UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2002

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 No. 1-13783

INTEGRATED ELECTRICAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

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

1800 West Loop South
Suite 500
Houston, Texas 77027-3290
(Address of principal executive offices) (zip code)

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

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

The number of shares outstanding as of May 8, 2002, of the issuer's common stock was 37,362,759 and of the issuer's restricted voting common stock was 2,605,709.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	September 30, 2001 (Audited)	March 31, 2002 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,475	$ 2,709
Accounts receivable:		
Trade, net of allowance of $5,206 and $5,031 respectively	275,922	240,700
Retainage	64,933	62,762
Related parties	222	223
Costs and estimated earnings in excess of billings on uncompleted contracts	62,249	51,810
Inventories	21,855	27,657
Prepaid expenses and other current assets	23,858	20,719
Total current assets	452,514	406,580
PROPERTY AND EQUIPMENT, net	70,343	67,481
GOODWILL, net	482,654	199,370
OTHER NON-CURRENT ASSETS	27,992	22,802
Total assets	$ 1,033,503	$ 696,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt and current maturities of long-term debt	$ 679	$ 455
Accounts payable and accrued expenses	164,272	113,383
Income taxes payable	700	235
Billings in excess of costs and estimated earnings on uncompleted contracts	50,234	53,836
Total current liabilities	215,885	167,909
LONG-TERM BANK DEBT	12,000	6,000
OTHER LONG-TERM DEBT, net of current maturities	872	1,431
SENIOR SUBORDINATED NOTES, net of $4,949 and $4,610 unamortized discount, respectively	273,210	268,310
OTHER NON-CURRENT LIABILITIES	2,892	5,862
Total liabilities	504,859	449,512
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued and outstanding	--	--
Common stock, $.01 par value, 100,000,000 shares authorized, 38,331,672 and 38,548,462 shares issued, respectively	383	386
Restricted voting common stock, $.01 par value, 2,605,709 shares issued, authorized and outstanding, respectively	26	26
Treasury stock, at cost, 1,245,879 and 1,187,803 shares, respectively	(9,181)	(8,753)
Additional paid-in capital	428,640	429,429
Retained earnings (deficit)	108,719	(174,312)
Accumulated other comprehensive income (loss)	57	(55)
Total stockholders' equity	528,644	246,721
Total liabilities and stockholders' equity	$ 1,033,503	$ 696,233

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	Six Months Ended March 31, 2001	Six Months Ended March 31, 2002
	(Unaudited)	
Revenues	$ 845,587	$ 731,660
Cost of services (including depreciation)	694,297	619,730
Gross profit	151,290	111,930
Selling, general and administrative expenses	103,773	93,165
Restructuring charges	--	5,556
Goodwill amortization	6,493	--
Income from operations	41,024	13,209
Other (income)/expense:		
Interest expense	12,494	13,429
Gain on sale of assets	(77)	(133)
Other expense, net	313	477
	12,730	13,773
Income (loss) before income taxes	28,294	(564)
Provision (benefit) for income taxes	13,211	(817)
Cumulative effect of change in accounting principle, net of tax	--	283,284
Net income (loss)	$ 15,083	$ (283,031)
Basic earnings (loss) per share:		
Basic earnings per share before cumulative effect of change in accounting principle	$ 0.37	$ 0.01
Cumulative effect of change in accounting principle	$ --	$ (7.11)
Basic earnings (loss) per share	$ 0.37	$ (7.10)
Diluted earnings per share:		
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.37	$ 0.01
Cumulative effect of change in accounting principle	$ --	$ (7.11)
Diluted earnings (loss) per share	$ 0.37	$ (7.10)
Shares used in the computation of earnings (loss) per share (Note 5):		
Basic	40,795,509	39,847,029
Diluted	41,060,287	39,847,029

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
	(Unaudited)	
Revenues	$ 418,557	$ 356,481
Cost of services (including depreciation)	341,808	301,780
Gross profit	76,749	54,701
Selling, general and administrative expenses	51,808	43,392
Restructuring charge	--	1,556
Goodwill amortization	3,244	--
Income from operations	21,697	9,753
Other (income)/expense:		
Interest expense	6,236	6,644
Gain on sale of assets	(41)	(62)
Other expense, net	488	299
	6,683	6,881
Income before income taxes	15,014	2,872
Provision for income taxes	6,939	806
Net income	$ 8,075	$ 2,066
Basic earnings per share	$ 0.20	$ 0.05
Diluted earnings per share	$ 0.20	$ 0.05
Shares used in the computation of earnings per share (Note 5):		
Basic	40,835,149	39,956,135
Diluted	41,093,981	40,002,961

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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

