SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001

OR

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

FOR THE TRANSITION PERIOD FROM _______ TO _______

COMMISSION FILE NUMBER 1-13783

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

DELAWARE (State of other jurisdiction of incorporation or organization)	76-0542208 (I.R.S. Employer Identification No.)
1800 WEST LOOP SOUTH SUITE 500 HOUSTON, TEXAS (Address of principal executive offices)	77027 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 860-1500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.01 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

Indicate by checkmark if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [ ] No [X]

As of December 10, 2001, there were outstanding 39,694,095 shares of common stock of the Registrant. The aggregate market value on such date of the voting stock of the Registrant held by non-affiliates was an estimated $121.2 million.

DOCUMENT INCORPORATED BY REFERENCE

The information called for by Part III of this Form 10-K is incorporated by reference from the Proxy Statement for the Annual Meeting of Stockholders of the Company to be held February 6, 2002.

FORM 10-K

INTEGRATED ELECTRICAL SERVICES, INC.
TABLE OF CONTENTS

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes certain statements, including statements relating to the Company's expectations of its future operating results, that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that include the words "except", "intend", "plan", "believe", "project", "anticipate", "will", and similar statements of a future or forward-looking nature identify "forward-looking" statements. These statements are based on the Company's expectations and involve risks and uncertainties that could cause the Company's actual results to differ materially from those set forth in the statements. Such risks and uncertainties include, but are not limited to, the inherent uncertainties relating to estimating future results, fluctuations in operating results because of downturns in levels of construction, incorrect estimates used in entering into fixed price contracts, difficulty in managing the operation and growth of existing and newly acquired businesses, the high level of competition in the construction industry and due to seasonality (see "Business-Risk Factors"). Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors.

PART I

ITEM 1. BUSINESS

In this annual report, the words "IES," the "Company," "we," "our," "ours," and "us" refer to Integrated Electrical Services, Inc. and, except as otherwise specified herein, to our subsidiaries. Our fiscal year is not a calendar year and ends on September 30.

We are the second largest provider of electrical contracting services in the United States. We are also a growing provider of solutions in the data communications and utilities markets. We provide a broad range of services including designing, building and maintaining electrical, data communications and utilities systems for commercial, industrial and residential customers.

Our electrical contracting services include design of the electrical distribution systems within a building or complex, procurement and installation of wiring and connection to power sources and end use equipment and fixtures. Our data communications solutions include design and installation of external cables for university and corporate campuses and data centers and switching stations for data communications companies. We also provide internal wiring of buildings and individual businesses for communications services. Our utility services consist of overhead and underground installation and maintenance of electrical and other utilities transmission and distribution networks, installation and splicing of high-voltage transmission and distribution lines, substation construction and substation and right-of-way maintenance. Our maintenance services generally provide recurring revenues that are typically less affected by levels of construction activity. We focus on projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house engineers, as well as service, maintenance and certain renovation and upgrade work, which tends to either be recurring, to have lower sensitivity to economic cycles or both.

Since 1997, we have developed a national footprint of more than 170 locations serving 47 states through the acquisition of established companies operating in our core business areas. From 1996 to 2001, pro forma combined revenues for our businesses (which include revenues generated by our subsidiaries prior to their acquisition by us) increased at a compounded annual growth rate of approximately 10%. In 2001, we focused internally to integrate our information systems and management structure to enhance operating controls at all levels of our organization. We still differentiate ourselves, however, with our decentralized operating structure that encourages entrepreneurial spirit and allows us to leverage our technical expertise and local knowledge in individual regions and areas.

INDUSTRY OVERVIEW

According to the most recently available data, the electrical contracting industry will generate estimated annual revenues in excess of $95 billion in 2001. This data also indicates that the electrical contracting industry is highly fragmented, with more than 70,000 companies, most of which are small, owner-operated businesses. We estimate that there are only 10 U.S. electrical contractors with revenues in excess of $200 million. Multimedia Telecommunications Market Review and Forecast cites overall spending in the U.S. communications infrastructure market was approximately $168 billion in 2000, an increase of 17% from 1999 and double the market size from 1997. U.S. Census data indicates that total construction industry revenues have grown at an average compound rate of approximately 6% from 1996 through 2001.

Virtually all construction and renovation in the United States generates demand for electrical and communications design and build projects. We believe that the types of services we provide account for:

- substantially all of the construction costs of outside infrastructure projects;
- approximately 50% to 60% of total construction costs for switching centers;
- approximately 8% to 12% of the total construction cost of commercial and industrial projects; and
- approximately 5% to 10% of the total construction cost for residential projects.

In recent years, electrical and communications contractors have experienced a growing demand for their services due to more stringent electrical codes, increased use of electrical power, increased drive toward outsourcing, demand for increased bandwidth, demand for bundled services and construction of smart houses with integrated computer, temperature control and safety systems.

COMPETITIVE STRENGTHS

Our competitive strengths include the following:

- Geographic and customer diversity -- We have more than 170 locations, operate in 47 states and have worked on more than 2,300 contracts over $250,000 and more than 10,000 contracts overall in 2001. Our diverse customer base includes general contractors, developers, facility owners and managers of large retail establishments, manufacturing and processing facilities, utilities, government agencies and national telecommunications companies. There is a significant overlap between our electrical and communications customers. No single customer accounted for more than 5% of our revenues in the year ended September 30, 2001. We believe that our geographic and customer diversity provides us with many advantages including enabling us to better serve national customers with multiple locations and reducing our dependence on any particular customer or region.

- Size and critical mass -- We believe the scale of our operations enables us to provide services to national customers and undertake large, complex projects which many of our competitors do not have the resources to complete on a comparable timeline, if at all. For example, we recently completed the $250 million multi-site installation of switching centers for MCI Worldcom. We accomplished this job by coordinating 12 of our locations in 10 states and utilizing approximately 640 of our electricians.

- Expertise -- We have developed areas of expertise in condominium and high-rise buildings, retail centers, hospitals, switching centers and utility substations. Additionally, we believe we are one of the leading prefabricating firms in the electrical contracting industry. We prefabricate significant portions of an electrical installation off-site and ship materials to the installation site in specific sequences to optimize materials management and to minimize our employees' time on a job site. We believe that our technical expertise provides us with (1) access to higher margin design-and-build projects; (2) access to high growth markets including data cabling, wireless telecommunications, highway lighting and traffic control, video and security and fire systems; and (3) the ability to deliver quality service with greater reliability than that of many of our competitors.

- Experienced and incentivized management -- Our regional and local management have extensive experience and established reputations in the markets they serve. In addition, we have developed a strong team of executive officers, led by Herbert (Roddy) Allen, with extensive operating experience. We believe management and our employees currently own over 40% of our outstanding common stock.

STRATEGY

The key elements of our strategy are:

Implementing Best Practices. We continue to expand the services we offer in our local markets by using the specialized technical and marketing strengths of each of our subsidiaries. We regularly identify and share best practices that have been developed at a local level and can be successfully implemented throughout our operations. Areas of focus have included various aspects of our operational, administrative, safety, hiring and training practices. For example, we believe our prefabrication process allows us to complete work more quickly and at a lower cost, and our billing and collections processes enable us to receive payments from customers more timely and efficiently than our subsidiaries were able to achieve in the past.

Operating on a Decentralized Basis. We believe that our decentralized operating structure helps us retain the entrepreneurial spirit present in our subsidiaries while maintaining operating and financial controls. We have recently structured our company into regional operating divisions to more efficiently share our businesses' considerable local and regional market knowledge and customer relationships. By maintaining a local focus, we believe we are able to continue to:

- maintain and strengthen relationships with general contractors and other customers;
- build relationships with engineers and architects;
- address design preferences and code requirements; and
- respond quickly to customer demands.

Leveraging Cross-Selling between our Electrical and Communications

Customers. We believe that we have a significant opportunity to cross-sell between our communications services customers and our electrical contracting customers. Because many of our customers install electrical and communications systems simultaneously, we position ourselves as a single-source solutions provider for both types of projects.

Attracting and Retaining Quality Employees. We are committed to providing the highest level of customer service through the development of a highly trained workforce. Our ability to attract and retain qualified electricians is a critical competitive factor in an industry like ours, where there are local shortages of skilled workers. We plan to continue to attract and train skilled employees by:

- extending active recruiting programs and training programs;
- providing competitive compensation packages, including performance-based compensation for key employees;
- offering expanded career paths and more stable income through a larger public company; and
- providing opportunities to work on complex and challenging projects.

Broadening Existing National Account Program. We currently have a number of direct and indirect clients that operate on a regional or national basis, including developers, contractors, homebuilders and owners of nationwide chains. Our national presence enables us to offer these customers service in many, if not all, required geographies. By utilizing best practices developed on substantially similar projects, we believe we are able to configure and install systems to their specifications on a more timely and cost-efficient basis than other locally operated electrical and communications contractors. In addition, we have the available resources to provide service for large-scale projects. In order to capitalize on this opportunity, we have established a separate marketing team that is responsible for establishing relationships with larger customers and maintaining and expanding national contracts. We believe our existing local and regional relationships and the expanded sales force will enable us to capture additional revenues from national accounts and multi-site projects.

Expansion. Our growth strategy is to expand our businesses primarily through internal growth, with selective growth into other geographic markets. We currently do not intend to grow materially through acquisitions in the foreseeable future.

Cost Control. We have and will continue to take steps to control expenses in costs of services and in selling, general and administrative costs. We intend to strengthen our relationships with suppliers in an effort to reduce the costs of delivering services. We have consolidated the administrative functions of many of our businesses and intend to continue to do so where appropriate. We believe that by focusing on cost reduction, we are better positioned for the challenging economic environment.

THE MARKETS WE SERVE

Commercial and Industrial Market. Our commercial and industrial work consists primarily of electrical installations and upgrade, renovation and replacement work in:

- office buildings;
- high-rise apartments and condominiums;
- theaters;
- restaurants;
- hotels;
- hospitals;
- school districts;
- manufacturing and processing facilities;
- military installations;
- airports; and
- refineries, petrochemical and power plants.

Our commercial and industrial customers include:

- general contractors;
- developers;
- building owners and mangers;
- engineers;
- architects;
- owners;
- managers; and
- consultants.

Demand for our commercial services is driven by construction and renovation activity levels, as well as more stringent local and national electrical codes. From fiscal 1996 through 2001 pro forma combined revenues from commercial work have grown at a compound annual rate of approximately 8% per year and represented approximately 40% of our revenues for the year ended September 30, 2001. Pro forma combined revenues include revenues generated by our subsidiaries prior to their acquisition by us.

Our industrial revenues are derived from significant contracts for new construction, upgrade, renovation and replacement service and maintenance work. Demand for our industrial services if often driven by facility upgrades and replacements. We also believe demand is driven by general activity levels in the particular industries served, which is in turn affected by general economic conditions. From fiscal 1996 through 2001, our pro forma combined revenues from industrial work have grown at a compound annual rate of approximately 9% per year and represented approximately 26% of our revenues for the year ended September 30, 2001.

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 us to prepare preliminary and then more detailed design specifications, engineering drawings and cost estimates. Projects which we design and build provide us with higher margins. Design and build is an approach to installation projects in which the contractor is given full or partial responsibility for the design specifications of the installation. Design and build is an alternative to the traditional "plan and spec" model, in which the contractor is required to build to the exact specifications of the architect and engineer. We believe that design and build is the superior model because it allows us to use past experience to install a project at a potentially lower cost to the customer and higher profitability to us. Once a project is awarded, it is conducted in scheduled phases, and progress billings are rendered to our customer for payment, less a retainage of 5% to 10% of the construction cost of the project. We generally provide 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. Actual fieldwork is coordinated during these phases, including:

- ordering of equipment and materials;
- fabricating or assembling of certain components;
- delivering of materials and components to the job site; and
- scheduling of work crews and inspection and quality control.

Due to our size, we are effectively able to prefabricate significant portions of certain projects at an alternative site and drop ship materials in specific sequences. Prefabrication allows us to optimize materials management and minimize the amount of time specialized employees spend on the job site.

Residential Market. Our work for the residential market consists primarily of electrical installations in new single-family housing and low-rise, multi-family housing for customers, which include local, regional and national homebuilders and developers. We believe demand for our residential services is dependent on the number of single family and multi-family home starts. Single-family home starts are affected by the level of interest rates and general economic conditions. A competitive factor particularly important in the residential market is our ability to develop relationships with homebuilders and developers by providing services in multiple areas of their operations. This ability has become increasingly important as consolidation has occurred within the residential construction industry and homebuilders and developers have sought out service providers on whom they can rely for consistent service in all of their operating regions.

We are currently one of the largest providers of electrical contracting services to the U.S. residential construction market. Our residential business has experienced significant growth. Our pro forma combined revenues from residential electrical contracting have grown at a compound annual rate of approximately 15% from fiscal 1996 through 2001 and represented approximately 15% of our revenues for the year ended September 30, 2001.

New residential installations begin with a builder providing potential subcontractors the architectural or electrical drawings for the residences within the tract being developed. We typically submit a bid or contract proposal for the work. Our personnel analyze the plans and drawings and estimate the equipment, materials and parts and the direct and supervisory labor required to complete the project. We deliver a written bid or negotiate an arrangement for the job. The installation work is coordinated by our 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 these payments are released. Interim payments are often obtained to cover labor and materials costs on larger projects.

Service and Maintenance Market. Our service and maintenance revenues are derived from service calls and routine maintenance contracts and tend to be recurring and less sensitive to economic fluctuations. Our pro forma combined revenues from the service and maintenance market have grown at a compound annual rate of approximately 7% from fiscal 1996 through 2001 and represented approximately 8% of our revenues for the year ended September 30, 2001.

Service and maintenance is supplied on a long-term and per-call basis. Long-term service and maintenance is provided through 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. Per call service and maintenance is initiated when a customer requests emergency repair service. Service technicians are scheduled for the call or routed to the customer's residence or business by the dispatcher. We will then follow up with the client to schedule periodic maintenance work. Service personnel work out of our 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; and
- performs the work and often collects payment from the customer.

Most service work is warranted for thirty days.

Communications and Utilities Markets. We are a growing designer and installer of communications and utility infrastructure systems. We provide three types of telecommunication and utility infrastructure services to our customers: network enterprise, switch networks and outside plant. Our revenues from the communications and utilities market represented approximately 11% of our revenues for the year ended September 30, 2001.

Network enterprise service includes installation, design and support services and engineering to property owners or businesses requiring infrastructure support of communication or network equipment related to in-building wiring of local-area or wide-area configuration of industrial commercial or residential buildings. These projects may range from the networking of small, single-office, PC-based systems to wiring communications networks for multi-site institutions such as large universities. As part of this business, we provide extensive design and consulting services in order to configure a system that will meet our customers' needs. The work is similar to the installation of electrical wiring in commercial or residential structures. However, because the materials and some of the methods used in the installation of data cabling differ from those used in the installation of electrical wiring, the work is typically performed by technicians who specialize in data cabling. Large communications projects often include traditional electrical contracting elements and create an opportunity for us to better serve the overall needs of the customer and to capture a larger percentage of that project's contractor expenditures. Large installation projects also provide the opportunity for recurring service and, in some cases, monitoring revenues.

Switch networks include switching systems for established and newly started local exchange carriers, regional and local Bell operating companies and long distance providers. We provide services including equipment procurement and installation, design needs and infrastructure support. Typically, greater than 50% of this work is electrical in nature and provided by our electricians.

Outside plant includes cables, wires, poles, towers, substations, and other equipment located between a point at which operational control or ownership of facilities changes from one organization entity to another. We provide installation, maintenance, design and engineering services for outside plant within both the telecommunications and electric power line markets. This work is capital intensive, requiring the use of various pieces of heavy equipment. Additionally, the electricians that perform power line work must be highly skilled in order to work with the high voltage power lines. In addition to running the lines, we often construct the towers that carry the lines as well as electrical substations.

We believe the demand for our communications services will be driven by the following factors: the pace of technological change; the overall growth in voice and data traffic; and the increasing use of personal computers and modems, with particular emphasis on the speed with which information can be retrieved from the internet. Demand for our utilities services is driven by industry deregulation, limited maintenance or capital expenditures on existing systems and increased loads and supply and delivery requirements.

CUSTOMERS

Major Customers. We have a diverse customer base. During the year ended September 30, 2001, no single customer accounted for more than 5% of our revenues. As a result of emphasis on quality and worker reliability, our management and a dedicated sales and work force have been responsible for developing and maintaining successful relationships with key customers. We have recently worked on projects for the following customers:

American Airlines	HOK Sport	Perry Homes
Baltimore Ravens	Home Depot	Pittsburgh Steelers
Beers Construction, Inc.	Intel	Public Service of Colorado
Bell Atlantic	JPI Apartment Construction	Qwest
Bovis, Inc.	Lennar Homes	SBC
Dell Computer	Lowe's	Texaco
Dow Chemical	Lucent Technologies	The Shaw Group
Federal Express	MB Kahn	Verizon
General Telephone	MCI Worldcom	Wal-Mart
George Washington University	Nevada Power Company	Western Area Power Admin.
H&W Construction	Omaha Public Power District	

We intend to continue our emphasis on developing and maintaining relationships with our customers by providing superior, high-quality service.

National Accounts. We currently have a number of clients that operate on a regional or national basis, including developers, contractors, homebuilders and owners of nationwide chains. We are able to leverage our national footprint to offer these customers service in many, if not all, required geographies. Our understanding of the demands and needs of our customers from prior, substantially similar projects, enables us to configure and install systems to their specifications on a more timely and cost-efficient basis than other locally operated electrical contractors through the utilization of best practices. These best practices result in higher gross profit margins. In addition, we have the available resources to provide service for large-scale projects. In order to capitalize on this opportunity, we have established a separate marketing team that is responsible for obtaining and developing national contracts. We believe our existing local and regional relationships and the expanded sales force will enable us to capture additional revenues from national accounts.

We believe that significant demand exists from these companies for the services of a single electrical and communications solutions provider from whom they can obtain consistent service that meets their quality requirements. This demand is at least partially driven by the recent consolidation among a number of our principal customers. Our national accounts program targets additional communications projects and actively pursues relationships with the regional Bell operating companies, competitive local exchange carriers and building local exchange carriers.

