the Secured Party may be made by the Secured Party in reasonable reliance on any statement, invoice, or claim, without inquiry into the validity or accuracy thereof. The amount and nature of any expense of the Secured Party hereunder shall be conclusively established, absent manifest error, by a certificate of any officer of the Secured Party.

(c) Each Pledgor irrevocably appoints the Secured Party as such Pledgor's attorney in fact, with full authority to act during the existence of an Event of Default for such Pledgor and in the name of such Pledgor, to take any action and execute any agreement which the Secured Party deems necessary or advisable to accomplish the purposes of this Agreement, including taking actions the Secured Party is expressly authorized to take pursuant to this Agreement (such as the matters described in paragraph (b) above), instituting proceedings the Secured Party deems necessary or desirable to enforce the rights of the Secured Party with respect to this Agreement, and taking actions with respect to receiving, endorsing, and collecting instruments made payable to such Pledgor representing any dividend, interest payment, or other distribution in respect of the Pledged Interests of such Pledgor and giving full discharge for the same. Provided, that the Secured Party shall first request in writing that such Pledgor take actions and such Pledgor shall, after reasonable opportunity, have failed to do so.

(d) The powers conferred on the Secured Party under this Agreement are solely to protect its rights under this Agreement and shall not impose any duty upon it to exercise any such powers. Except as elsewhere provided hereunder, the Secured Party shall have no duty as to any of the Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to the Collateral. The Secured Party shall have no responsibility for (i) ascertaining or taking action with respect to calls, conversions, exchanges, rights of first refusal, or other matters relative to any Pledged Interests, whether or not the Secured Party has or is deemed to have knowledge of such matters, or (ii) taking any necessary steps to preserve rights against any parties with respect to any Pledged Interests.

3.7 Pledgor Remains Liable. Anything herein to the contrary notwithstanding: (a) such Pledgor shall remain liable under the Partnership Agreement applicable to the Pledged Interests of such Pledgor to the extent set forth therein to perform such Pledgor's obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by Secured Party of any rights hereunder shall not release such Pledgor from any obligations under such Partnership Agreement; and (c) Secured Party shall not have any obligation under such Partnership Agreement by reason of this Agreement, nor shall Secured Party be obligated to perform or fulfill any of the obligations of such Pledgor thereunder, including any obligation to make any inquiry as to the nature or sufficiency of any payment such Pledgor may be entitled to receive thereunder, to present or file any claim, or to take any action to collect or enforce any claim for payment thereunder.

Section 4. Remedies. During the continuation of any Event of Default:

4.1 Interim Remedies.

(a) The Secured Party may exercise all the rights and remedies of a secured party under the UCC.

(b) The Secured Party may prosecute actions in equity or at law for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted or for the enforcement of any other appropriate legal or equitable remedy.

(c) During the continuance of an Event of Default, following written notice to the Borrower (which notice the Borrower shall promptly forward to the Pledgors) and to the extent specified in such written notice, all rights of the Pledgors to receive cash dividends or distributions shall cease, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to receive such cash dividends. All cash dividends or distributions received by any Pledgor in violation of the foregoing shall be received in trust for the benefit of the Secured Party, shall be segregated from other funds of such Pledgor, and shall be promptly paid over to the Secured Party to be held as Pledged Interests in the same form as so received (with any necessary endorsement).

(d) During the continuance of an Event of Default, following written notice to the Borrower (which notice the Borrower shall promptly forward to the Pledgors) and to the extent specified in such written notice, all rights of the Pledgors to exercise the voting and other consensual rights which they would otherwise be entitled to exercise under the Partnership Agreements and pursuant to this Agreement shall cease, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to exercise such voting and other consensual rights, and the Secured Party may instruct each Pledgor to take or not take action under the applicable Partnership Agreements. Following such notice from the Secured Party, each Pledgor authorizes all other parties to the Partnership Agreement applicable to the Pledged Interests of such Pledgor to follow the instructions of the Secured Party and ignore the instructions of such Pledgor with respect to such Pledgor's rights under such Partnership Agreement.