	Comprehensive Loss	Common Stock		Restricted Voting Common Stock		Treasury Stock	
		Shares	Amount	Shares	Amount	Shares	Amount
BALANCE, September 30, 2001..................		38,331,672	$ 383	2,605,709	$ 26	(1,245,879)	$(9,181)
Issuance of stock (unaudited)............		216,790	3	--	--	--	--
Issuance of stock under employee stock purchase plan (unaudited)		--	--	--	--	55,742	411
Exercise of stock options (unaudited)............		--	--	--	--	2,334	17
Unrealized holding loss on securities, net of tax (unaudited).....	$ (112)	--	--	--	--	--	--
Net loss (unaudited)	(283,031)	--	--	--	--	--	--
Comprehensive loss (unaudited)...........	$(283,143)						
BALANCE, March 31, 2002 (unaudited)......		38,548,462	$ 386	2,605,709	$ 26	(1,187,803)	$(8,753)

	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, September 30, 2001..............	$ 428,640	$108,719	$ 57	$ 528,644
Issuance of stock (unaudited)...........	1,200	--	--	1,203
Issuance of stock under employee stock purchase plan (unaudited)	(411)	--	--	--
Exercise of stock options (unaudited)...........	--	--	--	17
Unrealized holding loss on securities, net of tax (unaudited).....	--	--	(112)	(112)
Net loss (unaudited)	--	(283,031)	--	(283,031)
Comprehensive loss (unaudited)...........				
BALANCE, March 31, 2002 (unaudited)	$ 429,429	$(174,312)	$ (55)	$ 246,721

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Six Months Ended March 31, 2001	Six Months Ended March 31, 2002
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 15,083	$ (283,031)
Adjustments to reconcile net income (loss) to net cash provided by operating activities -		
Cumulative effect of change in accounting principle	-	283,284
Depreciation and amortization	13,955	8,574
Gain on sale of property and equipment	(77)	(133)
Non-cash compensation expense	284	1,422
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable, net	37,545	37,392
Inventories	(525)	(5,802)
Costs and estimated earnings in excess of billings on uncompleted contracts	(795)	10,439
Prepaid expenses and other current assets	(12,309)	4,517
Increase (decrease) in:		
Accounts payable and accrued expenses	(55,946)	(51,108)
Billings in excess of costs and estimated earnings on uncompleted contracts	1,846	3,602
Income taxes payable	896	(465)
Other, net	1,090	1,122
Net cash provided by operating activities	1,047	9,813
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	519	411
Additions to property and equipment	(12,383)	(5,991)
Purchase of businesses, net of cash acquired	(233)	-
Investments in available for sale securities	(4,849)	(300)
Additions to note receivable from affiliate	-	(583)
Net cash used by investing activities	(16,946)	(6,463)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	57,000	74,383
Repayments of debt	(41,757)	(80,046)
Proceeds from sale of interest rate swap	-	1,530
Purchase of treasury stock	(1,456)	-
Proceeds from issuance of stock	995	-
Proceeds from sale of treasury stock	980	- -
Proceeds from exercise of stock options	-	17
Net cash provided by (used by) financing activities	15,762	(4,116)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(137)	(766)
CASH AND CASH EQUIVALENTS, beginning of period	770	3,475
CASH AND CASH EQUIVALENTS, end of period	$ 633	$ 2,709
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for		
Interest	$ 12,075	$ 13,366
Income taxes	$ 19,090	$ 4,202

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,075	$ 2,066
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	7,054	4,347
Gain on sale of property and equipment	(41)	(62)
Non-cash compensation expense	142	-
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable, net	20,498	30,050
Inventories	(512)	(180)
Costs and estimated earnings in excess of billings on uncompleted contracts	(1,871)	(1,306)
Prepaid expenses and other current assets	(5,924)	976
Increase (decrease) in:		
Accounts payable and accrued expenses	4,183	(21,283)
Billings in excess of costs and estimated earnings on uncompleted contracts	(8,435)	(3,302)
Income taxes payable	(1,747)	(13)
Other, net	849	1,047
Net cash provided by operating activities	22,271	12,340
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	329	241
Additions to property and equipment	(6,789)	(2,049)
Investments in available for sale securities	-	(300)
Net cash used by investing activities	(6,460)	(2,108)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	7,000	30,092
Repayments of debt	(23,024)	(43,325)
Proceeds from sale of interest rate swap	-	1,530
Purchase of treasury stock	(157)	-
Proceeds from sale of treasury stock	-	-
	390	
Proceeds from exercise of stock options	-	13
Net cash used by financing activities	(15,791)	(11,690)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20	(1,458)
CASH AND CASH EQUIVALENTS, beginning of period	613	4,167
CASH AND CASH EQUIVALENTS, end of period	$ 633	$ 2,709
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for		
Interest	$ 9,213	$ 12,891
Income taxes	$ 15,228	$ 819

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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. OVERVIEW

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 and related service and maintenance markets.