COMPANY OPERATIONS

Employee Screening, Training and Development. We are 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, our safety practices and other internal policies. We support and fund continuing education for our employees, as well as apprenticeship training for technicians under the Bureau of Apprenticeship and Training of the Department of Labor and similar state agencies. Employees who train as apprentices for five years may seek to become journeymen electricians and, after additional years of experience, master electricians. We pay progressive increases in compensation to employees who acquire this additional training, and more highly trained employees serve as foremen, estimators and project managers. Our master electricians are licensed in one or more cities or other jurisdictions in order to obtain the permits required in our business. Some employees have also obtained specialized licenses in areas including 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, we believe that the number, skills and licenses of our employees constitute a competitive strength in the industry.

We actively recruit and screen applicants for our technical positions and have established programs in some locations to recruit apprentice technicians directly from high schools and vocational technical schools. Prior to hiring

new employees, we assess their technical competence level, confirm background references and conduct drug testing.

Materials and Supplies. As a result of economies of scale, we believe we have been able to purchase equipment, parts and supplies at discounts to prices at which stand-alone companies can purchase. In addition, as a result of our size, we are able to lower our costs for (i) the purchase or lease of vehicles; (ii) bonding, casualty and liability insurance; (iii) health insurance and related benefits; (iv) retirement benefits administration; and (v) office and computer equipment.

Substantially all the equipment and component parts we sell or install are purchased from manufacturers and other outside suppliers. We are not materially dependent on any of these outside sources.

Control and Information Systems. We are committed to performing those controls and procedures that improve our efficiency and the monitoring of our operations. Some of the controls and procedures which we have in place are:

- Bidding and estimating of a job to specific levels based on the dollar size of the job. Each subsidiary may approve certain jobs based on each subsidiary's gross revenues, the level of experienced estimating personnel on staff, the type of work to be bid (i.e. niche vs. non-niche work to take advantage of our centers of excellence), and manpower availability. If a job exceeds these parameters additional regional or senior approvals must be obtained, depending on the size of the project.

- An automated monthly reporting package which includes internal checks and cross references to ensure completeness and accuracy of the monthly financial results. This "formalized" reporting package also requires discussion of individual subsidiary results.

- A series of "home and away" quarterly reviews which involve our senior management team and the individual company presidents. Every other quarter, company presidents conduct these meetings at or near their "home" locations and on remaining quarters attend an "away" meeting at the home office in Houston. The content of such meetings includes discussing previous operating results, forecasts for the future, issues, opportunities and concerns.

- A formalized planning process that involves analyzing industry trends at a county level for each subsidiary. This planning also formalizes the capital allocation process.

We have begun deploying Enterprise Resource Planning ("ERP") software to all of our operating companies. ERP applications are paramount to a growing business with a diverse geographic platform. Additionally, we have selected a financial reporting and financial application to complement the ERP application and provide increased structure and analytical tools to the reporting process. We plan an estimated total cost of $10 to $12 million for a rollout that began during the first quarter of fiscal 2001 and is currently scheduled to be completed by December 2003. Implementing a new ERP system with a financial reporting application will allow us to obtain real time operating performance and perform detailed analysis.

COMPETITION

The electrical contracting and communications solutions industries are highly fragmented and competitive. Most of our competitors are small, owner-operated companies that typically operate in a limited geographic area. There are few public companies focused on providing electrical and communications solutions services. In the future, competition may be encountered from new market entrants. Competitive factors in the electrical contracting industry include:

- the availability of qualified and licensed electricians or qualified technicians;
- safety record;
- cost structure;
- relationships with customers;
- geographic diversity;
- ability to reduce project costs;
- access to technology;
- experience in specialized markets; and
- ability to obtain bonding.

See "Risk Factors"

REGULATIONS

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

- licensing requirements applicable to electricians;
- building and electrical codes;
- regulations relating to consumer protection, including those governing residential service agreements; and
- regulations relating to worker safety and protection of the environment.

We believe we have all licenses required to conduct our operations and are in substantial compliance with applicable regulatory requirements. Our failure to comply with applicable regulations could result in substantial fines or revocation of our 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 our electricians who work in the state or county that issued the permit or license. It is our policy to ensure that, where possible, any permits or licenses that may be material to our operations in a particular geographic region are held by at least two IES employees within that region.

RISK MANAGEMENT AND INSURANCE

The primary risks in our operations include health, bodily injury, property damage and injured workers' compensation. We maintain automobile and general liability insurance for third party health, bodily injury and property damage and workers' compensation coverage, which we consider appropriate to insure against these risks. Our third-party insurance is subject to large deductibles for which we establish reserves and, accordingly, we effectively self insure for much of our exposures.

EMPLOYEES

At September 30, 2001, we had approximately 15,300 employees. We are not a party to any collective bargaining agreements with our employees. We believe that our relationship with our employees is satisfactory.

RISK FACTORS

- - DOWNTURNS IN CONSTRUCTION COULD ADVERSELY AFFECT OUR BUSINESS BECAUSE MORE THAN HALF OF OUR BUSINESS IS DEPENDENT ON LEVELS OF NEW CONSTRUCTION ACTIVITY.

More than half of our business is the installation of electrical systems in newly constructed and renovated buildings, plants and residences. Downturns in levels of construction or housing starts could have a material adverse effect on our business, financial condition and results of operations. Our ability to maintain or increase revenues from new installation services will depend on the number of new construction starts and renovations which will likely be correlated with the cyclical nature of the construction industry. The number of new building starts will be affected by local economic conditions, changes in interest rates and other factors, including the following:

- employment and income levels;
- interest rates and other factors affecting the availability and cost of financing;
- tax implications for homebuyers;
- consumer confidence; and
- housing demand.

Additionally, a majority of our business is focused in the southeastern and southwestern portions of the United Sates, concentrating our exposure to local economic conditions in those regions. Downturns in levels of construction or housing starts could result in a material reduction in our activity levels.

- - THE ESTIMATES WE USE IN PLACING BIDS COULD BE MATERIALLY INCORRECT. THE USE OF INCORRECT ESTIMATES COULD RESULT IN LOSSES ON A FIXED PRICE CONTRACT. THESE LOSSES COULD BE MATERIAL TO OUR BUSINESS.

We currently generate, and expect to continue to generate, more than half of our revenues under fixed price contracts. The cost of labor and materials, however, may vary from the costs we originally estimated. Variations from estimated contract costs along with other risks inherent in performing fixed price contracts may result in actual revenue and gross profits for a project differing from those we originally estimated and could result in losses on projects. Depending upon the size of a particular project, variations from estimated contract costs can have a significant impact on our operating results for any fiscal quarter or year. We must estimate the costs of completing a particular project to bid for these fixed price contracts.

- - WE MAY EXPERIENCE DIFFICULTIES IN MANAGING INTERNAL GROWTH.

In order to continue to grow internally, we expect to expend significant time and effort managing and expanding existing operations. We cannot guarantee that our systems, procedures and controls will be adequate to support our expanding operations, including the timely receipt of financial information. Our growth imposes significant added responsibilities on our senior management, such as the need to identify, recruit and integrate new senior managers and executives. If we are unable to manage our growth, or if we are unable to attract and retain additional qualified management, our operations could be materially adversely affected.

- - THERE IS CURRENTLY A SHORTAGE OF QUALIFIED ELECTRICIANS. SINCE THE MAJORITY OF OUR WORK IS PERFORMED BY ELECTRICIANS, THIS SHORTAGE MAY NEGATIVELY IMPACT OUR BUSINESS, INCLUDING OUR ABILITY TO GROW.

There is currently a shortage of qualified electricians in the United States. In order to conduct our business, it is necessary to employ electricians. Over the last few years, the growth of the U.S. economy has increased the demand for electricians making it difficult for us to attract, hire and retain competent electricians. While overall economic growth has diminished, our ability to increase productivity and profitability may be limited by our ability to employ, train and retain skilled electricians required to meet our needs. Accordingly there can be no assurance, among other things, that:

- we will be able to maintain the skilled labor force necessary to operate efficiently;
- our labor expenses will not increase as a result of a shortage in the skilled labor supply; and
- we will not be able to grow as a result of labor shortages.

- - DUE TO SEASONALITY AND DIFFERING REGIONAL ECONOMIC CONDITIONS, OUR RESULTS MAY FLUCTUATE FROM PERIOD TO PERIOD.

Our business can be subject to seasonal variations in operations and demand that affect the construction business, particularly in residential construction. Our quarterly results may also be affected by the regional economic conditions. Accordingly, our performance in any particular quarter may not be indicative of the results that can be expected for any other quarter or for the entire year.

- - TO SERVICE OUR INDEBTEDNESS AND TO FUND WORKING CAPITAL, WE WILL REQUIRE A SIGNIFICANT AMOUNT OF CASH. OUR ABILITY TO GENERATE CASH DEPENDS ON MANY FACTORS.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This is subject to our operational performance, as well as general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our new credit facility will expire in May 2004.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our credit facility in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. Our inability to refinance our debt on commercially reasonable terms could materially adversely affect our business.

- - THE HIGHLY COMPETITIVE NATURE OF OUR INDUSTRY COULD AFFECT OUR PROFITABILITY BY REDUCING OUR PROFIT MARGINS.

The electrical contracting industry is served by small, owner-operated private companies, public companies and several large regional companies. We could also face competition in the future from other competitors entering these markets. Some of our competitors offer a greater range of services, including mechanical construction, plumbing and heating, ventilation and air conditioning services. Competition in our markets depends on a number of factors, including price. Some of our competitors may have lower overhead cost structures and may, therefore, be able to provide services comparable to ours at lower rates than we do. If we are unable to offer our services at competitive prices or if we have to reduce our prices to remain competitive, our profitability would be impaired.

- - OUR OPERATIONS ARE SUBJECT TO NUMEROUS PHYSICAL HAZARDS ASSOCIATED WITH THE CONSTRUCTION OF ELECTRICAL SYSTEMS. IF AN ACCIDENT OCCURS, IT COULD RESULT IN AN ADVERSE EFFECT ON OUR BUSINESS.

Hazards related to our industry include, but are not limited to, electrocutions, fires, mechanical failures or transportation accidents. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and may result in suspension of operations. Our insurance does not cover all types or amounts of liabilities. Our third-party insurance is subject to large deductibles for which we establish reserves and, accordingly, we effectively self insure for much of our exposures. No assurance can be given either that our insurance or our provisions for incurred claims and incurred but not reported claims will be adequate to cover all losses or liabilities we may incur in our operations or that we will be able to maintain adequate insurance at reasonable rates.

- - WE HAVE A SUBSTANTIAL AMOUNT OF DEBT. OUR CURRENT DEBT LEVEL COULD LIMIT OUR ABILITY TO FUND FUTURE WORKING CAPITAL NEEDS AND INCREASE OUR EXPOSURE DURING ADVERSE ECONOMIC CONDITIONS.

Our indebtedness could have important consequences. For example, it could:

- increase our vulnerability to adverse operational performance and economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a disadvantage compared to a competitor that has less debt; and
- limit our ability to borrow additional funds.

- - THE LOSS OF A GROUP OF KEY PERSONNEL, EITHER AT THE CORPORATE OR OPERATING LEVEL, COULD ADVERSELY AFFECT OUR BUSINESS.

The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on our business, financial condition and results of operations. Our operations depend on the continued efforts of our current and future executive officers, senior management and management personnel at the companies we have acquired. A criterion we use in evaluating acquisition candidates is the quality of their management. We cannot guarantee that any member of management at the corporate or subsidiary level will continue in their capacity for any particular period of time. If we lose a group of key personnel, our operations could be adversely affected. We do not maintain key man life insurance.

- - OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED AS A RESULT OF GOODWILL IMPAIRMENT WRITE-OFFS.

When we acquire a business, we record an asset called "goodwill" equal to the excess amount we pay for the business, including liabilities assumed, over the fair value of the assets of the business we acquire. On June 30, 2001 the Financial Standards Accounting Board adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill no longer be amortized but be subject to an annual assessment for impairment based on a fair value test. Because we have made numerous acquisitions since our inception, we carry significant amounts of goodwill on our books. We expect to adopt SFAS No. 142 for our first fiscal quarter of 2002. We believe the impairment charge upon adoption will be material, and based on current market capitalization could equate to a substantial amount of our recorded goodwill. We do not believe this adoption will impact our free cash flows, operating income or compliance with our debt instruments.

- - A SIGNIFICANT AMOUNT OF OUR HISTORIC GROWTH HAS OCCURRED THROUGH THE ACQUISITION OF EXISTING BUSINESSES; HOWEVER, FUTURE ACQUISITIONS WILL BE MADE ON A SELECTIVE BASIS AND MAY BE DIFFICULT TO IDENTIFY AND INTEGRATE AND MAY DISRUPT OUR BUSINESS AND ADVERSELY AFFECT OUR OPERATING RESULTS.

Historically, a significant amount of our growth has come through acquisitions. From April 1998 to our last significant acquisition in December 2000, we made 71 acquisitions. We currently do not intend to grow materially through acquisitions in the foreseeable future, however we continually evaluate acquisition prospects to complement and expand our existing business platforms. The timing, size or success of any acquisition effort and the associated potential capital commitments cannot be predicted. If we are unable to find appropriate acquisitions, our future ability to grow our revenues and profitability may be diminished. Each acquisition, however, involves a number of risks. These risks include:

- the diversion of our management's attention from our existing businesses to integrating the operations and personnel of the acquired business;
- possible adverse effects on our operating results during the integration process; and
- our possible inability to achieve the intended objectives of the combination.

We may seek to finance an acquisition through borrowings under our credit facility or through the issuance of new debt or equity securities. There can be no assurance that we will be able to secure this financing if and when it is needed or on the terms we consider acceptable. If we should proceed with a relatively large cash acquisition, we could deplete a substantial portion of our financial resources to the possible detriment of our other operations. Any future acquisitions could also dilute the equity interests of our stockholders, require us to write off assets for accounting purposes or create other undesirable accounting issues, such as significant exposure to impairments of goodwill or other intangible assets.

ITEM 2. PROPERTIES

We operate a fleet of owned and leased service trucks, vans and support vehicles. We believe these vehicles generally are adequate for our current operations.

At September 30, 2001, we maintained branch offices, warehouses, sales facilities and administrative offices at more than 170 locations. Substantially all of our facilities are leased. We lease our home office located in Houston, Texas.

Our properties are generally adequate for our present needs, and we believe that suitable additional or replacement space will be available as required.

ITEM 3. LEGAL PROCEEDINGS

Our subsidiaries are involved in various legal proceedings that have arisen in the ordinary course of business. While it is not possible to predict the outcome of these proceedings with certainty and it is possible that the results of legal proceedings may materially adversely affect us, in our opinion, these 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 our financial position, liquidity or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4A. EXECUTIVE OFFICERS

Herbert "Roddy" Allen has been Chief Executive Officer and President of the Company since October 2001. From May 2001 to October 2001, Mr. Allen was Chief Operating Officer of the Company. From January 2000 to May 2001, Mr. Allen was Senior Vice President -- Eastern Operations and served as a Regional Operating Officer of the Company from June 1998 to January 2000. Prior to September 2000, Mr. Allen served as the President of H.R. Allen, Inc., one of the Company's subsidiaries.

Richard China has been Chief Operating Officer of the Company since October 2001. From May 2001 to October 2001, Mr. China was President of IES Communications, Inc. From August 1999 to May 2001, Mr. China served as a Regional Operating Officer of the Company. Prior to August 1999, Mr. China served as the President of Primo Electric Company, Inc., one of the Company's subsidiaries.

William W. Reynolds has been the Chief Financial Officer and Executive Vice President of the Company since June 2000. Mr. Reynolds joined IES after having most recently served as Vice President and Treasurer of Peoples Energy Corporation in Chicago, Illinois from 1998 to 2000. Prior to his appointment with Peoples Energy Corporation, Mr. Reynolds was Vice President and Project Finance Corporate Officer for MCN Energy Group, Inc. in Detroit, Michigan from 1997 to 1998.

John F. Wombwell has been Executive Vice President, General Counsel and Secretary of IES since November 1999. From January 1998 to November 1999, Mr. Wombwell was Senior Vice President, General Counsel and Secretary of IES. Prior to that time, Mr. Wombwell was a partner at Andrews & Kurth L.L.P., where he practiced law in the area of corporate and securities matters.

Bob Weik has been President -- Western Area of our operations since January 2000 and served as a Regional Operating Officer of the Company since May 1998 and as President of BW Consolidated, Inc. and related entities ("Bexar-Calhoun"), one of the Company's subsidiaries.

Dan Petro has been President -- Eastern Area of our operations since May 2001 and served as a Regional Operating Officer of the Company from June 1998 to May 2001. Prior to June 1998, Mr. Petro served as the President of Amber Electric, Inc., one of the Company's subsidiaries.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's common stock trades on the NYSE under the symbol "IEE." The following table presents the quarterly high and low sales prices for the Company's Common Stock on the NYSE since October 1999.

	High	Low
Fiscal Year Ended September 30, 2000		
First Quarter	15.75	8.75
Second Quarter	9.75	4.50
Third Quarter	5.56	3.38
Fourth Quarter	8.00	4.75
Fiscal Year Ended September 30, 2001		
First Quarter	7.00	5.06
Second Quarter	7.49	5.24
Third Quarter	10.00	4.90
Fourth Quarter	9.95	4.60

As of December 10, 2001, the market price of the Company's Common Stock was $3.66 per share and there were approximately 1,369 holders of record.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. We expect that we will retain all available earnings generated by our operations for the development and growth of our business. Any future determination as to the payment of dividends will be made at the discretion of our Board of Directors and will depend upon the Company's operating results, financial condition, capital requirements, general business conditions and such other factors as the Board of Directors deems relevant. Our debt instruments restrict us from paying cash dividends on the common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA

On January 30, 1998, we completed our initial public offering of common stock. In accordance with the SEC's Staff Accounting Bulletin No. 97, IES' results of operations for periods prior to January 30, 1998 reflect the historical accounts of the accounting acquirer restated for the effect of the acquisition accounted for as a pooling of interests. The results of operations for businesses acquired subsequent to January 29, 1998 are included in the results of operations beginning on their respective dates of acquisition. The accounting acquirer's results of operations through January 30, 1998 include a non-cash, non-recurring compensation charge of approximately $17.0 million required by the SEC in connection with a note receivable and rights held by the accounting acquirer which were exchanged for cash and shares of our common stock. The following selected consolidated historical financial information for IES should be read in conjunction with the audited historical consolidated financial statements of Integrated Electrical Services, Inc. and subsidiaries and the notes thereto included in Item 8, "Financial Statements and Supplementary Data."