(e) During the continuance of an Event of Default, following written notice to the Borrower (which notice the Borrower shall promptly forward to the Pledgors) and to the extent specified in such written notice, the Secured Party shall have the right, without further notice to any Pledgor, to transfer or to register, in the name of the Secured Party or any of its nominees, any of the Pledged Interests.

(f) The Secured Party may require any Pledgor to promptly assemble any tangible Collateral of such Pledgor and make it available to the Secured Party at a place to be designated by the Secured Party. The Secured Party may occupy any premises owned or leased by any Pledgor where the Collateral is assembled for a reasonable period in order to effectuate its rights and remedies hereunder or under law, without obligation to such Pledgor with respect to such occupation. The Secured Party shall have no obligation to take any action to assemble or otherwise take control of the Collateral, whether for the purposes of sale or otherwise.

(g) The Secured Party may take any action permitted under the Credit Agreement or other Credit Documents, including declaring the unpaid portion of the Secured Obligations to be immediately due and payable under the terms of the Credit Agreement.

4.2 Foreclosure.

(a) The Secured Party may foreclose on the Collateral in any manner permitted by the courts of or in the State of Texas. If the Secured Party should institute a suit for the collection of the Secured Obligations and for the foreclosure of this Agreement, the Secured Party may at any time before the entry of a final judgment dismiss the same, and take any other action permitted by this Agreement.

(b) The Secured Party may exercise all the rights and remedies of a secured party under the UCC, including foreclosure.

(i) If, in the opinion of the Secured Party, there is any question that a public or semipublic sale or distribution of any Collateral will violate any state or federal securities law, the Secured Party in its discretion (A) may offer and sell the Pledged Interests privately to purchasers who will agree to take them for investment purposes and not with a view to distribution, or (B) may, if lawful, sell such securities in an intrastate offering under Section 3(a)(11) of the Securities Act of 1933, as amended, and no sale so made in good faith by the Secured Party shall be deemed to be not "commercially reasonable" because so made. Each Pledgor shall cooperate fully with Secured Party in all respects in selling or realizing upon all or any part of the Collateral. In addition, each Pledgor shall fully comply with the securities laws of the United States, the State of Texas, and other states and take such actions as may be necessary to permit the Secured Party to sell or otherwise dispose of any partnership interests pledged hereunder in compliance with such laws; provided that this Section 4.2(b)(i) shall not require any Pledgor to file a registration statement with respect to such partnership interests.

(ii) The Secured Party may sell, after notice to the Pledgor, any Collateral at public or private sale, at the office of the Secured Party or elsewhere, for cash or credit and upon such other terms as the Secured Party deems commercially reasonable. The Secured Party may sell any Collateral at one or more sales, and the security interest granted hereunder shall remain in effect as to the unsold portion of the Collateral. Each Pledgor hereby deems ten days advance notice of the time and place of any public or private sale reasonable notification, recognizing that if the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, shorter notice may be reasonable. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any sale by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. In the event that any sale hereunder is not completed or is defective in the opinion of the Secured Party, the Secured Party shall have the right to cause subsequent sales to be made hereunder. Any statements of fact or other recitals made in any bill of sale, assignment, or other document representing any sale hereunder, including statements relating to the occurrence of an Event of Default, acceleration of the Secured Obligations, notice of the sale, the time, place, and terms of the sale, and other actions taken by the Secured Party in relation to the sale shall be conclusive evidence of the truth of the matters so stated. The Secured Party may delegate to any agent the performance of any acts in connection with any sale hereunder, including the sending of notices and the conduct of the sale.

4.3 Application of Proceeds. Unless otherwise specified herein, any cash proceeds received by the Secured Party from the sale of, collection of, or other realization upon any part of the Collateral shall be applied by the Secured Party in accordance with and in the manner specified by Section 6.9 of the Credit Agreement.