The accompanying unaudited condensed historical financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements, and therefore should be reviewed in conjunction with the financial statements and related notes thereto contained in the Company's annual report for the year ended September 30, 2001 filed on Form 10-K with the Securities and Exchange Commission. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Actual operating results for the six months ended March 31, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2002.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a description of these policies, refer to Note 2 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2001.

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.

USE OF ESTIMATES AND ASSUMPTIONS

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 primarily used in the Company's revenue recognition of construction in progress, fair value assumptions in analyzing goodwill impairment, allowance for doubtful accounts and self-insured claims liability.

NEW ACCOUNTING PRONOUNCEMENT

In August 2001, the FASB issued Statement of Financial Accounting Standards (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.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective October 1, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective October 1, 2001. Goodwill amortization for the three and six months ended March 31, 2002 would have otherwise been $3.2 million and $6.5 million, respectively. Material amounts of recorded goodwill attributable to each of the Company's reporting units were tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using discounted cash flows, market multiples and market capitalization. These impairment tests are required to be performed at adoption of SFAS No. 142 and at least annually thereafter. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units. On an ongoing basis (absent any impairment indicators), the Company expects to perform impairment tests annually during the first fiscal quarter.

Based on the Company's impairment tests performed upon adoption of SFAS No. 142, it recognized a charge of $283.3 million ($7.13 per share) in the first quarter of 2002 to reduce the carrying value of goodwill of its reporting units to its implied fair value. This impairment is a result of adopting a fair value approach, under SFAS No. 142, to testing impairment of goodwill as compared to the previous method utilized in which evaluations of goodwill impairment were made by the Company using the estimated future undiscounted cash flows compared to the assets carrying amount. Under SFAS No. 142, the impairment adjustment recognized at adoption of the new rules was reflected as a cumulative effect of change in accounting principle in the Company's first quarter 2002 income statement. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses.

The carrying amount of goodwill attributable to each reportable operating unit with goodwill balances and changes therein follows:

	September 30, 2001	Impairment Adjustment	March 31, 2002
Commercial and Industrial	$ 418,887	$ 277,042	$ 141,845
Residential	63,767	6,242	57,525
	$ 482,654	$ 283,284	$ 199,370

The unaudited results of operations presented below for the six months ended March 31, 2002 and adjusted results of operations for the six months ended March 31, 2001 reflect the operations of the Company had we adopted the non-amortization provisions of SFAS No. 142 effective October 1, 2000:

	Six Months Ended March 31, 2001	Six Months Ended March 31, 2002
Reported net income (loss)	$ 15,083	$ (283,031)
Add: Cumulative effect of change in accounting principle, net of tax	--	283,284
Add: Goodwill amortization, net of tax	6,493	--
Adjusted net income	$ 21,576	$ 253
Basic earnings (loss) per share:		
Reported net income (loss)	$ 0.37	$ (7.10)
Add: Cumulative effect of change in accounting principle, net of tax	--	7.11
Add: Goodwill amortization, net of tax	0.16	--
Adjusted net income	$ 0.53	$ 0.01
Diluted earnings (loss) per share:		
Reported net income (loss)	$ 0.37	$ (7.10)
Add: Cumulative effect of change in accounting principle, net of tax	--	7.11
Add: Goodwill amortization, net of tax	0.16	--
Adjusted net income (loss)	$ 0.53	$ 0.01

3. RESTRUCTURING CHARGES

In October 2001, the Company began implementation of a workforce reduction program. The purpose of this program was to cut costs by reducing the number of administrative staff both in the field and at the home office. As a result of the program implementation, the Company recorded pre-tax restructuring charges of $5.6 million during the six months ended March 31, 2002, of which $1.6 million was recorded during the three months ended March 31, 2002. The charges were based on the costs of the workforce reduction program and include severance and other special termination benefits.

4. DEBT

Debt consists of the following (in thousands):

	September 30, 2001	March 31, 2002
Secured credit facility with a group of lending institutions, due May 22, 2004, at a weighted average interest rate of 7.56% and 6.82%, respectively........	$ 12,000	$ 6,000
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	125,000
Other........	1,551	1,886
	288,551	282,886
Less - short-term debt and current maturities of long-term debt........	(679)	(455)
Less - unamortized discount on senior subordinated notes........	(4,949)	(4,610)
Total long-term debt........	$ 282,923	$ 277,821

Credit Facility

The Company is party to a $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, as amended (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 3.50 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 2.00 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 of its Credit Facility, as amended, at March 31, 2002. As of March 31, 2002, the Company had borrowings outstanding under its Credit Facility of $6.0 million, letters of credit outstanding under its Credit Facility of $10.8 million, $1.9 million of other borrowings and available borrowing capacity under its Credit Facility of $133.2 million. At May 6, 2002 the Company had no outstanding borrowings under its Credit Facility.