Year Ended September 30, (In Thousands, Except Share Information and Ratios)	1997	1998	1999	2000	2001
Statement of Operations Data:					
Revenues	$117,111	$386,721	$1,035,888	$1,672,288	$1,693,213
Cost of services (including depreciation)	95,937	306,052	816,715	1,372,537	1,385,589
Gross profit	21,174	80,669	219,173	299,751	307,624
Selling, general and administrative expenses	14,261	47,390	113,871	221,519	214,073
Non-cash, non-recurring compensation charge	--	17,036	--	--	--
Goodwill amortization	--	3,212	9,305	13,211	12,983
Income from operations	6,913	13,031	95,997	65,021	80,568
Interest and other income (expense), net	385	(393)	(12,542)	(22,222)	(26,187)
Income before income taxes	7,298	12,638	83,455	42,799	54,381
Provision for income taxes	2,923	12,690	35,348	21,643	25,671
Net income (loss)	$ 4,375	$ (52)	$ 48,107	$ 21,156	$ 28,710
Diluted earnings (loss) per share	$ 0.97	$ --	$ 1.39	$ 0.52	$ 0.70
Ratio of earnings to fixed charges(1)	26.8	6.1	6.6	2.7	2.8

As of September 30, (In Thousands)	1997	1998	1999	2000	2001
Balance Sheet Data:					
Cash and cash equivalents	$ 4,154	$ 14,583	$ 2,931	$ 770	$ 3,475
Working capital	7,770	75,020	175,572	91,643	236,629
Total assets	35,794	502,468	858,492	1,019,990	1,033,503
Total debt	2,169	94,177	229,544	245,065	288,551
Total stockholders' equity	12,636				

302,704 467,166 507,749 528,644 - -------------------

----

(1) The ratio of earnings to fixed charges is calculated by dividing the fixed charges into net income before taxes plus fixed charges. Fixed charges consist of interest expense, amortization of offering discounts on debt, amortization of debt issuance costs and the estimated interest component of rent expense.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in the Form 10-K. See "Disclosure Regarding Forward-Looking Statements".

GENERAL

The Company's electrical contracting business is operated in three segments: commercial and industrial, residential and service and maintenance. Additionally, the Company operates a communications solutions business. See Note 9 of "Notes to Consolidated Financial Statements" for a description of these reportable segments.

RESULTS OF OPERATIONS

The following table presents selected historical results of operations of IES and subsidiaries, with dollar amounts in thousands. These historical statements of operations include the results of operations for businesses acquired through purchases beginning on their respective dates of acquisition.

	Year Ended September 30,					
(In Thousands)	1999		2000		2001	
Revenues	$1,035,888	100%	$1,672,288	100%	$1,693,213	100%
Cost of services (including depreciation)	816,715	79	1,372,537	82	1,385,589	82
Gross profit	219,173	21	299,751	18	307,624	18
Selling, general and administrative expenses	113,871	11	221,519	13	214,073	12
Goodwill amortization	9,305	1	13,211	1	12,983	1
Income from operations	95,997	9	65,021	4	80,568	5
Interest and other expense, net	(12,542)	(1)	(22,222)	(2)	(26,187)	(2)
Income before income taxes	83,455	8	42,799	2	54,381	3
Provision for income taxes	35,348	3	21,643	1	25,671	1
Net income	$ 48,107	5%	$ 21,156	1%	$ 28,710	2%

REVENUES

	Year Ended September 30,				
	Percent of Total			Percentage Revenues Growth	
(In Thousands)	1999	2000	2001	2000	2001
Commercial and Industrial	69%	67%	66%	57%	(1)%
Residential	17%	15%	15%	43%	3%
Service and Maintenance	7%	8%	8%	91%	3%
Communications Solutions	7%	10%	11%	119%	11%
Total Company	100%	100%	100%	61%	1%

Revenues increased $20.9 million, or 1%, from $1,672.3 million for the year ended September 30, 2000 to $1,693.2 million for the year ended September 30, 2001. The revenue decline in the commercial and industrial segment is the result of revenues earned on the MCI Worldcom contract during the year ended September 30, 2000. The revenue growth within the other operating segments and the change in proportion in revenues among the segments was the result of increased construction and communications activity in the markets we serve.

Revenues increased $636.4 million, or 61%, from $1,035.9 million for the year ended September 30, 1999 to $1,672.3 million for the year ended September 30, 2000. Total same store revenues increased approximately $229.9 million, or

23%, from $988.6 million for the fiscal year ended September 30, 1999, to $1,218.5 million for the fiscal year ended September 30, 2000. The revenue growth within, and change in proportions in revenue among operating segments, were the result of acquisitions and increased construction and communications activity in the markets we serve.

GROSS MARGIN

Segment Gross Margins as a Percentage of Total Revenues

	Year Ended September 30,		
	1999	2000	2001
Commercial and Industrial	19%	16%	16%
Residential	23%	22%	23%
Service and Maintenance	34%	22%	23%
Communications Solutions	29%	24%	19%
Total Company	21%	18%	18%

Gross profit increased $7.8 million, or 3%, from $299.8 million for the year ended September 30, 2000 to $307.6 million for the year ended September 30, 2001. Overall gross margin as a percentage of revenue remained constant for the years ended September 30, 2000 and 2001. Margins remained flat as a result of increased bidders on certain fixed price commercial and industrial and communications solutions projects and the impact such bidders had on margins in these segments, and were further impacted by project delays, project cancellations and decreased productivity following the terrorist attacks of September 11, 2001.

Gross profit increased $80.6 million, or 37%, from $219.2 million for the year ended September 30, 1999 to $299.8 million for the year ended September 30, 2000. Overall gross margin as a percentage of revenue decreased approximately 3% from 21% for the year ended September 30, 1999 to 18% for the year ended September 30, 2000. The overall decrease in gross profit as a percentage of revenue is primarily the result of losses recorded on certain fixed price commercial projects, a shift in the mix of work toward lower margin bid work versus negotiated contract work, the completion of certain contracts at lower than planned gross margins and the recording of additional claims reserves for our self-insured healthcare plan resulting from a higher level of employee participation. Gross margins decreased in our service and maintenance segment as a result of costs associated with establishing additional service locations broadening the scope of our services which include lower margin services.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased $7.4 million, or 3%, from $221.5 million for the year ended September 30, 2000 to $214.1 million for the year ended September 30, 2001. Selling, general and administrative expenses as a percentage of revenue decreased from 13% in 2000 to 12% in 2001. The decrease in selling, general and administrative expenses primarily results from the occurrence of certain costs incurred in the year ended September 30, 2000 which were not incurred in the year ended September 30, 2001 including the write-off, net of recoveries of $6.8 million of costs associated with the our decision to curtail the development of an information system and the non-cash compensation charge of $5.4 million associated with the restricted stock awards, offset by increased infrastructure costs in 2001.

Selling, general and administrative expenses increased $107.6 million, or 95%, from $113.9 million for the year ended September 30, 1999 to $221.5 million for the year ended September 30, 2000. Selling, general and administrative expenses as a percentage of revenue increased from 11% in 1999 to 13% in 2000. The increase in selling, general and administrative expenses related to acquired companies was approximately $45.5 million. Other increased selling, general and administrative costs primarily resulted from the need for additional infrastructure growth to support operational initiatives, including various incentive awards, claims reserves related to our self-insured health insurance plan, the non-cash compensation charge associated with the restricted stock awards of $5.4 million, and the write-off, net of recoveries of $6.8 million of costs associated with the decision to change the technology being used in the development of its information system.

INCOME FROM OPERATIONS

Income from operations increased $15.6 million, or 24%, from $65.0 million for the year ended September 30, 2000 to $80.6 million for the year ended September 30, 2001. This increase was primarily the result of lower selling, general and administrative costs discussed above and gross profit earned on the slightly higher revenues during the

year ended September 30, 2001. As a percentage of revenues, income from operations increased from 4% for the year ended September 30, 2000 to 5% for the year ended September 30, 2001.

Income from operations decreased $31.0 million, or 32%, from $96.0 million for the year ended September 30, 1999 to $65.0 million for the year ended September 30, 2000. This decrease was primarily the result of lower gross margins and higher selling, general and administrative costs discussed above. As a percentage of revenues, income from operations decreased from 9% for the year ended September 30, 1999 to 4% for the year ended September 30, 2000.

INTEREST AND OTHER EXPENSE, NET

Interest and other expense, net increased from net expense of $22.2 million in 2000 to $26.2 million in 2001, primarily as a result of increased interest expense resulting from the issuance of $125.0 million 9 3/8% senior subordinated notes due February 1, 2009 in May 2001.

Interest and other expense, net increased from net expense of $12.5 million in 1999 to $22.2 million in 2000, primarily as a result of increased interest expense on borrowings to fund our acquisitions and a full twelve months of interest expense on the $150.0 million 9 3/8% senior subordinated notes due February 1, 2009 that were issued in 1999.

PROVISION FOR INCOME TAXES

Our effective tax rate decreased from 51% for the year ended September 30, 2000 to 47% for the year ended September 30, 2001 primarily as a result of non-deductible goodwill amortization representing a smaller percentage of our income before income taxes in 2001.

Our effective tax rate increased from 42% for the year ended September 30, 1999 to 51% for the year ended September 30, 2000. The higher effective tax rate in 2000 is primarily as a result of non-deductible goodwill amortization and the non-deductible portion of the compensation expense associated with the restricted stock awards in 2000 representing a larger percentage of our income before income taxes in 2000.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, we had cash and cash equivalents of $3.5 million, working capital of $236.6 million, borrowings of $12.0 million under our credit facility, $0.9 million of letters of credit outstanding, and available borrowing capacity under our credit facility of $137.1 million.

During the year ended September 30, 2001, we generated $8.6 million of net cash from operating activities. This net cash from operating activities is comprised of net income of $28.7 million, increased by $26.6 million of non-cash items and decreased by $46.7 million in working capital changes. Non-cash items included depreciation and amortization expense, restricted stock compensation charges, provision for allowance for doubtful accounts, changes in deferred income taxes and gains on sales of property and equipment. Working capital changes consisted of a $26.2 million decrease in receivables as a result of the timing of collections offset by a $37.8 million decrease in payables and further decreased by a $15.6 million increase in prepaids and other current assets, with the balance of the change due to other working capital changes. Net cash used in investing activities was $31.4 million, including $25.8 million of capital expenditures and $5.6 million of investments in marketable securities and other. Net cash provided by financing activities was $25.5 million, resulting primarily from the offering of the senior subordinated notes, net of repayments on the credit facility.

On May 22, 2001, we replaced our $175.0 million credit facility with a new $150.0 million revolving credit facility with a syndicate of lending institutions to be used for working capital, capital expenditure, acquisitions and other corporate purposes that matures May 22, 2004. Amounts borrowed under our credit facility bear interest at an annual rate equal to either (a) the London interbank offered rate (LIBOR) plus 1.75 percent to 2.75 percent, as determined by the ratio of our total funded debt to EBITDA (as defined in our credit facility) or (b) the higher of (i) the bank's prime rate or (ii) the Federal funds rate plus 0.50 percent plus an additional 0.25 percent to 1.25 percent, as determined by the ratio of our total funded debt to EBITDA. Commitment fees of 0.50 percent are assessed on any unused borrowing capacity under our credit facility. Our existing and future subsidiaries guarantee the repayment of all amounts due under our facility, and our facility is secured by the capital stock of those subsidiaries, our accounts receivable and the accounts receivable of those subsidiaries. Borrowings under our credit facility are limited to 66 2/3% of outstanding receivables (as defined in the agreement).

Our credit facility requires the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibits the payment of cash dividends on our common stock, restricts our ability to repurchase shares of common stock, to incur other indebtedness and requires us to comply with various affirmative and negative covenants including certain financial covenants. Among other restrictions, the financial covenants include minimum net worth requirements, a maximum total consolidated funded debt to EBITDA ratio, a maximum senior consolidated debt to EBITDA ratio, and a minimum interest coverage ratio. At December 13, 2001, we had outstanding borrowings of $25.0 million on our credit facility.

On January 25, 1999 and May 29, 2001, we completed our offerings of $150.0 million and $125.0 million senior subordinated notes, respectively. The offering completed on May 29, 2001, yielded $117.0 million in proceeds, net of a $4.2 million discount and $3.8 million in offering costs. The proceeds from the May 29, 2001, offering were used primarily to repay amounts outstanding under our credit facility. The notes bear interest at 9 3/8% and will mature on February 1, 2009. We pay interest on the notes on February 1 and August 1 of each year. The notes are unsecured senior subordinated obligations and are subordinated to all of our existing and future senior indebtedness. The notes are guaranteed on a senior subordinated basis by all of our subsidiaries. Under the terms of the notes, we are required to comply with various affirmative and negative covenants including (1) restrictions on additional indebtedness, and (2) restrictions on liens, guarantees and dividends.

All of our operating income and cash flows are generated by our wholly owned subsidiaries, which are the subsidiary guarantors of our outstanding senior subordinated notes. The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of the Company; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the senior subordinated notes; (iii) the aggregate assets, liabilities, earnings, and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis; and (iv) the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

In August 2001, we entered into an interest rate swap contract that has a notional amount of $100.0 million and was established to manage the interest rate risk of the senior subordinated note obligations. At September 30, 2001, the fair value of this derivative was $3.2 million and is included in other noncurrent assets. Under the hedge method of accounting for these types of derivatives, the change in the fair value of the interest rate swap contract is recorded with an offsetting adjustment to the carrying value of the hedged instrument and is thus included in the senior subordinated notes classification as of September 30, 2001.

Outlook. Economic conditions across the country, especially subsequent to the terrorist attacks of September 11, 2001 are extremely challenging. To improve our position for continued success, we have taken steps to reduce costs. We have made significant cuts in selling, general and administrative costs resulting in a 15% to 20% cost reduction at the corporate office and have targeted a 5% to 10% cost reduction in the field. In connection with these cuts, we will incur associated costs of approximately $4.0 million to $4.5 million in our first fiscal quarter of 2002.

We anticipate that our cash flow from operations and proceeds from our credit facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and planned capital expenditures for property and equipment through the next twelve months. Further, based on current internal projections, we expect to be in compliance with our debt instruments through at least the next twelve months. See "Disclosure Regarding Forward-Looking Statements."

SEASONALITY AND CYCLICAL FLUCTUATIONS

Our results of operations from residential construction are seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter. The commercial and industrial aspect of our business is less subject to seasonal trends, as this work generally is performed inside structures protected from the weather. Our service and maintenance business is generally not affected by seasonality. In addition, the construction industry has historically been highly cyclical. Our volume of business may be adversely affected by declines in construction projects resulting from adverse regional or national economic conditions. Quarterly results may also be materially affected by the timing of new construction projects 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 1999, 2000 and 2001, inflation did not have a significant effect on our results in those fiscal years, or on any of the acquired businesses during similar periods.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101 (SAB 101). SAB 101 reflects the basic principles of revenue recognition in existing accounting principles generally accepted in the United States. SAB 101 does not supersede any existing authoritative literature. We recognize revenue from construction contracts on the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts". The adoption of SAB 101 did not have an impact on our results of operations.

Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138, was effective for IES on October 1, 2000. These statements require that all derivative instruments (such as an interest rate swap contract), be recorded as either assets or liabilities measured at fair value. Changes in the derivative's fair value are to be recognized currently in earnings unless specific hedge accounting criteria are met. The criteria for cash flow and fair value hedges require that hedging relationships must be designated and documented upon inception. The documentation must include the consideration of the hedged item, the specific risk being hedged, identification of the hedging instrument, the company's risk management strategy, and how effectiveness will be assessed. The effectiveness assessment must have a historical basis that supports the assertion that the hedge will be effective prospectively. At the date of adoption, there was no financial impact on our consolidated financial statements as we were not a party to any derivative instruments. In August 2001, we entered into an interest rate swap contract to manage specific interest rate risks.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations". SFAS No. 141 establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also requires that acquired intangible assets be recognized as assets apart from goodwill if they meet one of two specified criteria. Additionally, the statement adds certain disclosure requirements to those required by APB 16, including disclosure of the primary reasons for the business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. This statement is required to be applied to all business combinations initiated after June 30, 2001 and to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. Use of the pooling-of-interests method is prohibited. The adoption of SFAS No. 141 did not have an impact on our financial condition or results of operations.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142, which must be applied to fiscal years beginning after December 15, 2001, modifies the accounting and reporting of goodwill and intangible assets. The pronouncement requires entities to discontinue the amortization of goodwill, reallocate all existing goodwill among its reporting segments based on criteria set by SFAS No. 142 and perform initial impairment tests by applying a fair-value-based analysis on the goodwill in each reporting segment. Any impairment at the initial adoption date shall be recognized as the effect of a change in accounting principle. Subsequent to the initial adoption, goodwill shall be tested for impairment annually or more frequently if circumstances indicate a possible impairment.

Under SFAS No. 142, entities are required to determine the useful life of other intangible assets and amortize the value over the useful life. If the useful life is determined to be indefinite, no amortization will be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life should be reassessed. Other intangible assets are required to be tested for impairment in a manner similar to goodwill. At September 30, 2001, our net goodwill was approximately $482.7 million, and annual amortization of such goodwill was approximately $13.0 million. We expect to adopt SFAS No. 142 for our first fiscal quarter of 2002. We believe the impairment charge upon adoption will be material, and based on current market capitalization could equate to a substantial amount of our recorded goodwill. We do not believe this adoption will impact our free cash flows, our operating income or compliance with our debt instruments.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the

Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We are in the process of assessing the impact that the adoption of this standard will have on our financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management is actively involved in monitoring exposure to market risk and continues to develop and utilize appropriate risk management techniques. We are not exposed to any significant market risks from commodity price risk or foreign currency exchange risk. Our exposure to significant market risks include outstanding borrowings under our floating rate credit facility and interest rate risks resulting from the use of an interest rate swap contract that we entered into in August 2001. Management does not use derivative financial instruments for trading purposes or to speculate on changes in interest rates or commodity prices.