4.4 Waiver of Certain Rights. To the full extent each Pledgor may do so, no Pledgor shall insist upon, plead, claim, or take advantage of any law providing for any appraisement, valuation, stay, extension, or redemption, and each Pledgor hereby waives and releases the same, and all rights to a marshaling of the assets of such Pledgor, including the Collateral, or to a sale in inverse order of alienation in the event of foreclosure of the liens and security interests hereby created. No Pledgor shall assert any right under any law pertaining to the marshaling of assets, sale in inverse order of alienation, the administration of estates of decedents or other matters whatever to defeat, reduce, or affect the right of the Secured Party under the terms of this Agreement.

Section 5. Miscellaneous.

5.1 Notices. All notices and other communications from the Secured Party to any Pledgor provided for in this Agreement shall be delivered or transmitted to the Borrower, and shall be deemed delivered to any such Pledgor upon delivery to the Borrower. All notices and other communications between the parties provided for in this Agreement shall be delivered or transmitted as provided in the Credit Agreement to the applicable address set forth therein.

5.2 General. This miscellaneous provisions contained in Article 8 of the Credit Agreement are incorporated herein as if fully set forth herein. This Agreement may be executed in multiple counterparts each of which shall constitute one and the same agreement.

5.3 Amendment and Restatement. This Agreement represents an amendment, restatement, and consolidation of the Pledge Agreements, each dated as of January 30, 1998, made by certain of the Pledgors in favor of NationsBank of Texas, N.A., predecessor in interest to NationsBank, N.A., as Secured Party, and all previous versions are deemed replaced hereby. The indebtedness secured under the prior versions of this Agreement continues to be secured under this version of this Agreement and the execution of this Agreement does not indicate a payment, satisfaction, novation, or discharge thereof. All security interests under the prior versions of this Agreement continue to secure such indebtedness under this version of this Agreement without impairment or interruption.

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

Executed as of the date first above written.

Pledgors:

BW/BEC, INC.
BW/BEC, LLC
BW/CEC, INC.
BW/CEC, LLC
J.W. GRAY MANAGEMENT LLC
HATFIELD ELECTRIC, INC.
REYNOLDS ELECTRIC, CORP.
GENERAL PARTNER, INC.
CHARLES P. BAGBY COMPANY, INC.
HOUSTON-STAFFORD MANAGEMENT LLC
MILLS MANAGEMENT LLC

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Assistant Secretary

J.W. GRAY HOLDINGS LLC
HOUSTON-STAFFORD HOLDINGS LLC
IES HOLDINGS, LLC
MILLS ELECTRICAL HOLDINGS LLC

By: /s/ TERRY EARNHART

Terry Earnhart
Manager

INTEGRATED ELECTRICAL FINANCE, INC.

POLLOCK ELECTRIC INC.
SUMMIT ELECTRIC OF TEXAS,
INCORPORATED

By: /s/ JOHN F. WOMBWELL

John F. Wombwell
Secretary

Secured Party:

NATIONSBANK, N.A., as Agent

By: /s/ ALBERT L. WELCH

Albert L. Welch
Vice President

Schedule I

Pledged Interests of each Pledgor

[NOTE: to be provided by Borrower]

EXHIBIT 21.1

Integrated Electrical Services, Inc. operates in the electrical contracting and maintenance industry through 64 subsidiaries, all of which are located in the United States.

EXHIBIT 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports dated September 11, 1998 on the financial statements of the following businesses included in or made a part of this registration statement: Integrated Electrical Services, Inc. and Subsidiaries, BW Consolidated, Inc. and Subsidiaries; Integrated Electrical Services, Inc.; Mills Electrical Contractors, Inc. and Subsidiary; Muth Electric, Inc.; Amber Electric, Inc.; Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc.; Pollock Electric Inc.; Thurman & O'Connell Corporation; Charles P. Bagby, Co., Inc.; Summit Electric of Texas, Incorporated; and Rodgers Electric Company, Inc.; and to all references to our firm included in this registration statement.