Senior Subordinated Notes

The Company has $275.0 million in senior subordinated notes. 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 had 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. At September 30, 2001, the interest rate swap had a fair value of $3.2 million and was included in the balance sheet in other noncurrent assets. The Company terminated this interest rate swap agreement in February 2002 because the fair value of the swap was $1.5 million. This amount will be amortized over the remaining life of the bonds.

The Company entered into a new interest rate swap agreement in February 2002, 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 trailing LIBOR plus 3.86%) 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 March 31, 2002, the interest rate swap had a fair value of ($3.6) million and is included in the balance sheet in other noncurrent liabilities.

The following table presents the balance sheet effect on the Company's senior subordinated notes (in thousands):

	September 30, 2001	March 31, 2002
Senior subordinated notes, due February 1, 2009	$ 275,000	$ 275,000
Less: unamortized discount on senior subordinated notes	(4,949)	(4,610)
Add: Fair value of terminated interest rate hedge	3,159	1,530
Less: Fair value of interest rate hedge	--	(3,610)
	$ 273,210	$ 268,310

5. EARNINGS PER SHARE

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the six months ended March 31, 2001 and 2002 (in thousands, except share information):

	Six Months Ended March 31,	
	2001	2002
Numerator:		
Net income (loss)	$ 15,083	$ (283,031)
Denominator:		
Weighted average shares outstanding - basic	40,795,509	39,847,029
Effect of dilutive stock options	264,778	-
Weighted average shares outstanding - diluted	41,060,287	39,847,029
Earnings (loss) per share:		
Basic	$ 0.37	$ (7.10)
Diluted	$ 0.37	$ (7.10)

For the six months ended March 31, 2001 and 2002, stock options of 5.1 million and 6.5 million respectively, were excluded from the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the Company's common stock. For the six months ended March 31, 2002, the weighted average diluted shares outstanding excluded 34,847 shares related to employee stock options where the exercise prices were less than the average market price of the Company's common stock. These shares were excluded because the Company reported a loss during the period, and including them would have had an antidilutive effect on loss per share.

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the three months ended March 31, 2001 and 2002 (in thousands, except share information):

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
Numerator:		
Net income	$ 8,075	$ 2,066
Denominator:		
Weighted average shares outstanding - basic	40,835,149	39,956,135
Effect of dilutive stock options	258,832	46,826
Weighted average shares outstanding - diluted	41,093,981	40,002,961
Earnings per share:		
Basic	$ 0.20	$ 0.05
Diluted	$ 0.20	$ 0.05

For the three months ended March 31, 2001 and 2002, stock options of 5.1 million and 6.4 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.

6. 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 two distinct customer groups. They are managed separately because each business requires different operating and marketing strategies.

During the six months ended March 31, 2002, the Company realigned its operations between two reportable segments: commercial/industrial and residential. The commercial/industrial segment provides electrical and communications contracting, design, installation, renovation, engineering and upgrades and maintenance and replacement services in facilities such as 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, petrochemical and power plants, outside plant, network enterprise and switch network customers. The residential segment consists of electrical and communications contracting, installation, replacement and renovation services in single family and low-rise multifamily housing units. Other includes expenses associated with the Company's home office and regional infrastructure.

The accounting policies of the 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. Management allocates costs between segments for selling, general and administrative expenses, goodwill amortization, depreciation expense, capital expenditures and total assets. Those methods used for allocation may change in the future.

Segment information for the six months ended March 31, 2001 and 2002 is as follows (in thousands):

	SIX MONTHS ENDED MARCH 31, 2001			
	COMMERCIAL/ INDUSTRIAL	RESIDENTIAL	OTHER	TOTAL
Revenues	$ 723,469	$ 122,118	$ --	$ 845,587
Cost of services (including depreciation)	600,127	94,170	--	694,297
Gross profit	123,342	27,948	--	151,290
Selling, general and administrative	70,672	14,349	18,752	103,773
Goodwill amortization	5,696	797	--	6,493
Operating income	$ 46,974	$ 12,802	$ (18,752)	$ 41,024
Other data:				
Depreciation expense	$ 6,225	$ 828	$ 409	$ 7,462
Capital expenditures	8,067	1,035	3,281	12,383
Total assets	836,964	112,639	48,280	997,883

	SIX MONTHS ENDED MARCH 31, 2002			
	COMMERCIAL/ INDUSTRIAL	RESIDENTIAL	OTHER	TOTAL
Revenues	$ 600,974	$ 130,686	$ -	$ 731,660
Cost of services (including depreciation)	517,246	102,484	-	619,730
Gross profit	83,728	28,202	-	111,930
Selling, general and administrative	62,527	16,480	14,158	93,165
Restructuring charge	-	-	5,556	5,556
Operating income	$ 21,201	$ 11,722	$ (19,714)	$ 13,209
Other data:				
Depreciation expense	$ 7,019	$ 610	$ 945	$ 8,574
Capital expenditures	3,827	264	1,900	5,991
Total assets	528,465	99,858	67,910	696,233

The Company's information for the six months ended March 31, 2001 has been restated for consistency with the current year presentation.