As a result, our exposure to changes in interest rates results from our short-term and long-term debt with both fixed and floating interest rates. The following table presents principal or notional amounts (stated in thousands) and related interest rates by year of maturity for our debt obligations and their indicated fair market value at September 30, 2001:

	2002	2003	2004	2005	2006	Thereafter	Total
Liabilities -- Debt:							
Variable Rate (Credit Facility)...............	$ --	$ --	$12,000	$ --	$ --	$ --	$ 12,000
Average Interest Rate........................	7.56%	7.56%	7.56%	--	--	--	7.56%
Fixed Rate (Senior Subordinated Notes).........	$ --	$ --	$ --	$ --	$ --	$275,000	$275,000
Interest Rate.................................	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%
Fair Value of Debt:							
Variable Rate.................................							$ 12,000
Fixed Rate....................................							$242,138
Interest Rate Swap:							
Pay variable/receive fixed....................	$ --	$ --	$ --	$ --	$ --	$100,000	$100,000
Average rate paid (3-Month LIBOR plus 3.49%)...	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%
Fixed rate received...........................	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%
Fair Value of Interest Rate Swap................							$ 3,159

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 as of September 30, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended September 30, 2001. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 consolidated financial position of Integrated Electrical Services, Inc., and subsidiaries as of September 30, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Houston, Texas
November 12, 2001

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Information)	September 30, 2000	September 30, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 770	$ 3,475
Accounts receivable:		
Trade, net of allowance of $7,121 and $5,206 respectively	300,038	275,922
Retainage	67,851	64,933
Related party	256	222
Costs and estimated earnings in excess of billings on uncompleted contracts	51,119	62,249
Inventories	16,861	21,855
Prepaid expenses and other current assets	8,857	23,858
Total current assets	445,752	452,514
PROPERTY AND EQUIPMENT, net	61,367	70,343
GOODWILL, net	496,212	482,654
OTHER NONCURRENT ASSETS, net	16,659	27,992
Total assets	$1,019,990	$1,033,503
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt and current maturities of long-term debt	$ 93,903	$ 679
Accounts payable and accrued expenses	202,047	164,272
Income taxes payable	1,166	700
Billings in excess of costs and estimated earnings on uncompleted contracts	56,993	50,234
Total current liabilities	354,109	215,885
LONG-TERM BANK DEBT	--	12,000
OTHER LONG-TERM DEBT, net of current maturities	1,162	872
SENIOR SUBORDINATED NOTES, net	148,927	273,210
OTHER NONCURRENT LIABILITIES	8,043	2,892
Total liabilities	512,241	504,859
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 authorized, none issued and outstanding	--	--
Common stock, $.01 par value, 100,000,000 shares authorized, 38,099,079 and 38,331,672 shares issued, respectively	381	383
Restricted voting common stock, $.01 par value, 2,655,709 and 2,605,709 shares issued, authorized and outstanding, respectively	27	26
Additional paid-in capital	427,332	428,640
Treasury stock, at cost, none and 1,245,879 shares, respectively	--	(9,181)
Retained earnings	80,009	108,719
Accumulated other comprehensive income	--	57
Total stockholders' equity	507,749	528,644
Total liabilities and stockholders' equity	$1,019,990	$1,033,503

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 Share Information)	Year Ended September 30, 2000	1999	2001
REVENUES	$1,035,888	$1,672,288	$1,693,213
COST OF SERVICES (including depreciation)	816,715	1,372,537	1,385,589
Gross profit	219,173	299,751	307,624
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	113,871	221,519	214,073
GOODWILL AMORTIZATION	9,305	13,211	12,983
Income from operations	95,997	65,021	80,568
OTHER INCOME (EXPENSE):			
Interest expense	(13,145)	(23,230)	(26,053)
Other, net	603	1,008	(134)
Other expense, net	(12,542)	(22,222)	(26,187)
INCOME BEFORE INCOME TAXES	83,455	42,799	54,381
PROVISION FOR INCOME TAXES	35,348	21,643	25,671
NET INCOME	$ 48,107	$ 21,156	$ 28,710
EARNINGS PER SHARE:			
Basic	$ 1.41	$ 0.53	$ 0.71
Diluted	$ 1.39	$ 0.52	$ 0.70
SHARES USED IN THE COMPUTATION OF EARNINGS PER SHARE:			
Basic	34,200,532	40,207,940	40,402,533
Diluted	34,613,644	40,410,400	40,899,790

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Restricted Voting
Compre- Common Stock
Common Stock Treasury
Stock Additional (In
Thousands, Except Share
hensive ---------------
---- -----------------

Paid-In Retained
Information) Income
Shares Amount Shares
Amount Shares Amount
Capital Earnings - ----

----------- BALANCE,
September 30,
1998....................
28,105,363 $281
2,655,709 $27 -- $ -- $
291,650 $ 10,746
Issuance of stock for
acquisitions...........
7,755,586 78 -- -- -- -
- 115,074 -- Exercise
of stock options
124,889 1 -- -- -- --
1,202 -- Net
income............... $
48,107 -- -- -- -- -- -
- -- 48,107 --------
Comprehensive
income..... $ 48,107
======== --------------

------- BALANCE,
September 30,
1999....................
35,985,838 360
2,655,709 27 -- --
407,926 58,853 Issuance
of stock for
acquisitions...........
1,737,522 17 -- -- -- -
- 17,045 -- Issuance of
stock........ 375,499 4
-- -- -- -- 2,358 --
Exercise of stock
options 220 -- -- -- --
-- 3 -- Net
income............... $
21,156 -- -- -- -- -- -
- -- 21,156 --------
Comprehensive
income..... $ 21,156
======== --------------

------- BALANCE,
SEPTEMBER 30,
2000....................
38,099,079 381
2,655,709 27 -- --
427,332 80,009 ISSUANCE
OF STOCK........
225,424 2 (50,000) (1)
-- -- 1,037 -- PURCHASE
OF TREASURY
STOCK...................

-- -- -- -- (1,459,573) (10,376) -- -- ISSUANCE OF STOCK UNDER EMPLOYEE STOCK PURCHASE PLAN.................... -- -- -- -- 207,642 1,173 (193) -- EXERCISE OF STOCK OPTIONS................. 7,169 -- -- -- 6,052 22 464 -- UNREALIZED HOLDING GAIN ON SECURITIES, NET OF TAX..................... $ 57 -- -- -- -- -- -- -- -- NET INCOME............... 28,710 -- -- -- -- -- -- -- 28,710 -------- COMPREHENSIVE INCOME..... $ 28,767 ======== ------------- ---------------------- ---------------------- ---------------------- ------- BALANCE, SEPTEMBER 30, 2001.................... 38,331,672 $383 2,605,709 $26 (1,245,879) $ (9,181) $ 428,640 $ 108,719 - --- ---------------------- ---------------------- ---------------------- ---------------------- ---------------------- ------------

Accumulated Other Total (In Thousands, Except Share Comprehensive Stockholders' Information) Income Equity - -------------- ------------- --------- --------------------

BALANCE, September 30, 1998.................... $-- $ 302,704 Issuance of stock for acquisitions........... -- 115,152 Exercise of stock options -- 1,203 Net income............... -- 48,107 Comprehensive income..... ----------- ------------------

BALANCE, September 30, 1999.................... -- 467,166 Issuance of stock for acquisitions........... -- 17,062 Issuance of stock........ -- 2,362 Exercise of stock options -- 3 Net income............... -- 21,156 Comprehensive income..... ----------- ------------------

BALANCE, SEPTEMBER 30, 2000.................... -- 507,749 ISSUANCE OF STOCK........ -- 1,038 PURCHASE OF TREASURY STOCK................... -- (10,376) ISSUANCE OF STOCK UNDER EMPLOYEE STOCK PURCHASE PLAN....................

-- 980 EXERCISE OF
STOCK
OPTIONS.................
-- 486 UNREALIZED
HOLDING GAIN ON
SECURITIES, NET OF
TAX.....................
57 57 NET
INCOME............... -
- 28,710 COMPREHENSIVE
INCOME..... -----------

BALANCE, SEPTEMBER 30,
2001....................
$57 $ 528,644 - -------

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) Year Ended September 30,	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 48,107	$ 21,156	$ 28,710
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Non-cash compensation charge	--	5,378	568
Depreciation and amortization	16,947	32,656	30,345
Allowance for doubtful accounts	871	1,768	912
Deferred income tax benefit	(2,788)	(177)	(4,938)
Gain on sale of property and equipment	(198)	(145)	(287)
Changes in operating assets and liabilities, net of non-cash transactions:			
(Increase) decrease in:			
Accounts receivable	(54,456)	(82,917)	26,163
Inventories	(472)	(2,900)	(4,979)
Costs and estimated earnings in excess of billings on uncompleted contracts	(12,656)	(11,489)	(10,785)
Prepaid expenses and other current assets	(2,333)	(1,096)	(15,640)
Increase (decrease) in:			
Accounts payable and accrued expenses	6,585	72,763	(37,831)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,575)	15,131	(6,414)
Income taxes payable and other current liabilities	(8,087)	(2,880)	(250)
Other, net	3,789	(4,034)	3,060
Net cash provided by (used in) operating activities	(6,266)	43,214	8,634
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	753	2,742	1,467
Additions of property and equipment	(12,888)	(28,381)	(25,801)
Purchase of businesses, net of cash acquired	(106,476)	(33,225)	(233)
Investments in marketable securities and other	--	(1,670)	(5,599)
Additions to notes receivable from affiliate	--	--	(1,250)
Net cash used in investing activities	(118,611)	(60,534)	(31,416)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings of debt	270,388	63,434	231,744
Repayments of debt	(152,070)	(48,278)	(192,811)
Purchase of treasury stock	--	--	(10,376)
Payments for debt issuance costs	(5,554)	--	(5,358)
Proceeds from exercise of stock options	461	3	270
Proceeds from issuance of stock	--	--	1,038
Proceeds from issuance of stock under employee stock purchase plan	--	--	980
Net cash provided by financing activities	113,225	15,159	25,487
NET INCREASE (DECREASE) IN CASH	(11,652)	(2,161)	2,705
CASH AND CASH EQUIVALENTS, beginning of period	14,583	2,931	770
CASH AND CASH EQUIVALENTS, end of period	$ 2,931	$ 770	$ 3,475

SUPPLEMENTAL

DISCLOSURE OF CASH FLOW INFORMATION: Cash paid during the year for:

Interest..	$ 11,432	$ 23,151	$ 23,793
Income taxes...	38,214	24,832	30,667

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS:

Integrated Electrical Services, Inc. (the "Company" or "IES"), a Delaware corporation, was founded in June 1997 to create a leading national provider of electrical services, focusing primarily on the commercial and industrial, residential, communications solutions and service and maintenance markets.

In the course of its operations, the Company is subject to certain risk factors, including but not limited to: exposure to downturns in the economy, risks related to its acquisition strategy, risks related to management of internal growth and execution of strategy, management of external growth, availability of qualified employees, competition, seasonality, risks associated with contracts, significant fluctuations in quarterly results, recoverability of goodwill, collectibility of receivables, dependence on key personnel and risks associated with the availability of capital and with debt service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of IES, its wholly owned subsidiaries, and certain investments. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year consolidated financial statements to conform with the presentation used in 2001.

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 generally using the first-in, first-out (FIFO) method.

Marketable Securities and Equity Investment

At September 30, 2001, the Company has a 20.6% equity interest in Energy Photovoltaics, Inc. (EPV) of $4.9 million which is included in other noncurrent assets. The Company accounts for this investment under the equity method of accounting in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." In the year ended September 30, 2001, the Company recognized a $0.4 million loss as its portion of this investment's losses. This amount is included as a component of other income/expense in the Company's consolidated statement of operations. None of the Company's investments qualified for accounting treatment under the equity method of accounting as of September 30, 2000. Additionally, the Company has notes receivable totaling approximately $1.3 million with EPV at September 30, 2001. See Note 13 for further commitments.

The Company accounts for all other marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. The Company has certain marketable securities that are categorized as "available for sale" and are carried at fair value and included in other noncurrent assets. Unrealized holding gains and losses, net of taxes, are reflected in accumulated other comprehensive income (loss) included in stockholders' equity until realized. During the year ended September 30, 2001, the Company disposed of one of its' available for sale investments for approximately $0.3 million and realized a loss of $0.7 million. Such loss is included as a component of other income/expense in the Company's consolidated statement of operations for the year ended September 30, 2001. At September 30, 2000 and 2001, the Company's investments in marketable securities have fair values of $1.7 million and $1.5 million (cost of $1.7 million and $1.4 million), respectively.

Property and Equipment

Additions of 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 $6,728,000, $17,970,000 and $15,757,000 for the years ended September 30, 1999, 2000 and 2001, respectively.

In accordance with its ongoing review of capitalized software, during 2000, the Company curtailed the development of a complex and proprietary information system. This comprehensive information system had been under development for approximately one year. After a period of field-testing, the Company determined that it was necessary to significantly alter the technological architecture of the system in order to reduce ongoing support, maintenance and communications costs. Accordingly, the Company recorded a pretax charge of approximately $6.8 million, of which $5.7 million was included in depreciation expense for the year, to write-off the carrying value of the software costs, development costs and certain hardware and network infrastructure costs.

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 statement 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 estimated fair market value of the net assets acquired. Goodwill is amortized on a straight-line basis over 40 years. As of September 30, 2000 and 2001, accumulated amortization was approximately $25,761,000 and $38,744,000, respectively.

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. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset will be compared to the asset's carrying amount to determine if such an impairment exists.

Debt Issuance Costs

Debt issuance costs related to the Company's credit facility and the senior subordinated notes are included in other noncurrent assets and are amortized to interest expense over the scheduled maturity of the debt. As of September 30, 2000 and 2001, accumulated amortization of debt issuance costs were approximately $2,458,000 and $1,871,000, respectively. Debt issuance costs of $1,918,000 associated with the Company's previous credit facility, as amended, were fully amortized during the year ended September 30, 2001. During the year ended September 30, 2001, the Company capitalized $5.4 million of offering costs incurred in connection with the issuance of the senior subordinated notes and obtaining its new credit facility.

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 units installed, hours expended or some other measure of progress. Revenues from construction contracts are recognized on the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Percentage-of-completion for construction contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. The Company generally considers contracts to be substantially complete upon departure from the work site and acceptance by the customer. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Changes in job performance, job conditions, estimated contract costs

and profitability and final contract settlements may result in revisions to costs and income and the effects of these revisions are recognized in the period in which the revisions are determined. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The balances billed but not paid by customers pursuant to retainage provisions in 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 which management believes will be billed and collected within the subsequent year. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts for unknown collection issues in addition to reserves for specific accounts receivable where collection is considered doubtful.

Income Taxes

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

The Company files a consolidated federal income tax return, which includes the operations of all acquired businesses for periods subsequent to their respective acquisition dates. The acquired businesses file "short period" federal income tax returns for the period from their last fiscal year through their respective acquisition dates.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used in the Company's revenue recognition of construction in progress, allowance for doubtful accounts and self insured claims liability.

Self-Insurance

The Company retains the risk for worker's compensation, employer's liability, auto liability, general liability and employee group health claims, resulting from uninsured deductibles per accident or occurrence which are subject to annual aggregate limits. Losses up to the deductible amounts are accrued based upon the Company's known claims incurred and an estimate of claims incurred but not reported. The accruals are based upon known facts and historical trends and management believes such accruals to be adequate.

Realization of Long-Lived Assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", the Company evaluates the recoverability of property and equipment or other assets, if facts and circumstances indicate that any of those assets might be impaired. 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 has occurred. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. To date, the Company has not recorded any such impairments.

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 homebuilders 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 manage potential credit risk. The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

The Company had no single customer accounting for more than 5% of its revenues for the year ended September 30, 2001. During the year ended September 30, 2000, the Company had one customer that represented 11% of its revenues. Excluding that customer, the Company had no single customer accounting for more than 5% of its revenues. During the year ended September 30, 1999, the Company had no single customer accounting for more than 5% of its revenues.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, receivables from related parties, retainage receivables, notes receivable, accounts payable, a line of credit, notes and bonds payable, long-term debt and an interest rate swap agreement. The Company's senior subordinated notes had a carrying value, excluding unamortized discount, at September 30, 2000 and 2001 of $150.0 million and $275.0 million, respectively. The fair value of the Company's senior subordinated notes at September 30, 2000 and 2001 was $132.4 million and $242.1 million, respectively. The fair value of the Company's interest rate swap at September 30, 2001 was $3.2 million. Other than the senior subordinated notes and the interest rate swap agreement, the Company believes that the carrying value of financial instruments on the accompanying consolidated balance sheets approximates their fair value.

Subsidiary Guaranties

All of the Company's operating income and cash flows are generated by its wholly owned subsidiaries, which are the subsidiary guarantors of the Company's outstanding 9 3/8% Senior Subordinated Notes due 2009 (the "Senior Subordinated Notes"). The Company is structured as a holding company and substantially all of its assets and operations are held by its subsidiaries. There are currently no significant restrictions on the Company's ability to obtain funds from its subsidiaries by dividend or loan. The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of the Company; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the Senior Subordinated Notes; and (iii) the aggregate assets, liabilities, earnings, and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis. As a result, the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

Earnings per Share

The following table reconciles the components of the basic and diluted earnings per share for the three years ended September 30, 1999, 2000 and 2001 (in thousands, except share information):

	Year Ended September 30,		
	1999	2000	2001
Numerator:			
Net income	$ 48,107	$ 21,156	$ 28,710
Denominator:			
Weighted average common shares outstanding -- basic	34,200,532	40,207,940	40,402,533
Effect of dilutive stock options	413,112	202,460	497,257
Weighted average common and common equivalent shares outstanding -- diluted	34,613,644	40,410,400	40,899,790
Earnings per share:			
Basic	$ 1.41	$ 0.53	$ 0.71
Diluted	$ 1.39	$ 0.52	$ 0.70

For the years ended September 30, 1999, 2000 and 2001, exercisable stock options of 1.0 million, 4.4 million and 4.4 million, respectively, were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the Company's common stock.