ARTHUR ANDERSEN LLP

Houston, Texas
September 14, 1998

EXHIBIT 23.3

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated December 19, 1997, on the financial statements of Mark Henderson, Inc. and Subsidiaries included in or made a part of this registration statement and to all references to our firm in this registration statement.

Bradshaw, Pope & Franklin, LLP

/s/ BRADSHAW, POPE & FRANKLIN, LLP

Norcross, Georgia
September 11, 1998

EXHIBIT 23.4

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated December 2, 1997, on the financial statements of Davis Electrical Constructors, Inc. included in or made a part of this registration statement and to all references to our firm in this registration statement.

Elliot, Davis & Company, L.L.P.

Greenville, South Carolina
September 11, 1998

/s/ ELLIOT, DAVIS & COMPANY, L.L.P.

EXHIBIT 23.5

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated February 11, 1998, on the financial statements of Florida Industrial Electric, Inc. included in or made a part of this registration statement and to all references to our firm in this registration statement.

Sapp & Sapp P.A.

Winter Park, Florida
September 11, 1998

/s/ SAPP & SAPP P.A.

EXHIBIT 23.6

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated April 1, 1998, on the financial statements of Mid-States Electric Company, Inc. included in or made a part of this registration statement and to all references to our firm in this registration statement.

/s/ PHILHOURS, RICH & FLETCHER, P.L.L.C.
Philhours, Rich & Fletcher, P.L.L.C.

Jackson, Tennessee
September 11, 1998

EXHIBIT 23.7

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated February 27, 1998, on the financial statements of Galbraith Acquisition Company, Inc. and Subsidiary included in or made a part of this registration statement and to all references to our firm in this registration statement.

Wolfe and Company, P.C.

/s/ WOLFE AND COMPANY, P.C.

Abilene, Texas
September 11, 1998

EXHIBIT 23.8

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants, we hereby consent to the use of our report, dated August 27, 1998, on the financial statements of Arc Electric, Incorporated as of and for the year ended December 31, 1997, included in or made a part of this registration statement, and to all references to our firm in this registration statement.

Edmondson, Ledbetter & Ballard, LLP

/s/ EDMONDSON, LEDBETTER & BALLARD LLP

Norfolk, Virginia
September 11, 1998

EXHIBIT 23.9

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated May 28, 1998, on the financial statements of Brink Electric Construction Co. included in or made a part of this registration statement and to all references to our firm in this registration statement.

/s/ KETEL THORSTENSON, LP
Ketel Thorstenson, LP

Rapid City, South Dakota
September 11, 1998

EXHIBIT 23.10

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated August 25, 1998, on the financial statements of Goss Electric Company, Inc. included in or made a part of this registration statement and to all references to our firm in this registration statement.

Wear, Howell, Strickland & Quinn, L.L.C.

/s/ WEAR, HOWELL, STRICKLAND & QUINN, L.L.C.

Decatur, Alabama
September 11, 1998

EXHIBIT 23.11

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report, dated December 18, 1997, on the financial statements of T & H Electrical Corporation for the year ended September 30, 1997 included in or made a part of this registration statement and to all references to our firm in this registration statement.

/s/ DEES, JACKSON, WATSON & ASSOCIATES, P.A.
Dees, Jackson, Watson & Associates, P.A.

Smithfield, North Carolina
September 11, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF INTEGRATED ELECTRICAL SERVICES, INC. AS OF JUNE 30, 1998, AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
SEP-30-1998
OCT-01-1998
JUN-30-1998
20,264
0
140,376
4,127
6,571
178,807
27,811
4,113
492,544
97,899
0
0
0
308
295,190
492,544
553,355
553,355
442,475
504,780
(368)
0
4,063
44,880
18,874
26,006
0
0
0
26,006
.85
.84