Segment information for the three months ended March 31, 2001 and 2002 is as follows (in thousands):

	SIX MONTHS ENDED MARCH 31, 2001			
	COMMERCIAL/ INDUSTRIAL	RESIDENTIAL	OTHER	TOTAL
Revenues	$ 358,312	$ 60,245	$ -	$ 418,557
Cost of services (including depreciation).	295,639	46,169	-	341,808
Gross profit	62,673	14,076	-	76,749
Selling, general and administrative	34,837	6,311	10,660	51,808
Goodwill amortization	2,845	399	-	3,244
Operating income	$ 24,991	$ 7,366	$ (10,660)	$ 21,697
Other data:				
Depreciation expense	$ 3,165	$ 426	$ 219	$ 3,810
Capital expenditures	3,587	368	2,834	6,789
Total assets	836,964	112,639	48,280	997,883

	SIX MONTHS ENDED MARCH 31, 2002			
	COMMERCIAL/ INDUSTRIAL	RESIDENTIAL	OTHER	TOTAL
Revenues	$ 292,929	$ 63,552	$ -	$ 356,481
Cost of services (including depreciation)	252,214	49,566	-	301,780
Gross profit	40,715	13,986	-	54,701
Selling, general and administrative	29,287	7,846	6,259	43,392
Restructuring charge	-	-	1,556	1,556
Operating income	$ 11,428	$ 6,140	$ (7,815)	$ 9,753
Other data:				
Depreciation expense	$ 3,598	$ 278	$ 471	$ 4,347
Capital expenditures	1,189	152	708	2,049
Total assets	528,465	99,858	67,910	696,233

The Company's information for the three months ended March 31, 2001 has been restated for consistency with the current year presentation. The Company does not have significant operations or long-lived assets in countries outside of the United States.

7. 1999 INCENTIVE COMPENSATION PLAN

In November 1999 the Board of Directors adopted the 1999 Incentive Compensation Plan (the "1999 Plan"). The 1999 Plan authorizes the Compensation Committee of the Board of Directors or the Board of Directors to grant employees 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.

The Company granted a restricted stock award of 400,000 shares under its 1999 Plan. The market value of the stock on the date of grant for this award was $2.3 million. During the six months ended March 31, 2001 and 2002, the Company amortized $0.3 million and $1.4 million, respectively, in connection with this award. During the three months ended March 31, 2001 the Company amortized $0.1 million in connection with this award. The award became fully vested and was fully amortized during the three months ended December 31, 2001. Accordingly, the Company had no amortization expense related to this award during the three months ended March 31, 2002.

8. 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 March 31, 2002, the Company had invested $1.8 million under its commitment to EnerTech.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following should be read in conjunction with the response to Part I, Item 1 of this Report. Any capitalized terms used but not defined in this Item have the same meaning given to them in Part I, Item 1.

This report on Form 10-Q includes certain statements 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. These statements are based on our expectations and involve risks and uncertainties that could cause our 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 related 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 the effects of seasonality. The foregoing and other factors are discussed in our filings with the SEC including our Annual Report on Form 10-K for the year ended September 30, 2001.

In response to the SEC's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we have identified the accounting principles which we believe are most critical to our reported financial status by considering accounting policies that involve the most complex or subjective decisions or assessments. We identified our most critical accounting policies to be those related to revenue recognition, the assessment of goodwill impairment, our allowance for doubtful accounts receivable and the recording of our self-insurance liabilities. These accounting policies, as well as others, are described in the Notes to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended September 30, 2001 and at relevant sections in this discussion and analysis.

Our revenues are derived by providing specialty contracting services to the commercial and industrial and residential markets. Those markets comprise our reportable segments.