New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101 (SAB 101). SAB 101 reflects the basic principles of revenue recognition in existing accounting principles generally accepted in the United States. SAB 101 does not supersede any existing authoritative literature. The Company recognizes revenue from construction contracts on the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts". The adoption of SAB 101 did not have an impact on the results of operations of the Company.

Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138, was effective for the Company on October 1, 2000. These statements require that all derivative instruments (such as an interest rate swap contract), be recorded as either assets or liabilities measured at fair value. Changes in the derivative's fair value are to be recognized currently in earnings unless specific hedge accounting criteria are met. The criteria for cash flow and fair value hedges require that hedging relationships must be designated and documented upon inception. The documentation must include the consideration of the hedged item, the specific risk being hedged, identification of the hedging instrument, the Company's risk management strategy, and how effectiveness will be assessed. The effectiveness assessment must have a historical basis that supports the assertion that the hedge will be effective prospectively. At the date of adoption, there was no financial impact on the Company's consolidated financial statements as the Company was not a party to any derivative instruments. In August 2001, the Company entered into an interest rate swap contract to manage specific interest rate risks. See Note 6.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations". SFAS No. 141 establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also requires that acquired intangible assets be recognized as assets apart from goodwill if they meet one of two specified criteria. Additionally, the statement adds certain disclosure requirements to those required by APB 16, including disclosure of the primary reasons for the business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. This statement is required to be applied to all business combinations initiated after June 30, 2001 and to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001 or later. Use of the pooling-of-interests method is prohibited. The adoption of SFAS No. 141 did not have an impact on the Company's financial condition or results of operations.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142, which must be applied to fiscal years beginning after December 15, 2001, modifies the accounting and reporting of goodwill and intangible assets. The pronouncement requires entities to discontinue the amortization of goodwill, reallocate all existing goodwill among its reporting segments based on criteria set by SFAS No. 142 and perform initial impairment tests by applying a fair-value-based analysis on the goodwill in each reporting segment. Any impairment at the initial adoption date shall be recognized as the effect of a change in accounting principle. Subsequent to the initial adoption, goodwill shall be tested for impairment annually or more frequently if circumstances indicate a possible impairment.

Under SFAS No. 142, entities are required to determine the useful life of other intangible assets and amortize the value over the useful life. If the useful life is determined to be indefinite, no amortization will be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life should be reassessed. Other intangible assets are required to be tested for impairment in a manner similar to goodwill. At September 30, 2001, the Company's net goodwill was approximately $482.7 million, and annual amortization of such goodwill was approximately $13.0 million. The Company expects to adopt SFAS No. 142 during its first fiscal quarter of 2002. The Company believes the impairment charge upon adoption will be material, and based on current market capitalization could equate to a substantial amount of its recorded goodwill. The Company does not believe this adoption will impact its free cash flows, its operating income or compliance with its debt instruments.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company is in the process of assessing the impact that the adoption of this standard will have on its financial position and results of operations.

3. BUSINESS COMBINATIONS:

Purchases

Subsequent to the IPO, and through September 30, 2001, IES has acquired 70 businesses in transactions accounted for as purchases. The total consideration paid in these transactions was approximately $232.9 million in cash and 14.7 million shares of common stock.

In connection with the acquisitions discussed above, goodwill was determined as follows for each of the years ending September 30, 1999, 2000 and 2001 (in thousands):

	1999	2000	2001
Fair value of assets acquired, net of cash acquired	$115,645	$ 23,726	$ 239
Liabilities assumed	(77,641)	(15,477)	(159)
Net assets acquired, net of cash	38,004	8,249	80
Cash paid, net of cash acquired	106,476	33,225	233
Issuance of common stock	115,152	17,062	--
Total consideration paid	221,628	50,287	233
Goodwill	$183,624	$ 42,038	$ 153

Pro Forma Presentation

The unaudited pro forma data presented below reflect the results of operations of IES and the businesses acquired during fiscal 1999 and 2000 assuming the transactions were completed on October 1, 1998 (in thousands):

	Year Ended September 30,	
(Unaudited)	1999	2000
Revenues	$1,376,763	$1,687,650
Net income	$ 65,164	$ 22,440
Basic earnings per share	$ 1.91	$ 0.57
Diluted earnings per share	$ 1.88	$ 0.56

The unaudited pro forma data summarized above also reflects pro forma adjustments primarily related to: reductions in general and administrative expenses for contractually agreed reductions in owners' compensation, estimated goodwill amortization for the excess of consideration paid over the net assets acquired assuming a 40-year amortization period, interest expense on borrowings incurred to fund acquisitions, elimination of interest income, and additional income tax expense based on the Company's effective income tax rate. The unaudited pro forma financial data does not purport to represent what the Company's combined results of operations would actually have been if such transactions had in fact occurred on October 1, 1998, and are not necessarily representative of the Company's results of operations for any future period.

4. PROPERTY AND EQUIPMENT:

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

	Estimated Useful Lives in Years	September 30, 2000	September 30, 2001
Land	N/A	$ 1,621	$ 1,621
Buildings	5-32	6,876	7,153
Transportation equipment	3-5	30,119	33,109
Machinery and equipment	3-10	33,442	46,985
Leasehold improvements	5-32	8,231	12,992
Furniture and fixtures	5-7	7,390	9,182
		87,679	111,042
Less -- Accumulated depreciation and amortization		(26,312)	(40,699)
Property and equipment, net		$ 61,367	$ 70,343

5. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	September 30, 2000	September 30, 2001
Balance at beginning of period	$ 5,709	$ 7,121
Additions from acquisitions	948	--
Additions to costs and expenses	1,768	912
Deductions for uncollectible receivables written off, net of recoveries	(1,304)	(2,827)
Balance at end of		

period.................................... $ 7,121 $
5,206 - ---

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

September 30,	2000	2001
Accounts payable, trade	$105,814	$ 78,948
Accrued compensation and benefits	57,561	53,057
Other accrued liabilities	38,672	32,267
	$202,047	$164,272

Contracts in progress are as follows (in thousands):

September 30,	2000	2001
Costs incurred on contracts in progress	$ 1,163,463	$ 1,297,850
Estimated earnings	220,411	254,981
	1,383,874	1,552,831
Less -- Billings to date	(1,389,748)	(1,540,816)
	$ (5,874)	$ 12,015
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 51,119	$ 62,249
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(56,993)	(50,234)
	$ (5,874)	$ 12,015

6. DEBT:

Debt consists of the following (in thousands):

September 30,	2000	2001
Secured credit facility with a bank group, due July 30, 2001, at a weighted average interest rate of 8.00%	$ 93,000	$ --
Secured credit facility with a group of lending institutions, due May 22, 2004, at a weighted average interest rate of 7.56%	--	12,000
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 9.50%	150,000	150,000
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 10.00%	--	125,000
Other	2,065	1,551
	245,065	288,551
Less -- short-term debt and current maturities of long-term debt	(93,903)	(679)
Less -- unamortized discount on Senior Subordinated Notes	(1,073)	(4,949)
Total long-term debt	$150,089	$282,923

Future payments due on debt at September 30, 2001 are as follows (in thousands):

2002	$ 679
2003	614
2004	12,170
2005	73
2006	15
Thereafter	275,000
Total	$288,551

Credit Facility

On May 22, 2001, the Company replaced its $175.0 million credit facility with a bank group, with a new $150.0 million revolving credit facility with a group of lending institutions to be used for working capital, capital expenditure, acquisitions and other corporate purposes, that matures May 22, 2004 (the "Credit Facility"). Amounts borrowed under the Credit Facility bear interest at an annual rate equal to either (a) the London interbank offered rate (LIBOR) plus 1.75 percent to 2.75 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 or (ii) the Federal funds rate plus 0.50 percent plus an additional 0.25 percent to 1.25 percent, as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.50 percent are assessed 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. Borrowings under the Credit Facility are limited to 66 2/3% of outstanding receivables (as defined in the Agreement). 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 repurchase shares of common stock, to incur other indebtedness and requires the Company to comply with various affirmative and negative covenants including certain financial covenants. Among other restrictions, the financial covenants include minimum net worth requirements, a maximum total consolidated funded debt to EBITDA ratio, a maximum senior consolidated debt to EBITDA ratio, and a minimum interest coverage ratio. The Company was in compliance with the financial covenants at September 30, 2001. As of September 30, 2001, the Company had borrowings outstanding under its Credit Facility of $12.0 million, letters of credit outstanding under its Credit Facility of $0.9 million, $1.6 million of other borrowings and available borrowing capacity under its Credit Facility of $137.1 million.

Senior Subordinated Notes

On January 25, 1999 and May 29, 2001, the Company completed offerings of $150.0 million and $125.0 million Senior Subordinated Notes, respectively. The offering completed on May 29, 2001, yielded $117.0 million in proceeds to the Company, net of a $4.2 million discount and $3.8 million in offering costs. The proceeds from the May 29, 2001, offering were used primarily to repay amounts outstanding under the Credit Facility. The Senior Subordinated Notes bear interest at 9 3/8% and mature on February 1, 2009. The Company pays interest on the Senior Subordinated Notes on February 1 and August 1 of each year. The Senior Subordinated Notes are unsecured obligations and are subordinated to all existing and future senior indebtedness. The Senior Subordinated Notes are guaranteed on a senior subordinated basis by all of the Company's subsidiaries. Under the terms of the Senior Subordinated Notes, the Company is required to comply with various affirmative and negative covenants including: (i) restrictions on additional indebtedness, and (ii) restrictions on liens, guarantees and dividends.

Interest Rate Swap

The Company entered into an interest rate swap agreement in August 2001, designated as a fair value hedge, in order to minimize the risks and cost associated with its financing activities. The interest rate swap agreement has a notional amount of $100.0 million and was established to manage the interest rate risk of the senior subordinated note obligations. Under the swap agreement, the Company pays the counterparty variable rate interest (3-month LIBOR plus 3.49%) and the counterparty pays the Company fixed rate interest of 9.375% on a semiannual basis over the life of the instrument. Pursuant to SFAS No. 133, as amended, such interest rate swap contract is reflected at fair value on the Company's consolidated balance sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligation attributable to the interest rate being hedged. The net effect of this accounting on the Company's operating results is that interest expense on the portion of fixed-rate debt being hedged is generally recorded based on variable interest rates. The interest rate swap is considered to be perfectly effective because it qualifies for the "short-cut" method under SFAS No. 133 and therefore there is no net change in fair value to be recognized in income. At September 30, 2001, the interest rate swap had a notional value of $100.0 million and a fair value of $3.2 million.

The fair value of this contract is included in the balance sheet in other noncurrent assets. The following table presents the balance sheet effect on the Senior Subordinated Notes (in thousands):

	September 30, 2000	September 30, 2001
Senior Subordinated Notes, due February 1, 2009	$150,000	$275,000
Less-unamortized discount on Senior Subordinated Notes	(1,073)	(4,949)
Add: Fair value of interest rate hedge	--	3,159
	$148,927	$273,210

7. LEASES:

The Company leases various facilities under noncancelable operating leases. For a discussion of leases with certain related parties see Note 11. Rental expense for the years ended September 30, 1999, 2000 and 2001 was approximately $4,849,000, $7,543,000 and $9,724,000, respectively. Future minimum lease payments under these noncancelable operating leases with terms in excess of one year are as follows (in thousands):

YEAR ENDED SEPTEMBER 30	
2002	$10,385
2003	7,871
2004	6,196
2005	4,015
2006	1,793
Thereafter	2,830
Total	$33,090

8. INCOME TAXES:

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

	Year Ended September 30, 1999	2000	2001
Federal:			
Current	$33,317	$19,345	$24,592
Deferred	(2,558)	(157)	(2,025)
State:			
Current	4,819	2,475	6,017
Deferred	(230)	(20)	(2,913)
	$35,348	$21,643	$25,671

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, 1999	2000	2001

Provision at the statutory rate	$29,209	$14,980	$19,033
Increase resulting from:			
Non-cash restricted stock compensation charge	--	611	88
Non-deductible goodwill	2,838	4,070	4,208
State income taxes, net of benefit for federal deduction	2,983	1,596	2,018
Non-deductible expenses	318	386	324
	$35,348	$21,643	$25,671

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

Year Ended September 30,	2000	2001
Deferred income tax assets:		
Allowance for doubtful accounts	$ 2,492	$ 2,010
Accrued expenses	9,507	6,805
Other	2,626	2,824
Total deferred income tax assets	14,625	11,639
Deferred income tax liabilities:		
Property, equipment and goodwill	(8,559)	(3,562)
Deferred contract revenue and other	(5,618)	(2,691)
Total deferred income tax liabilities	(14,177)	(6,253)
Net deferred income tax assets	$ 448	$ 5,386

The Company does not believe that a valuation allowance against the deferred income tax assets is necessary as it believes the assets will be fully realized.

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

September 30,	2000	2001
Current deferred income taxes:		
Assets	$13,567	$ 9,075
Liabilities	(5,664)	(1,960)
	7,903	7,115
Long-term deferred income taxes:		
Assets	$ 1,059	$ 2,564
Liabilities	(8,514)	(4,293)
	(7,455)	(1,729)
Net deferred income tax assets	$ 448	$ 5,386

9. OPERATING SEGMENTS

The Company follows SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Certain information is disclosed, per SFAS No. 131, based on the way management organizes financial information for making operating decisions and assessing performance. The Company's reportable segments are strategic business units that offer products and services to four distinct customer groups. They are managed separately because each business requires different operating and marketing strategies.

Prior to October 1, 2000, the Company was organized in a single segment. During fiscal 2000, the Company aligned its operations among two complementary core businesses: electrical contracting and communications solutions. Within the electrical contracting business, the Company has three reportable segments: commercial/industrial, residential and service and maintenance markets. The commercial/industrial segment provides installations, renovations and upgrades and replacement services in office buildings, high-rise apartments and condominiums, theaters, restaurants, hotels, hospitals and critical-care facilities, school districts, manufacturing and processing facilities, military installations, airports, refineries and petrochemical and power plants. The residential segment consists of installations, replacements and renovation services in single family and low-rise multifamily housing units. The service and maintenance segment provides maintenance and replacement services from service calls and routine maintenance contracts. The communications solutions business provides installation, service and maintenance, design, engineering and support services to infrastructure services customers.

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income from operations of the respective business units prior to unallocated home office expenses. No significant transactions have occurred between the Company's business segments. Management intends to continue to focus on its internal allocation methods for allocating results to business segments.

Segment information for the years ended September 30, 1999, 2000 and 2001 are as follows (in thousands):

Fiscal Year Ended September 30, 1999

	Electrical Contracting						
	Commercial/ Industrial	Residential	Service And Maintenance	Subtotal	Communications Solutions	Corporate And Other	Total
Revenues	$ 716,340	$175,978	$ 69,370	$ 961,688	$ 74,200	$ --	$1,035,888
Cost of services	583,440	134,938	45,967	764,345	52,370	--	816,715
Gross profit	132,900	41,040	23,403	197,343	21,830	--	219,173
Selling, general and administrative	68,335	16,524	6,617	91,476	10,388	12,007	113,871
Goodwill amortization	6,993	1,056	677	8,726	579	--	9,305
Operating Income	$ 57,572	$ 23,460	$ 16,109	$ 97,141	$ 10,863	$(12,007)	$ 95,997
Other Data:							
Depreciation expense	$ 4,419	$ 493	$ 428	$ 5,340	$ 1,187	$ 201	$ 6,728
Capital expenditures	7,089	880	687	8,656	2,456	1,776	12,888
Total assets	518,157	101,610	33,725	653,492	51,718	153,282	858,492

Fiscal Year Ended September 30, 2000

	Electrical Contracting						
	Commercial/ Industrial	Residential	Service And Maintenance	Subtotal	Communications Solutions	Corporate And Other	Total
Revenues	$1,126,792	$250,877	$132,167	$1,509,836	$162,452	$ --	$1,672,288
Cost of services	950,131	195,913	102,849	1,248,893	123,644	--	1,372,537
Gross profit	176,661	54,964	29,318	260,943	38,808	--	299,751
Selling, general and administrative	107,859	23,557	12,651	144,067	22,743	54,709	221,519
Goodwill amortization	9,343	1,505	1,096	11,944	1,267	--	13,211
Operating Income	$ 59,459	$ 29,902	$ 15,571	$ 104,932	$ 14,798	$(54,709)	$ 65,021
Other Data:							
Depreciation expense	$ 7,613	$ 702	$ 893	$ 9,208	$ 2,599	$ 6,163	$ 17,970
Capital expenditures	13,337	1,254	1,564	16,155	5,377	6,849	28,381
Total assets	663,810	144,856	61,102	869,768	113,229	36,993	1,019,990

Fiscal Year Ended September 30, 2001

	Electrical Contracting						
	Commercial/ Industrial	Residential	Service And Maintenance	Subtotal	Communications Solutions	Corporate And Other	Total
Revenues	$1,120,341	$257,440	$135,594	$1,513,375	$179,838	$ --	$1,693,213
Cost of services	936,880	198,908	104,507	1,240,295	145,294	--	1,385,589
Gross profit	183,461	58,532	31,087	273,080	34,544	--	307,624
Selling, general and administrative	104,199	30,977	13,064	148,240	20,488	45,345	214,073
Goodwill amortization	9,115	1,505	1,096	11,716	1,267	--	12,983
Operating Income	$ 70,147	$ 26,050	$ 16,927	$ 113,124	$ 12,789	$(45,345)	$ 80,568
Other Data:							
Depreciation expense	$ 9,558	$ 1,745	$ 994	$ 12,297	$ 2,529	$ 931	$ 15,757
Capital expenditures	8,471	1,936	3,587	13,994	4,796	7,011	25,801
Total assets	673,992	112,779	81,573	868,344	94,617	70,542	1,033,503

The Company does not have significant operations or long-lived assets in countries outside of the United States.

10. STOCKHOLDERS' EQUITY:

Restricted Voting Common Stock

The shares of restricted voting 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 to not otherwise vote with respect to the election of directors and are entitled to one-half of one vote for each share held on all other matters. Each share of restricted voting common stock will convert into common stock upon disposition by the holder of such shares.

1997 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 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. Options generally expire 10 years from the date of grant, one year following termination of employment due to death or disability, or three months following termination of employment by means other than death or disability.

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. In May 2000, the Company's board of directors amended the Directors' Plan. The number of shares authorized and reserved for issuance under the Directors' Plan is 250,000 shares. Each nonemployee director is granted options to purchase 3,000 shares at the time of an initial election of such director. In addition, each director will be automatically granted options to purchase 3,000 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 Directors' Plan discussed above.

1999 Incentive Compensation Plan

In November 1999, the Board of Directors adopted the 1999 Incentive Compensation Plan (the "1999 Plan"). The 1999 Plan, as amended, authorizes the Compensation Committee of the Board of Directors or the Board of Directors to grant eligible participants of the Company awards in the form of options, stock appreciation rights, restricted stock or other stock based awards. The Company has up to 5.5 million shares of common stock authorized for issuance under the 1999 Plan.

In December 1999 and March 2000, the Company granted restricted stock awards of 609,306 and 400,000, respectively, under its stock plans to certain employees. The December 1999 awards vested in equal installments on May 31, 2000 and August 31, 2000, provided the recipient was still employed by the Company. The March 2000 award vests in equal installments on March 20th of each year through 2004, provided the recipient is still employed by the Company. The market value of the underlying stock on the date of grant for the December 1999 and March 2000 awards was $5.2 million and $2.3 million, respectively, which is being recognized as compensation expense over the related vesting periods. During the years ended September 30, 2000 and 2001, the Company amortized $5.4 million and $0.6 million, respectively, to expense in connection with these awards. Through September 30, 2001, 678,269 shares of these common stock awards vested and 31,037 shares of common stock were forfeited. To fund employee tax liabilities, 234,234 of these awards were cancelled and 444,035 of these shares were issued and are currently outstanding. At September 30, 2001, there were 300,000 shares of unvested common stock awards outstanding.

The following table summarizes activity under the Company's stock option and incentive compensation plans:

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 1998	3,238,951	13.48
Options Granted	1,248,125	16.93
Exercised	(316,312)	9.55
Forfeited	(420,307)	15.20
Outstanding, September 30, 1999	3,750,457	$14.81
Options Granted	1,987,482	10.18
Restricted Stock Granted	1,009,306	0.00
Exercised	(579,839)	0.00
Forfeited and Cancelled	(721,111)	13.92
Outstanding, September 30, 2000	5,446,295	$12.02
Options Granted	2,251,199	5.76
Restricted Stock Granted	43,783	0.00
Exercised	(157,004)	0.47
Forfeited and Cancelled	(655,152)	13.04
Outstanding, September 30, 2001	6,929,121	$10.06
Exercisable, September 30, 1999	$ 759,656	$14.17
Exercisable, September 30, 2000	$ 1,536,995	$13.74
Exercisable, September 30, 2001	$ 2,626,988	$12.23

Unexercised options expire at various dates from January 27, 2008 through September 30, 2011.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following subjective assumptions:

	1999	2000	2001

-- Expected dividend yield.......................................
0.00% 0.00% 0.00% Expected stock price volatility.............................
52.23% 94.42% 60.99% Weighted average risk free interest rate....................
5.24% 6.35% 5.15% Expected life of options.......................................
6 years 6 years 6 YEARS - --

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The tables below summarizes options outstanding and exercisable at September 30, 2001:

Range of Exercise Prices	Outstanding as of September 30, 2001	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable as of September 30, 2001	Weighted-Average Exercise Price
$0.0000 -- $4.6240	300,000	8.5	$ 0.0000	--	$ 0.0000
$4.6250 -- $7.8000	3,077,023	8.5	$ 5.6806	729,364	$ 5.5247
$7.8100 -- $10.5000	64,667	7.1	$ 9.4661	12,793	$ 9.6324
$10.5100 -- $15.5000	2,640,599	6.7	$13.7335	1,384,142	$13.5812
$15.5100 -- $22.1250	846,832	6.6	$18.1641	500,689	$18.3428

6,929,121
7.5
$10.0645
2,626,988
$12.2327 -

Options exercisable at September 30, 1999, 2000 and 2001 had weighted average fair values per option of $9.45, $8.10 and $3.55, respectively.

Employee Stock Purchase Plan

In February 2000, the Company's stockholders approved the Company's Employee Stock Purchase Plan (the "ESPP"), which provides for the sale of common stock to participants as defined at a price equal to the lower of 85% of the Company's closing stock price at the beginning or end of the option period, as defined. The number of shares of common stock authorized and reserved for issuance under the ESPP is 1.0 million shares. The purpose of the ESPP is to provide an incentive for employees of the Company to acquire a proprietary interest in the Company through the purchase of shares of the Company's common stock. The ESPP is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the ESPP are construed in a manner to be consistent with the requirements of that section of the Code. As of September 30, 2000, there were no shares purchased under the ESPP. During the year ended September 30, 2001, the Company issued 207,642 shares pursuant to the ESPP. For purposes of SFAS No. 123, "Accounting for Stock-Based Compensation," estimated compensation cost as it relates to the ESPP was computed for the fair value of the employees' purchase rights using the Black-Scholes option pricing model with the following assumptions for 2001: expected dividend yield of 0.00%, expected stock price volatility of 60.99%, weighted average risk free interest rate of 5.15% and an expected life of 0.5 years. The weighted average fair value per share of these purchase rights granted in 2001 was approximately $1.52.

The Company follows Accounting Principles Board ("APB") Opinion No. 25 in accounting for its stock-based compensation. Under APB Opinion No. 25, no compensation expense is recognized in the consolidated statements of operations if no intrinsic value exists at the date of grant. SFAS No. 123 requires that if a company does not record compensation expense for stock options issued to employees pursuant to APB Opinion No. 25, the company must also disclose the effects on its results of operations as if the Company has adopted SFAS 123. Had compensation costs for the Company's stock option plans, restricted stock awards granted and the ESPP been determined consistent with SFAS No. 123, the Company's net income and earnings per share would have been reduced to the following pro forma amounts (in thousands, except per share information):

	1999	2000	2001
Net income As reported	$48,107	$21,156	$28,710
Pro forma for SFAS No. 123	$42,720	$12,510	$21,630
Basic earnings per share As reported	$ 1.41	$ 0.53	$ 0.71
Pro forma for SFAS No. 123	$ 1.25	$ 0.31	$ 0.54
Diluted earnings per share As reported	$ 1.39	$ 0.52	$ 0.70
Pro forma for SFAS No. 123	$ 1.23	$ 0.31	$ 0.53

The effects of applying SFAS No. 123 in the pro forma disclosure may not be indicative of future amounts as additional awards in future years are anticipated and because the Black-Scholes option-pricing model involves subjective assumptions which may be materially different than actual amounts.

11. RELATED-PARTY TRANSACTIONS:

The Company has transactions in the normal course of business with certain affiliated companies. Amounts due from related parties at September 30, 2000 and 2001 were $256,000 and $222,000, respectively. In connection with certain of the acquisitions, subsidiaries of the Company have entered into a number of related party lease arrangements for facilities. These lease agreements are for periods generally ranging from three to five years. Related party lease expense for the years ended September 30, 1999, 2000 and 2001 were $2,850,000, $4,180,000 and $4,335,000, respectively. Future commitments with respect to these leases are included in the schedule of minimum lease payments in Note 7.

12. EMPLOYEE BENEFIT PLANS:

In November 1998, the Company established the Integrated Electrical Services, Inc. 401(k) Retirement Savings Plan (the "401(k) Plan"). All IES employees are eligible to participate subsequent to completing six months of service and attaining age twenty-one. Participants become vested in Company matching contributions following three years of service.

Certain subsidiaries of the Company do not participate in the 401(k) Plan, but instead provide various defined contribution 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 eight 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 Plans are generally at the discretion of the individual subsidiary. The aggregate contributions by the Company to the 401(k) Plan and the Plans were $1,460,000, $2,106,000 and $3,380,000 for the years ended September 30, 1999, 2000 and 2001, respectively.

13. COMMITMENTS AND CONTINGENCIES:

Subsidiaries of the Company are involved in various legal proceedings that have arisen in the ordinary course of business. While it is not possible to predict the outcome of such proceedings with certainty and it is possible that the results of legal proceedings may materially adversely affect us, in the opinion of the Company, 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. The Company expenses routine legal costs related to such proceedings as incurred.

The Company has committed to invest up to $5.0 million in EnerTech Capital Partners II L.P. ("EnerTech"). EnerTech is a private equity firm specializing in investment opportunities emerging from the deregulation and resulting convergence of the energy, utility and telecommunications industries. Through September 30, 2001, the Company had invested $1.5 million under its commitment to EnerTech.

The Company has committed to advance EPV, an affiliate, up to $1.8 million in the form of notes receivable. At September 30, 2001, the Company had notes receivable totaling approximately $1.3 million. Subsequent to September 30, 2001, EPV was advanced the remaining $0.5 million under the Company's commitment.

14. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

Quarterly financial information for the years ended September 30, 2000 and 2001 are summarized as follows (in thousands, except per share data):

Fiscal Year Ended September 30, 2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$335,191	$370,327	$452,149	$514,621
Gross profit	$ 59,620	$ 62,860	$ 78,048	$ 99,223
Net income	$ 2,603	$ (2,475)	$ 10,084	$ 10,944
Earnings per share:				
Basic	$ 0.07	$ (0.06)	$ 0.25	$ 0.27
Diluted	$ 0.07	$ (0.06)	$ 0.25	$ 0.27

FISCAL YEAR ENDED SEPTEMBER 30, 2001	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Revenues	$427,030	$418,557	$423,988	$423,638
Gross profit	$ 74,541	$ 76,749	$ 81,755	$ 74,579
Net income	$ 7,008	$ 8,075	$ 10,533	$ 3,094
Earnings per share:				
Basic	$ 0.17	$ 0.20	$ 0.26	$ 0.08
Diluted	$ 0.17	$ 0.20	$ 0.26	$ 0.08

The sum of the individual quarterly earnings per share amounts may not agree with year-to-date earnings per share as each period's computation is based on the weighted average number of shares outstanding during the period.

15. EVENT SUBSEQUENT TO DATE OF AUDITORS' REPORT (UNAUDITED):

During the first fiscal quarter of 2002, the Company implemented cost reduction procedures and terminated certain positions at the corporate office and field locations. The Company expects to incur approximately $4.0 million to $4.5 million in associated costs.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to the sections entitled "Management" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission no later than January 28, 2002.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the section entitled "Executive Compensation" in the Proxy Statement. Nothing in this report shall be construed to incorporate by reference the Board Compensation Committee Report on Executive Compensation or the Performance Graph, which are contained in the Proxy Statement, but expressly not incorporated herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the section entitled "Certain Relationships and Other Transactions" in the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements and Supplementary Data, Financial Statement Schedules and Exhibits.

See Index to Financial Statements under Item 8 of this report.

(b) Exhibits.

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, as amended (Incorporated by reference to 3.2 to the Registration Statement on Form S-4 (File No. 333-65160) 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)
4.2	Indenture, dated January 28, 1999, by and among Integrated Electrical Services, Inc. and the subsidiaries named therein and State Street Bank and Trust Company covering up to $150,000,000 9 3/8% Senior Subordinated Notes due 2009. (Incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 3 to the Registration Statement on Form S-4 (File No. 333-50031) of the Company)
4.3	Form of Integrated Electrical Services, Inc. 9 3/8% Senior Subordinated Note due 2009 (Series A) and (Series B). (Included in Exhibit A to Exhibit 4.2 to Post-Effective Amendment No. 3 to the Registration Statement on Form S-4 (File No. 333-50031) of the Company)

4.4	Indenture, dated May 29, 2001, by and among Integrated Electrical Services, Inc. and the subsidiaries named therein and State Street Bank and Trust Company covering up to $125,000,000 9 3/8% Senior Subordinated Notes due 2009. (Incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-4 (File No. 333-65160) of the Company)
4.5	Form of Integrated Electrical Services, Inc. 9 3/8% Senior Subordinated Note due 2009 (Series C) and (Series D). (Included in Exhibit A to Exhibit 4.3 to Registration Statement on Form S-4 (File No. 333-65160) of the Company)
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, as amended.
10.4	Integrated Electrical Services, Inc. 1997 Directors' Stock Plan. (Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on form 10-K for the year ended September 30, 2000)
10.5	Credit Agreement dated May 22, 2001, among the Company, as borrower, the Financial Institutions named therein, as banks, Credit Lyonnais and the Bank of Nova Scotia as syndication agents, Toronto Dominion (Texas), Inc. as documentation agent and the Chase Manhattan Bank, as administrative agent. (Incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-4 (File No. 333-65160) of the Company)
*10.6	Amendment No. 1 dated June 20, 2001, to the Credit Agreement dated May 22, 2001, among the Company, as borrower, the Financial Institutions named therein, as banks, Credit Lyonnais and the Bank of Nova Scotia as syndication agents, Toronto Dominion (Texas), Inc. as documentation agent and the Chase Manhattan Bank, as administrative agent.
*10.7	Amendment No. 2 dated November 30, 2001, to the Credit Agreement dated May 22, 2001, among the Company, as borrower, the Financial Institutions named therein, as banks, Credit Lyonnais and the Bank of Nova Scotia as syndication agents, Toronto Dominion (Texas), Inc. as documentation agent and the Chase Manhattan Bank, as administrative agent.
10.8	Integrated Electrical Services, Inc. 1999 Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended September 30, 2000)
*12	Ratio of Earnings to Fixed Charges.
*21.1	Subsidiaries of the Registrant.
*23.1	Consent of Arthur Andersen LLP.
*24	Powers of Attorney

- ---------------

* Filed herewith.

(c) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on December 13, 2001.

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ HERBERT R. ALLEN

Herbert R. Allen
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on December 13, 2001.

SIGNATURE TITLE ---- ----- ---- - /s/ HERBERT R. ALLEN President, Chief Executive Officer and Director - ---------- ---------- ---------- ---------- ---------- --- Herbert R. Allen /s/ RICHARD CHINA* Director - ---------- ---------- ---------- ---------- ---------- --- Richard China /s/ DONALD PAUL HODEL* Director - ---------- ---------- ---------- ---------- ---------- --- Donald Paul Hodel /s/ BEN L. MUELLER* Director - ---------- ---------- ---------- ---------- ---------- --- Ben L. Mueller /s/ ALAN R. SIELBECK* Director - ---------- ---------- ---------- ---------- ----------

--- Alan R. Sielbeck /s/ C. BYRON SNYDER* Chairman of the Board of Directors - --- ----- C. Byron Snyder /s/ RICHARD L. TUCKER* Director - -- --- Richard L. Tucker /s/ BOB WEIK* Director - -- --- Bob Weik /s/ JIM P. WISE* Director - -- --- Jim P. Wise /s/ JAMES D. WOODS* Director - -- --- James D. Woods /s/ WILLIAM W. REYNOLDS Chief Financial Officer and Chief Accounting Officer - -- --- William W. Reynolds *By: /s/ WILLIAM W. REYNOLDS - --

----
William W. Reynolds as attorney in fact for each of the persons indicated.

INDEX TO EXHIBITS

EXHIBIT NUMBER DESCRIPTION - - -- --------- 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, as amended (Incorporated by reference to 3.2 to the Registration Statement on Form S-4 (File No. 333-65160) 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) 4.2 Indenture, dated January 28, 1999, by and among Integrated Electrical Services, Inc. and the subsidiaries named therein and State Street Bank and Trust Company covering up to $150,000,000 9 3/8% Senior Subordinated Notes due 2009. (Incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 3 to the Registration Statement on Form S-4 (File No. 333-50031) of the Company) 4.3 Form of Integrated Electrical Services, Inc. 9 3/8% Senior Subordinated

Note due 2009 (Series A) and (Series B). (Included in Exhibit A to Exhibit 4.2 to Post-Effective Amendment No. 3 to the Registration Statement on Form S-4 (File No. 333-50031) of the Company)

4.4 Indenture, dated May 29, 2001, by and among Integrated Electrical Services, Inc. and the subsidiaries named therein and State Street Bank and Trust Company covering up to $125,000,000 9 3/8% Senior Subordinated Notes due 2009. (Incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-4 (File No. 333-65160) of the Company)

4.5 Form of Integrated Electrical Services, Inc. 9 3/8% Senior Subordinated Note due 2009 (Series C) and (Series D). (Included in Exhibit A to Exhibit 4.3 to Registration Statement on Form S-4 (File No. 333-65160) of the Company)

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, as amended. 10.4 Integrated Electrical Services, Inc. 1997 Directors' Stock Plan. (Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on form 10-K for the year ended September 30, 2000) 10.5 Credit Agreement dated May 22, 2001, among the Company, as borrower, the Financial Institutions named therein, as banks, Credit Lyonnais and the Bank of Nova Scotia as syndication agents, Toronto Dominion (Texas), Inc. as documentation agent and the Chase Manhattan Bank, as administrative agent. (Incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-4 (File No. 333-65160) of the Company) *10.6 Amendment No. 1 dated June 20, 2001, to the Credit Agreement dated May 22, 2001, among the Company, as borrower, the Financial Institutions named therein, as banks, Credit Lyonnais and the Bank of Nova Scotia as syndication agents, Toronto Dominion (Texas), Inc. as documentation agent and the Chase Manhattan Bank, as administrative agent. *10.7

Amendment No. 2 dated November 30, 2001, to the Credit Agreement dated May 22, 2001, among the Company, as borrower, the Financial Institutions named therein, as banks, Credit Lyonnais and the Bank of Nova Scotia as syndication agents, Toronto Dominion (Texas), Inc. as documentation agent and the Chase Manhattan Bank, as administrative agent. 10.8 Integrated Electrical Services, Inc. 1999 Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended September 30, 2000) *12 Ratio of Earnings to Fixed Charges. *21.1 Subsidiaries of the Registrant. *23.1 Consent of Arthur Andersen LLP. *24 Powers of Attorney

- ---------------

* Filed herewith.