We enter into contracts principally on the basis of competitive bids. We frequently negotiate the final terms and prices of those contracts with the customer. Although the terms of our contracts vary considerably, most are made on either a fixed price or unit price basis in which we agree to do the work for a fixed amount for the entire project (fixed price) or for units of work performed (unit price). We also perform services on a cost-plus or time and materials basis. We are generally able to achieve higher margins on fixed price and unit price than on cost-plus contracts. 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 on the size of a particular project, variations from estimated project costs could have a significant impact on our operating results for any fiscal quarter or year. We believe our exposure to losses on fixed price contracts is limited in aggregate by the high volume and relatively short duration of the fixed price contracts we undertake. Additionally, we derive a significant amount of our revenues from new construction and from the southern part of the United States. Downturns in new construction activity or in construction in the southern United States could affect our results.

We complete most projects within one year, while we frequently provide service and maintenance work under open-ended, unit price master service agreements which are renewable annually. We recognize 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 us 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 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. We generally consider 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.

We provide an allowance for doubtful accounts for unknown collection issues in addition to reserves for specific accounts receivable where collection is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, our customers' access to capital, our customers' willingness to pay, general economic conditions and the ongoing relationships with our customers.

We are self-insured for workers' compensation, auto liability, general liability and employee-related health care claims, subject large deductibles. Losses up to the deductible amounts are accrued based upon our estimates of the liability for claims incurred and an estimate of claims incurred but not reported. However, insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. The accruals are based upon known facts and historical trends and management believes such accruals to be adequate.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2001 COMPARED TO THE SIX MONTHS ENDED MARCH 31, 2002

The following table presents selected unaudited historical financial information for the six months ended March 31, 2001 and 2002.

	Six Months Ended March 31,			
	2001	%	2002	%
	(dollars in millions)			
Revenues	$ 845.6	100%	$ 731.7	100%
Cost of services (including depreciation)	694.3	82%	619.7	85%
Gross profit	151.3	18%	112.0	15%
Selling, general & administrative expenses	103.8	12%	93.2	12%
Restructuring charge	--	0%	5.6	1%
Goodwill amortization	6.5	1%	--	0%
Income from operations	41.0	5%	13.2	2%
Interest and other expense, net	12.7	1%	13.7	2%
Income (loss) before income taxes and cumulative effect of change in accounting principle	28.3	4%	(0.5)	0%
Provision (benefit) for income taxes	13.2	2%	(0.8)	0%
Cumulative effect of change in accounting principle, net of tax	--	0%	283.3	39%
Net income (loss)	$ 15.1	2%	$ (283.0)	-39%

REVENUES

	PERCENT OF TOTAL REVENUES	
	SIX MONTHS ENDED MARCH 31,	
	2001	2002
Commercial and Industrial	86%	82%
Residential	14%	18%
Total Company	100%	100%

Total revenues decreased $113.9 million, or 13%, from $845.6 million for the six months ended March 31, 2001, to $731.7 million for the six months ended March 31, 2002. This decrease in revenues is primarily the result of non-recurring work performed for one customer during the six months ended March 31, 2001, a decrease in revenues from communications work and a decrease of non-residential revenues in the Northwest, as well as increased competition across the country for available work during the six months ended March 31, 2002.

Commercial and industrial revenues decreased $122.5 million, or 17%, from $723.5 million for the six months ended March 31, 2001, to $601.0 million for the six months ended March 31, 2002. This decrease in revenues is primarily the result of non-recurring work performed for one customer during the six months ended March 31, 2001, a decrease in revenues from communications work and a decrease of non-residential revenues in the Northwest, as well as increased competition across the country for available work during the six months ended March 31, 2002.

Residential revenues increased $8.6 million, or 7%, from $122.1 million for the six months ended March 31, 2001, to $130.7 million for the six months ended March 31, 2002, primarily as a result of increased awards of construction contracts in markets we serve.

GROSS PROFIT

	SEGMENT GROSS PROFIT MARGINS AS A PERCENT OF SEGMENT REVENUES	
	SIX MONTHS ENDED MARCH 31,	
	2001	2002
Commercial and Industrial	17%	14%
Residential	23%	22%
Total Company	18%	15%

Gross profit decreased $39.3 million, or 26%, from $151.3 million for the six months ended March 31, 2001, to $112.0 million for the six months ended March 31, 2002. Gross profit margin as a percentage of revenues decreased approximately 3% from 18% for the six months ended March 31, 2001 to 15% for the six months ended March 31, 2002. This decrease in gross profit margin as a percentage of revenues was primarily the result of increased competition for available work, project fade recorded on fixed-price contracts at one of our subsidiaries during the six months ended March 31, 2002 and lower margins on work in the communications market.

Commercial and industrial gross profit decreased $39.6 million, or 32%, from $123.3 million for the six months ended March 31, 2001, to $83.7 million for the six months ended March 31, 2002. Commercial and industrial gross profit margin as a percentage of revenues decreased 3% from 17% for the six months ended March 31, 2001, to 14% for the six months ended March 31, 2002. This decrease in gross profit margin as a percentage of revenues was primarily the result of increased competition for available work, project fade recorded on fixed-price contracts at one of our subsidiaries during the six months ended March 31, 2002 and lower margins on work in the communications market.