EXHIBIT 10.3

INTEGRATED ELECTRICAL SERVICES, INC.
1997 STOCK PLAN
(AS AMENDED AND RESTATED THROUGH NOVEMBER 8, 2001)

SECTION 1. Purpose of the Plan.

The Integrated Electrical Services, Inc. 1997 Stock Plan (the "Plan") is intended to promote the interests of Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), by encouraging officers, employees, directors and consultants of the Company, its subsidiaries and affiliated entities to acquire or increase their equity interest in the Company and to provide a means whereby employees may develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to remain with and devote their best efforts to the business of the Company thereby advancing the interests of the Company and its stockholders. The Plan is also contemplated to enhance the ability of the Company, its subsidiaries and affiliated entities to attract and retain the services of individuals who are essential for the growth and profitability of the Company.

SECTION 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

"Affiliate" shall mean (i) any entity that, directly or through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, as determined by the Committee.

"Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Performance Award, Phantom Shares, Bonus Shares, Other Stock-Based Award or Cash Award. All Awards, other than ISOs, shall be granted solely under the Incentive Plan. Options and ISOs may be granted only under the ISO Plan.

"Award Agreement" shall mean any written agreement, contract, or other instrument or document evidencing any Award, which may, but need not, be executed or acknowledged by a Participant.

"Board" shall mean the Board of Directors of the Company.

"Bonus Shares" shall mean an award of Shares granted pursuant to Section 6(e) of the Plan.

"Cash Award" shall mean an award payable in cash granted pursuant to Section 6(g) of the Plan.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations thereunder.

"Committee" shall mean the Compensation Committee of the Board.

"Consultant" shall mean any individual who renders consulting services or advice to the Company or an Affiliate for a fee, including any individual who is a member of the Board or the Board of Directors of an Affiliate.

"Employee" shall mean any employee of the Company or an Affiliate or any person who has been extended an offer of employment by the Company or an Affiliate.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean, with respect to Shares, the closing price of a Share quoted on the Composite Tape, or if the Shares are not listed on the New York Stock Exchange, on the principal United States securities exchange registered under the Exchange Act on which such stock is listed, or if the Shares are not listed on any such stock exchange, the last sale price, or if none is reported, the highest closing bid quotation on the National Association of Securities Dealers, Inc., Automated Quotations System or any successor system then in use on the Date of Grant, or if none are available on such day, on the next preceding day for which are available, or if no such quotations are available, the fair market value on the date of grant of a Share as determined in good faith by the Board. In the event the Shares are not publicly traded at the time a determination of its fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.

"Incentive Plan" shall mean the 1997 Incentive Stock Plan set forth herein, which shall constitute a separate and distinct plan from the ISO Plan also set forth herein.

"Incentive Stock Option" or "ISO" shall mean an option granted under the ISO Plan that is intended to qualify as an "incentive stock option" under Section 422 of the Code or any successor provision thereto.

"ISO Plan" shall mean the 1997 Incentive Stock Option Plan set forth herein, which shall constitute a separate and distinct plan from the Incentive Plan also set forth herein.

"1997 Stock Plan" shall mean the ISO Plan and the Incentive Plan.

"Non-Qualified Stock Option" or "NQO" shall mean an option granted under the Incentive Plan that is not intended to be an Incentive Stock Option.

"Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

"Other Stock-Based Award" shall mean an award granted pursuant to Section 6(h) of the Plan that is not otherwise specifically provided for, the value of which is based in whole or in part upon the value of a Share.

"Participant" shall mean any Employee or Consultant granted an Award under the Plan.

"Performance Award" shall mean any right granted under Section 6(d) of the Plan.

"Person" shall mean individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

"Phantom Shares" shall mean an Award of the right to receive Shares issued at the end of a Restricted Period which is granted pursuant to Section 6(f) of the Plan.

"Restricted Period" shall mean the period established by the Committee with respect to an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant.

"Restricted Stock" shall mean any Share, prior to the lapse of restrictions thereon, granted under Sections 6(c) of the Plan.

"Rule 16b-3" shall mean Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

"SEC" shall mean the Securities and Exchange Commission, or any successor thereto.

"Shares" or "Common Shares" or "Common Stock" shall mean the common stock of the Company, $0.01 par value, and such other securities or property as may become the subject of Awards under the Plan.

"Stock Appreciation Right" or "Right" shall mean any right to receive the appreciation of Shares granted under Section 6(b) of the Plan.

"Substitute Award" shall mean Awards granted in assumption of, or in substitution for, outstanding awards previously granted by (i) a company acquired by the Company or one or more of its Affiliates, or (ii) a company with which the Company or one or more of its Affiliates combines.

SECTION 3. Administration.

The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the following, the Committee, in its sole discretion, may delegate any or all of its powers and duties under the Plan, including the power to grant Awards under the Plan, to the Chief Executive Officer and the President of the Company, or either of them, subject to such limitations on such delegated powers and duties as the Committee may impose; including, without limitation, that to the extent any powers and duties of the Committee are delegated to the Chief Executive Officer and President of the Company, such powers shall not include the authority to make grants to any Employee who is subject to Section 16(b) of the Securities Act of 1933, as amended. Upon any such delegation all references in the Plan to the "Committee," other than in Section 7, shall be deemed to include the Chief Executive Officer and the President, or either of them. Notwithstanding the foregoing, the Board shall have the full powers of the Committee under the Plan and all references to the Committee shall refer to the Board, or either of them. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, any stockholder and any Employee.

SECTION 4. Shares Available for Awards.

(a) Shares Available. Subject to adjustment as provided in Section 4(c), (1) the number of Shares with respect to which Awards may be granted under the Incentive Plan shall be the greater of (i) 2,500,000 or (ii) 15% of the aggregate number of Shares and shares of Restricted Voting Common Stock outstanding determined immediately after the grant of such Award less 1,000,000 and (2) the number of Shares with respect to which Options may be granted under the ISO Plan shall be 1,000,000 Shares. If any Award under either plan is forfeited or otherwise terminates or is canceled without the delivery of Shares or other consideration, then the Shares covered by such Award, to the extent of such forfeiture, termination or cancellation, shall again be Shares with respect to which Awards may be granted under such plan.

(b) Sources of Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

(c) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the

Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, in each case, that with respect to Awards of Incentive Stock Options and Awards intended to qualify as performance based compensation under Section 162(m)(4)(C) of the Code, no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or would cause such Award to fail to so qualify under Section 162(m) of the Code, as the case may be, or any successor provisions thereto; and provided, further, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 5. Eligibility.

Any Employee or Consultant shall be eligible to be designated a Participant. However, no Employee or Consultant may receive Options and/or Stock Appreciation Rights under the Plan with respect to more than 250,000 Shares during any calendar year. The maximum amount of compensation that may be paid to any Participant with respect to any single Award that is not an Option or Stock Appreciation and which is intended to qualify as "performance based" compensation under Section 162(m) of the Code in any calendar year shall not exceed $4.0 million, determined as of the date of grant of such Award.

SECTION 6. Awards.

(a) Options. Subject to the provisions of the Plan, the Committee shall have the authority to determine the Participants to whom Options shall be granted, the number of Shares to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee at the time the Option is granted.

(ii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, and the method or methods by which, and the form or forms (which may include, without limitation, cash, check acceptable to the Company, Shares already-owned for more than six months, outstanding Awards, Shares that would otherwise be acquired upon exercise of the Option, a "cashless-broker" exercise (through procedures approved by the Company), other securities or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which payment of the exercise price with respect thereto may be made or deemed to have been made.

(iii) Incentive Stock Options. The terms of any Incentive Stock Option, which may be granted only under the ISO Plan, shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. Notwithstanding anything in Section 5 or elsewhere in the Plan to the contrary, Incentive Stock Options may be granted only to employees of the Company and its parent corporation and subsidiary corporations, within the meaning of Section 424 of the Code.

(b) Stock Appreciation Rights. Subject to the provisions of the Plan, the Committee shall have the authority to determine the Participants to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Stock Appreciation Right Award, the grant price thereof and the conditions and limitations applicable to the exercise thereof. A Stock Appreciation Right may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to another Award. A Stock Appreciation Right granted in tandem with or in addition to another Award may be granted either at the same time as such other Award or at a later time.

(i) Grant Price. The grant price of a Stock Appreciation Right shall be determined by the Committee on the date of grant.

(ii) Other Terms and Conditions. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine, at or after the grant of a Stock Appreciation Right, the term, methods of exercise, methods of settlement, and any other terms and conditions of any Stock Appreciation Right. Any such determination by the Committee may be changed by the Committee from time to time and may govern the exercise of Stock Appreciation Rights granted or exercised prior to such determination as well as Stock Appreciation Rights granted or exercised thereafter. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it shall deem appropriate.

(c) Restricted Stock. Subject to the provisions of the Plan, the Committee shall have the authority to determine the Participants to whom Restricted Stock shall be granted, the number of Shares of Restricted Stock to be granted to each such Participant, the duration of the Restricted Period during which, and the conditions, including performance criteria, if any, under which, the Restricted Stock may be forfeited to the Company, and the other terms and conditions of such Awards.

(i) Dividends. Dividends paid on Restricted Stock may be paid directly to the Participant, may be subject to risk of forfeiture and/or transfer restrictions during any period established by the Committee or sequestered and held in a bookkeeping cash account (with or without interest) or reinvested on an immediate or deferred basis in additional shares of Common Stock, which credit or shares may be subject to the same restrictions as the underlying Award or such other restrictions, all as determined by the Committee in its discretion.

(ii) Registration. Any Restricted Stock may be evidenced in such manner as the Committee shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Restricted Stock granted under the Plan, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

(iii) Forfeiture and Restrictions Lapse. Except as otherwise determined by the Committee or the terms of the Award that granted the Restricted Stock, upon termination of a Participant's employment (as determined under criteria established by the Committee) for any reason during the applicable Restricted Period, all Restricted Stock shall be forfeited by the Participant and re-acquired by the Company. The Committee may, when it finds that a waiver would be in the best interests of the Company and not cause such Award, if it is intended to qualify as performance based compensation under Section 162(m) of the Code, to fail to so qualify under Section 162(m) of the Code, waive in whole or in part any or all remaining restrictions with respect to such Participant's Restricted Stock. Unrestricted Shares, evidenced in such manner as the Committee shall deem appropriate, shall be issued to the holder of Restricted Stock promptly after the applicable restrictions have lapsed or otherwise been satisfied.

(iv) Transfer Restrictions. During the Restricted Period, Restricted Stock will be subject to the limitations on transfer as provided in Section 6(j)(iii).

(d) Performance Awards. The Committee shall have the authority to determine the Participants who shall receive a Performance Award, which shall be denominated as a cash amount at the time of grant and confer on the Participant the right to receive payment of such Award, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish with respect to the Award.

(i) Terms and Conditions. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award and the amount of any payment or transfer to be made pursuant to any Performance Award.

(ii) Payment of Performance Awards. Performance Awards may be paid (in cash and/or in Shares, in the sole discretion of the Committee) in a lump sum or in installments following the close of the performance period, in accordance with procedures established by the Committee with respect to such Award.

(e) Bonus Shares. The Committee shall have the authority, in its discretion, to grant Bonus Shares to Participants. Each Bonus Share shall constitute a transfer of an unrestricted Share to the Participant, without other payment therefor, as additional compensation for the Participant's services to the Company.

(f) Phantom Shares. The Committee shall have the authority to grant Awards of Phantom Shares to Participants upon such terms and conditions as the Committee may determine.

(i) Terms and Conditions. Each Phantom Share Award shall constitute an agreement by the Company to issue or transfer a specified number of Shares or pay an amount of cash equal to a specified number of Shares, or a combination thereof to the Participant in the future, subject to the fulfillment during the Restricted Period of such conditions, including performance objectives, if any, as the Committee may specify at the date of grant. During the Restricted Period, the Participant shall not have any right to transfer any rights under the subject Award, shall not have any rights of ownership in the Phantom Shares and shall not have any right to vote such shares.

(ii) Dividends. Any Phantom Share award may provide that any or all dividends or other distributions paid on Shares during the Restricted Period be credited in a cash bookkeeping account (without interest) or that equivalent additional Phantom Shares be awarded, which account or shares may be subject to the same restrictions as the underlying Award or such other restrictions as the Committee may determine.

(g) Cash Awards. The Committee shall have the authority to determine the Participants to whom Cash Awards shall be granted, the amount, and the terms or conditions, if any, as additional compensation for the Participant's services to the Company or its Affiliates. A Cash Award may be granted (simultaneously or subsequently) separately or in tandem with another Award and may entitle a Participant to receive a specified amount of cash from the Company upon such other Award becoming taxable to the Participant, which cash amount may be based on a formula relating to the anticipated taxable income associated with such other Award and the payment of the Cash Award.

(h) Other Stock-Based Awards. The Committee may also grant to Participants an Other Stock-Based Award, which shall consist of a right which is an Award denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares as is deemed by the Committee to be consistent with the purposes of the Plan. Subject to the terms of the Plan, the Committee shall determine the terms and conditions of any such Other Stock-Based Award.

(i) Replacement Grants. Awards may be granted from time to time in substitution for similar awards held by employees of other corporations who become Participants as the result of a merger or consolidation of the employing corporation with the Company or any subsidiary, or the acquisition by the Company or any subsidiary of the assets of the employing corporation, or the acquisition by the Company or any subsidiary or an affiliate of stock of the employing corporation. The terms and conditions of substitute Awards granted may vary from the terms and conditions set forth in the Plan, to the extent the Committee, at the time of grant, deems it appropriate to conform, in whole or in part, to the provisions of awards in substitution for which they are granted.

(j) General.

(i) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(ii) Forms of Payment by Company Under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine, including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments.

(iii) Limits on Transfer of Awards.

(A) Except as provided in (C) below, each Award, and each right under any Award, shall be exercisable only by the Participant during the Participant's lifetime, or, if permissible under applicable law, by the Participant's guardian or legal representative as determined by the Committee.

(B) Except as provided in (C) below, no Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution (or, in the case of Restricted Stock, to the Company) and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate.

(C) Notwithstanding anything in the Plan to the contrary, to the extent specifically provided by the Committee with respect to a grant, a Nonqualified Stock Option may be transferred to immediate family members or related family trusts, limited partnerships or similar entities or on such terms and conditions as the Committee may establish.

(iv) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee; provided, that in no event shall the term of any Award exceed a period of 10 years from the date of its grant.

(v) Share Certificates. All certificates for Shares or other securities of the Company or any Affiliate delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Shares or other securities are then listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(vi) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.

(vii) Delivery of Shares or other Securities and Payment by Participant of Consideration. No Shares or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award Agreement (including, without limitation, any exercise price, tax payment or tax withholding) is received by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, Shares, other securities, other Awards or other property, withholding of Shares, cashless exercise with simultaneous sale, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalents and the Fair Market Value of any such Shares or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid pursuant to the Plan or the applicable Award Agreement to the Company.

(viii) Performance Criteria and Payment Limits. The Committee shall establish performance goals applicable to those Awards (other than Options and Rights) the payment of which is intended by the Committee to qualify as "performance-based compensation" as described in Section 162(m)(4)(C) of the Code. Until changed by the Committee, the performance goals shall be based upon the attainment of such target levels of net income, cash flows, return on equity, profit margin or sales, stock price, and/or earnings per share as may be specified by the Committee. Which factor or factors to be used with respect to any grant, and the weight to be accorded thereto if more than one factor is used, shall be determined by the Committee at the time of grant. With respect to any Restricted Stock Award, Phantom Stock Award, or Cash Award granted in tandem with, and expressed as a percentage of, a Share-denominated Award, which is intended to qualify as "performance-based compensation", the maximum payment to any Participant with respect to such Award in any calendar year shall be an amount (in cash and/or in Shares) equal to the Fair Market Value of the number of Shares subject to such Award.

SECTION 7. Amendment and Termination.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Agreement or in the Plan:

(i) Amendments to the Plan. The Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan without the consent of any stockholder, Participant, other holder or beneficiary of an Award, or other Person; provided, however, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company no such amendment, alteration, suspension, discontinuation, or termination shall be made that would increase the total number of Shares available for Awards under the Plan, except as provided in Section 4(c) of the Plan.

(ii) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award theretofore granted, provided no change, other than pursuant to Section 7(iii), in any Award shall reduce the benefit to Participant without the consent of such Participant. Notwithstanding the foregoing, with respect to any Award intended to qualify as performance-based compensation under Section 162(m) of the Code, no adjustment shall be authorized to the extent such adjustment would cause the Award to fail to so qualify.

(iii) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4(c) of the Plan) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. Notwithstanding the foregoing, with respect to any Award intended to qualify as performance-based compensation under Section 162(m) of the Code, no adjustment shall be authorized to the extent such adjustment would cause the Award to fail to so qualify.

SECTION 8. Change in Control.

Notwithstanding any other provision of this Plan to the contrary, in the event of a Change in Control of the Company all outstanding Awards automatically shall become fully vested immediately prior to such Change in Control (or such earlier time as set by the Committee), all restrictions, if any, with respect to such Awards shall lapse, and all performance criteria, if any, with respect to such Awards shall be deemed to have been met in full. For purposes of this Plan, a "Change in Control" shall be deemed to occur:

(i) if any person, entity or group (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Act"), other than the Company or its subsidiaries or an employee benefit plan of the Company or its subsidiaries, acquires, directly or indirectly, the beneficial ownership (as defined in Section 13(d) of the Act) of any voting security of the Company and immediately after such acquisition such person is, directly or indirectly, the beneficial owner of voting securities representing 20% or more of the total voting power of all of the then outstanding voting securities of the Company entitled to vote generally in the election of directors;

(ii) upon the first purchase of the Company's common stock pursuant to a tender or exchange offer (other than a tender or exchange offer made by the Company);

(iii) if the stockholders of the Company shall approve a merger, consolidation, recapitalization or reorganization of the Company, or a reverse stock split of outstanding voting securities, or consummation of any such transaction if stockholder approval is not obtained, other than any such transaction which would result in at least 75% of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being beneficially owned by the holders of all of the outstanding voting securities of the Company immediately prior to the transactions with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction;

(iv) if the stockholders of the Company shall approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or

(v) if, at any time during any period of two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election or nomination for the election by the Company's stockholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

SECTION 9. General Provisions.