Residential gross profit increased $0.3 million, or 1%, from $27.9 million for the six months ended March 31, 2001, to $28.2 million for the six months ended March 31, 2002. Residential gross profit margin as a percentage of revenues decreased 1% from 23% for the six months ended March 31, 2001, to 22% for the six months ended March 31, 2002. This decrease in gross profit margin as a percent of revenues is primarily the result of performing more lower margin multi-family work and single-family tract housing.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased $10.6 million, or 10%, from $103.8 million for the six months ended March 31, 2001, to $93.2 million for the six months ended

March 31, 2002. This decrease resulted from the elimination of certain administrative field and home office personnel during the six months ended March 31, 2002. Selling, general and administrative expenses as a percentage of revenues increased from 12% for the six months ended March 31, 2001 to 13% for the six months ended March 31, 2002. This increase is a function of decreased revenues earned during the six months ended March 31, 2002, as compared to revenues earned during the six months ended March 31, 2001.

RESTRUCTURING CHARGES

In October 2001, we began implementation of a workforce reduction program. The purpose of this program was to reduce the number of administrative staff both in the field and in the home office. As a result of the program implementation, we recorded pre-tax restructuring charges of $5.6 million during the six months ended March 31, 2002. The charges were based on the cost of the workforce reduction program, including severance and other termination benefits.

INCOME FROM OPERATIONS

Income from operations decreased $27.8 million, or 68%, from $41.0 million for the six months ended March 31, 2001, to $13.2 million for the six months ended March 31, 2002. This decrease in income from operations was primarily attributed to decreased revenues year over year, decreased margins earned on those revenues and restructuring charges of $5.6 million incurred during the six months ended March 31, 2002, partially offset by the elimination of $6.5 million of goodwill amortization in accordance with the current accounting standard.

NET INTEREST AND OTHER EXPENSE

Interest and other expense, net increased from $12.7 million for the six months ended March 31, 2001, to $13.7 million for the six months ended March 31, 2002, primarily as a result of interest expense attributable to increased borrowings and a $0.7 million loss recorded on our equity investment in Energy Photovoltaics, Inc.

PROVISION FOR INCOME TAXES

We recorded a tax benefit of $0.8 million for the six months ended March 31, 2002. This benefit is the result of a loss before income taxes recorded during the six months ended March 31, 2002 and the reversal of valuation allowances due to the projected utilization of certain net operating loss carry forwards. During the six months ended March 31, 2001, we recorded a tax provision of $13.2 million, or an effective tax rate of 46.7%. This effective tax rate during the six months ended March 31, 2001 was the result of non-deductible goodwill amortization expense.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2002

The following table presents selected unaudited historical financial information for the three months ended March 31, 2001 and 2002.

	Three Months Ended March 31,			
	2001	%	2002	%
	(dollars in millions)			
Revenues	$ 418.6	100%	$ 356.5	100%
Cost of services (including depreciation)	341.9	82%	301.8	85%
Gross profit	76.7	18%	54.7	15%
Selling, general & administrative expenses	51.8	12%	43.3	12%
Restructuring charge	-	0%	1.6	0%
Goodwill amortization	3.2	1%	-	0%
Income from operations	21.7	5%	9.8	3%
Interest and other expense, net	6.7	1%	6.9	2%
Income before income taxes	15.0	4%	2.9	1%
Provision for income taxes	6.9	2%	0.8	0%
Net income	$ 8.1	2%	$ 2.1	1%

REVENUES

	PERCENT OF TOTAL REVENUES	
	THREE MONTHS ENDED MARCH 31,	
	2001	2002
Commercial and Industrial	86%	82%
Residential	14%	18%
Total Company	100%	100%

Total revenues decreased $62.1 million, or 15%, from $418.6 million for the three months ended March 31, 2001, to $356.5 million for the three months ended March 31, 2002. This decrease in revenues is primarily the result of non-recurring work performed for one customer during the three months ended March 31, 2001, a decrease in revenues from communications work and a decrease of non-residential revenues in the Northwest, as well as increased competition across the country for available work during the three months ended March 31, 2002.

Commercial and industrial revenues decreased $65.4 million, or 18%, from $358.3 million for the three months ended March 31, 2001, to $292.9 million for the three months ended March 31, 2002. This decrease in revenues is primarily the result of non-recurring work performed for one customer during the three months ended March 31, 2001, a decrease in revenues from communications work and a decrease of non-residential revenues in the Northwest, as well as increased competition across the country for available work during the three months ended March 31, 2002.