(a) No Rights to Awards. No Employee, Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Employees, Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards need not be the same with respect to each recipient.

(b) Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities, Shares that would otherwise be issued pursuant to such Award, other Awards or other property) of any applicable taxes payable in respect of an Award, its exercise, the lapse of restrictions thereon, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. In addition, the Committee may provide, in an Award Agreement, that the Participant may direct the Company to satisfy such Participant's tax obligation through the withholding of Shares otherwise to be acquired upon the exercise or payment of such Award.

(c) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.

(d) Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable Federal law.

(e) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(f) Other Laws. The Committee may refuse to issue or transfer any Shares or other consideration under an Award if, acting in its sole discretion, it determines that the issuance of transfer or such Shares or such other consideration might violate any applicable law or regulation or entitle the Company to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary.

(g) No Trust or Fund Created. Neither the Plan nor the Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.

(h) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(i) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(j) Parachute Tax Gross-Up. To the extent that the grant, payment, or acceleration of vesting or payment, whether in cash or stock, of any Award made to a Participant under the Plan (a "Benefit") is subject to a golden parachute excise tax under Section 4999(a) of the Code (a "Parachute Tax"), the Company shall pay such person an amount of cash (the "Gross-up Amount") such that the "net" Benefit received by the person under this Plan, after paying all applicable Parachute Taxes (including those on the Gross-up Amount) and any federal or state taxes on the Gross-up Amount, shall be equal to the Benefit that such person would have received if such Parachute Tax had not been applicable.

(k) Separate Plans. The Company intends to establish herein two separate and distinct plans: (i) the ISO Plan and (ii) the Incentive Plan; however, except where expressly provided otherwise, the provisions of this document shall apply equally to each such plan. Notwithstanding the foregoing, the provisions of this document shall be administered and construed in the manner necessary for the ISO Plan set forth herein to comply with the requirements of Section 422 of the Code.

SECTION 10. Effective Date of the Plan.

The Incentive Plan shall be effective as of the date of its original approval by the Board; the ISO Plan shall be effective as of the date it is separately approved by the Board.

SECTION 11. Term of the Plan.

No Award shall be granted under the Plan after the 10th anniversary of the original approval date of the Incentive Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under such Award, shall extend beyond such termination date.

EXHIBIT 10.6

FIRST AMENDMENT

FIRST AMENDMENT, dated as of June 20, 2001 (this "Amendment"), to the Credit Agreement, dated as of May 22, 2001 (as further amended, supplemented or modified from time to time, the "Credit Agreement"), among Integrated Electrical Services, Inc., a Delaware corporation (the "Borrower"), certain financial institutions which are or may become parties thereto (the "Banks"), Credit Lyonnais and The Bank of Nova Scotia, as syndications agents, Toronto Dominion (Texas), Inc., as documentation agent, and The Chase Manhattan Bank, as administrative agent (in such capacity, the "Administrative Agent").

WITNESSETH:

WHEREAS, pursuant to the Credit Agreement, the Banks have agreed to make, and have made, certain loans and other extensions of credit to the Borrower;

WHEREAS, the Borrower has requested that the Administrative Agent and the Banks amend a certain provision of the Credit Agreement; and

WHEREAS, the Administrative Agent and the Banks are willing to agree to the requested amendment on the terms and conditions contained herein;

NOW, THEREFORE, the parties hereto hereby agree as follows:

I. Defined Terms. Terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement, as amended hereby.

II. Amendment to the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Interest Hedge Agreements" in its entirety and by substituting, in lieu thereof, the following: "Interest Hedge Agreements" means any swap, hedge, cap, collar, or similar arrangement between the Borrower and any Bank (or any Affiliate of any Bank).

III. Conditions to Effectiveness. This Amendment shall become effective on the date on which this Amendment shall have been executed by the Borrower, the Administrative Agent and the Majority Banks.

IV. General.

1. Representations and Warranties. The representations and warranties made by the Borrower in the Credit Documents are true and correct in all material respects on and as of the date hereof, after giving effect to the effectiveness of this Amendment, as if made on and as of the date hereof, and no Default or Event of Default has occurred and is continuing.

2. Payment of Expenses. The Borrower agrees to pay or reimburse the Administrative Agent for all of its out-of-pocket costs and reasonable expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent.

3. No Other Amendments. This Amendment shall not be construed as a waiver or consent to any further or future action on the part of the Borrower that would require a waiver or consent of the Administrative

Agent and/or the Banks. Except as expressly amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

4. Governing Law; Counterparts. (A) This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

(b) This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment may be delivered by facsimile transmission of the relevant signature pages hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

BORROWER:

INTEGRATED ELECTRICAL SERVICES, INC.

By:

Name:
Title:

ADMINISTRATIVE AGENT:

THE CHASE MANHATTAN BANK, as
Administrative Agent

By:

Name:
Title:

BANKS:

THE CHASE MANHATTAN BANK

By:

Name:
Title:

CREDIT LYONNAIS, NEW YORK BRANCH,
as Syndication Agent and as a Bank

By:

Name:
Title:

THE BANK OF NOVA SCOTIA,
as Syndication Agent and as a Bank

By:

Name:
Title:

TORONTO DOMINION (TEXAS), INC.,
as Documentation Agent and as a Bank

By:

Name:
Title:

BANK OF SCOTLAND

By:

Name:
Title:

FIRST BANK & TRUST

By:

Name:
Title:

FIRSTAR BANK, N.A.

By:

Name:
Title:

MERRILL LYNCH CAPITAL CORPORATION

By:

Name:
Title:

SOUTHWEST BANK OF TEXAS, N.A.

By:

Name:
Title:

EXHIBIT 10.7

SECOND AMENDMENT

SECOND AMENDMENT, dated as of November 30, 2001 (this "Amendment"), to the Credit Agreement, dated as of May 22, 2001, as amended by the First Amendment, dated as of June 20, 2001 (as further amended, supplemented or modified from time to time, the "Credit Agreement"), among Integrated Electrical Services, Inc., a Delaware corporation (the "Borrower"), certain financial institutions which are or may become parties thereto (the "Banks"), Credit Lyonnais and The Bank of Nova Scotia, as syndications agents, Toronto Dominion (Texas), Inc., as documentation agent, and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as administrative agent (in such capacity, the "Administrative Agent").

WITNESSETH:

WHEREAS, pursuant to the Credit Agreement, the Banks have agreed to make, and have made, certain loans and other extensions of credit to the Borrower;

WHEREAS, the Borrower has requested that the Administrative Agent and the Banks amend a certain provision of the Credit Agreement; and

WHEREAS, the Administrative Agent and the Banks are willing to agree to the requested amendment on the terms and conditions contained herein;

NOW, THEREFORE, the parties hereto hereby agree as follows:

I. Defined Terms. Terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement, as amended hereby.

II. Amendments to the Credit Agreement.

1. Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "EBIT" in its entirety and by substituting, in lieu thereof, the following:

"EBIT" means, with respect to any Person and for any period of its determination, the consolidated net income (excluding any extraordinary gains or losses) of such Person for such period, plus the consolidated interest expense and income taxes of such Person for such period, provided that, notwithstanding anything herein to the contrary, for the purposes of calculating EBIT, impairment to goodwill calculated in accordance with FASB Statement No. 142, Goodwill and Other Intangibles, shall be disregarded.

2. Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "EBITDA" in its entirety and by substituting, in lieu thereof, the following:

"EBITDA" means, with respect to any Person and for any period of its determination, the consolidated net income (excluding any extraordinary gains or losses) 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, provided that, notwithstanding anything herein to the contrary, for the purposes of calculating EBITDA, impairment to goodwill calculated in accordance with FASB Statement No. 142, Goodwill and Other Intangibles, shall be disregarded.

3. Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Eligible Assignee" in its entirety and by substituting, in lieu thereof, the following:

"Eligible Assignee" means, with respect to any assignment hereunder, at the time of such assignment, any commercial bank, financial institution or other entity which, in each case, has total assets of not less than $700,000,000 and which is approved by the Administrative Agent, the Swing Line Lender and the Issuing Bank, and, so long as no Default or Event of Default exists, is approved by the Borrower (in each case, such approval not to be unreasonably withheld).

4. Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Net Worth" in its entirety and by substituting, in lieu thereof, the following:

"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, provided that, notwithstanding anything herein to the contrary, for the purposes of calculating Net Worth, after September 30, 2001 impairments to goodwill calculated in accordance with FASB Statement No. 142, Goodwill and Other Intangibles, shall be disregarded.

5. Section 1.3(a) of the Credit Agreement is hereby amended by adding the following at the end thereof:

> In the event that any "Accounting Change" (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants, standards or terms in this Agreement, then the Borrower and the Administrative Agent agree to enter into negotiations in order to amend such provisions of this Agreement so as to reflect equitably such Accounting Changes with the desired result that the criteria for evaluating the Borrower's financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by the Borrower, the Administrative Agent and the Majority Banks, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred. "Accounting Changes" refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or, if applicable, the Securities and Exchange Commission.

III. Conditions to Effectiveness. This Amendment shall become effective on the date the Administrative Agent shall have received counterparts of this Amendment duly executed by the Borrower, the Administrative Agent and the Majority Banks.

IV. General.

1. Representations and Warranties. The representations and warranties made by the Borrower in the Credit Documents are true and correct in all material respects on and as of the date hereof, after giving effect to the effectiveness of this Amendment, as if made on and as of the date hereof, and no Default or Event of Default has occurred and is continuing.

2. Payment of Expenses. The Borrower agrees to pay or reimburse the Administrative Agent for all of its out-of-pocket costs and reasonable expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent.

3. No Other Amendments. This Amendment shall not be construed as a waiver or consent to any further or future action on the part of the Borrower that would require a waiver or consent of the Administrative Agent and/or the Banks. Except as expressly amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

4. Governing Law; Counterparts. (B) This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York. (b) This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment may be delivered by facsimile transmission of the relevant signature pages hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

BORROWER:

INTEGRATED ELECTRICAL SERVICES, INC.

By:

Name:
Title:

ADMINISTRATIVE AGENT:

JPMORGAN CHASE BANK, as Administrative Agent

By:

Name:
Title:

BANKS:

JPMORGAN CHASE BANK

By:

Name:
Title:

CREDIT LYONNAIS, NEW YORK BRANCH,
as Syndication Agent and as a Bank

By:

Name:
Title:

THE BANK OF NOVA SCOTIA,
as Syndication Agent and as a Bank

By:

Name:
Title:

TORONTO DOMINION (TEXAS), INC.,
as Documentation Agent and as a Bank

By:

Name:
Title:

BANK OF SCOTLAND

By:

Name:
Title:

FIRST BANK & TRUST

By:

Name:
Title:

FIRSTAR BANK, N.A.

By:

Name:
Title:

MERRILL LYNCH CAPITAL CORPORATION

By:

Name:
Title:

SOUTHWEST BANK OF TEXAS, N.A.

By:

Name:
Title:

EXHIBIT 12

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES
RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS OF DOLLARS)

	YEAR ENDED SEPTEMBER 30,				
	1997	1998	1999	2000	2001
CONSOLIDATED					
Earnings:					
Income before income taxes	$ 7,298	$12,638	$83,455	$42,799	$54,381
Fixed charges	283	2,486	14,772	25,925	29,631
	$ 7,581	$15,124	$98,227	$68,724	$84,012
Fixed Charges:					
Interest expense	$ 214	$ 1,161	$13,145	$23,230	$26,053
Portion of rental cost Representing interest	69	1,325	1,627	2,695	3,578
	$ 283	$ 2,486	$14,772	$25,925	$29,631
Ratio of Earnings to Fixed Charges	26.8	6.1	6.6	2.7	2.8

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

1st Group Telecommunications, Inc.
Ace Electric, Inc.
Aladdin Ward Electric & Air, Inc.
Amber Electric, Inc.
Anderson & Wood Construction Co., Inc.
ARC Electric, Incorporated
B. Rice Electric LP
Bachofner Electric, Inc.
Bear Acquisition Corporation
Bexar Electric Company, Ltd.
Brink Electric Construction Co.
Britt Rice Electric, Inc.
Britt Rice Holdings LLC
Britt Rice Management LLC
Bryant Electric Company, Inc.
BW Consolidated, Inc.
BW/BEC, Inc.
BW/BEC, L.L.C.
Canova Electrical Contracting, Inc.
Carroll Holdings LLC
Carroll Management LLC
Carroll Systems LP
Carroll Systems, Inc.
Charles P. Bagby Co., Inc.
Collier Electric Company, Inc.
Commercial Electrical Contractors, Inc.
Cross State Electric, Inc.
Cypress Electrical Contractors, Inc.
Daniel Electrical Contractors, Inc.
Daniel Electrical of Treasure Coast, Inc.
Daniel Integrated Technologies, Inc.
Davis Electrical Constructors, Inc.
Delco Electric, Inc.
DKD Electric Company, Inc.
Electro-Tech, Inc.
EMC Acquisition Corporation
Ernest P. Breaux Electrical, Inc.
Federal Communications Group, Inc.
Florida Industrial Electric, Inc.
General Partner, Inc.
Goss Electric Company, Inc.

H.R. Allen, Inc.
Hatfield Reynolds Electric Company
Haymaker Electric, Ltd.
Holland Electrical Systems, Inc.
Houston Stafford Holdings, LLC
Houston-Stafford Electric, Inc.
Houston-Stafford Electrical Contractors, LP
Houston-Stafford Management LLC
Howard Brothers Electric Co., Inc.
I.C.G. Electric, Inc.
ICS Holdings LLC
ICS Integrated Communication Services LP
IES Communications, Inc.
IES Contractors Holdings LLC
IES Contractors LP
IES Contractors Management LLC
IES Electrical Group, Inc.
IES Holdings, LLC
IES Management, LP
IES Residential Group, Inc.
IES Specialty Lighting, Inc.
IES Ventures Inc.
Innovative Electric Company, Inc.
Integrated Electrical Finance, Inc.
Intelligent Building Solutions, Inc.
J.W. Gray Electric Company, Inc.
J.W. Gray Electrical Contractors, LP
J.W. Gray Holdings, LLC
J.W. Gray Management, LLC
Kayton Electric, Inc.
Key Electrical Supply, Inc.
Linemen, Inc. (d/b/a California Communications)
Mark Henderson, Incorporated
Menninga Electric, Inc.
Midlands Electrical Contractors, Inc.
Mid-States Electric Company, Inc.
Mills Electric LP
Mills Electrical Contractors, Inc.
Mills Electrical Holdings, LLC
Mills Management LLC
Mitchell Electric Company, Inc.
M-S Systems, Inc.
Murray Electrical Contractors, Inc.
Muth Electric, Inc.
NBH Holding Co., Inc.
Neal Electric LP

Neal Electric Management LLC
New Technology Electrical Contractors, Inc.
Newcomb Electric Company, Inc.
Pan American Electric Company, Inc., a New Mexico Corporation
Pan American Electric, Inc.
Paulin Electric Company, Inc.
Pollock Electric, Inc.
Pollock Summit Electric, LP
Pollock Summit Holdings, Inc.
PrimeNet, Inc.
Primo Electric Company
Putzel Electrical Contractors, Inc.
Raines Electric Co., Inc.
Raines Electric LP
Raines Holdings LLC
Raines Management LLC
RKT Electric, Inc.
Rockwell Electric, Inc.
Rodgers Electric Company, Inc.
Ron's Electric, Inc.
Spectrol, Inc.
Spoor Electric, Inc. (d/b/a SEI Electrical Contractor)
Summit Electric of Texas, Incorporated
T&H Electrical Corporation
Tech Electric Co., Inc.
Tesla Power (Nevada), Inc.
Tesla Power and Automation, LP
Tesla Power G.P., Inc.
Tesla Power Properties, LP
Thomas Popp & Company
Valentine Electrical, Inc.
Wolfe Electric Co., Inc.
Wright Electrical Contracting, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Forms S-8 and Forms S-4 (File Nos. 333-67113, 333-45447, 333-45449, 333-91041, 333-31608, 333-32624, 333-50031, 333-62636 and 333-68274).

ARTHUR ANDERSEN LLP
Houston, Texas
December 13, 2001

EXHIBIT 24

POWER OF ATTORNEY

Know all men by these presents that Herbert R. Allen constitutes and appoints William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ HERBERT R. ALLEN

Herbert R. Allen

POWER OF ATTORNEY

Know all men by these presents that Richard L. China constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 200

/s/ RICHARD L. CHINA

Richard L. China

POWER OF ATTORNEY

Know all men by these presents that Donald P. Hodel constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ DONALD P. HODEL

Donald P. Hodel

POWER OF ATTORNEY

Know all men by these presents that Ben L. Mueller constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ BEN L. MUELLER

Ben L. Mueller

POWER OF ATTORNEY

Know all men by these presents that Alan R. Sielbeck constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ ALAN R. SIELBECK

Alan R. Sielbeck

POWER OF ATTORNEY

Know all men by these presents that C. Byron Snyder constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ C. BYRON SNYDER

C. Byron Snyder

POWER OF ATTORNEY

Know all men by these presents that Richard L. Tucker constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ RICHARD L. TUCKER

Richard L. Tucker

POWER OF ATTORNEY

Know all men by these presents that Bob Weik constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ BOB WEIK

Bob Weik

POWER OF ATTORNEY

Know all men by these presents that Jim P. Wise constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ JIM P. WISE

Jim P. Wise

POWER OF ATTORNEY

Know all men by these presents that James D. Woods constitutes and appoints Herbert R. Allen, William W. Reynolds and John F. Wombwell and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2001, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

November 30, 2001

/s/ JAMES D. WOODS

James D. Woods