Residential revenues increased $3.3 million, or 5%, from $60.2 million for the three months ended March 31, 2001, to $63.5 million for the three months ended March 31, 2002, primarily as a result of increased awards of construction contracts in markets we serve.

GROSS PROFIT

	SEGMENT GROSS PROFIT MARGINS AS A PERCENT OF SEGMENT REVENUES	
	THREE MONTHS ENDED MARCH 31,	
	2001	2002
Commercial and Industrial	17%	14%
Residential	23%	22%
Total Company	18%	15%

Gross profit decreased $22.0 million, or 29%, from $76.7 million for the three months ended March 31, 2001, to $54.7 million for the three months ended March 31, 2002. Gross profit margin as a percentage of revenues decreased approximately 3% from 18% for the three months ended March 31, 2001 to 15% for the three months ended March 31, 2002. This decrease in gross profit margin as a percentage of revenues was primarily the result of increased competition for available work, project fade recorded on fixed-price contracts at one of our subsidiaries during the three months ended March 31, 2002 and lower margins on work in the communications market.

Commercial and industrial gross profit decreased $22.0 million, or 35%, from $62.7 million for the three months ended March 31, 2001, to $40.7 million for the three months ended March 31, 2002. Commercial and industrial gross profit margin as a percentage of revenues decreased 3% from 17% for the three months ended March 31, 2001, to 14% for the three months ended March 31, 2002. This decrease in gross profit margin as a percentage of revenues was primarily the result of increased competition for available work, project fade recorded on fixed-price contracts at one of our subsidiaries during the three months ended March 31, 2002 and lower margins on work in the communications market.

Residential gross profit decreased $0.1 million, or 1%, from $14.1 million for the three months ended March 31, 2001, to $14.0 million for the three months ended March 31, 2002. Residential gross profit margin as a percentage of revenues decreased 1% from 23% for the three months ended March 31, 2001, to 22% for the three months ended March 31, 2002. This decrease in gross profit margin as a percent of revenues was primarily the result of performing lower margin multi-family work and single-family tract housing.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased $8.5 million, or 16%, from $51.8 million for the three months ended March 31, 2001, to $43.3 million for the three months ended March 31, 2002. This decrease results from the elimination of certain administrative field and home office personnel during the three months ended March 31, 2002. Selling, general and administrative expenses as a percentage of revenues remained constant at 12% for the three months ended March 31, 2001 and the three months ended March 31, 2002.

RESTRUCTURING CHARGE

In October 2001, we began implementation of a workforce reduction program. The purpose of this program was to reduce the number of administrative staff both in the field and in the home office. As a result of the program implementation, we recorded a pre-tax restructuring charge of $1.6 million during the three months ended March 31, 2002. The charge was based on the cost of the workforce reduction program, including severance and other special termination benefits.

INCOME FROM OPERATIONS

Income from operations decreased $11.9 million, or 55%, from $21.7 million for the three months ended March 31, 2001, to $9.8 million for the three months ended March 31, 2002. This decrease in income from operations was primarily attributed to decreased revenues year over year, decreased margins earned on those revenues and a $1.6 million restructuring charge incurred during the three months ended March 31, 2002, partially offset by the elimination of $3.2 million in goodwill amortization in accordance with the current accounting standard.

NET INTEREST AND OTHER EXPENSE

Interest and other expense, net increased from $6.7 million for the three months ended March 31, 2001, to $6.9 million for the three months ended March 31, 2002, primarily as a result of interest expense attributable to increased borrowings, partially offset by gains on sales of assets and other expenses.

PROVISION FOR INCOME TAXES

Our effective tax rate decreased from 46.2% for the three months ended March 31, 2001 to 28.1% for the three months ended March 31, 2002. The lower effective tax rate in the current three months was the result of non-deductible goodwill amortization expense during the three months ended March 31, 2001 and the reversal of valuation allowances due to the projected utilization of certain net operating loss carry forwards during the three months ended March 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, we had cash and cash equivalents of $2.7 million, working capital of $238.7 million, outstanding borrowings under our credit facility of $6.0 million, $10.8 million of letters of credit outstanding, and available capacity under our credit facility of $133.2 million. The amount outstanding under our senior subordinated notes was $275.0 million. All debt obligations are on our balance sheet.

During the six months ended March 31, 2002, we generated $8.6 million of net cash from operating activities. This net cash provided by operating activities was comprised of a net loss of $283.0 million, increased by $293.1 million of non-cash charges related primarily to the cumulative effect of change in accounting principle, depreciation expense, and non-cash compensation expenses and decreased by changes in working capital. Working capital changes consisted of a $52.3 million decrease in accounts payable and accrued expenses as a result of payments of year-end accruals, offset by a $37.4 million decrease in accounts receivable as a result of the timing of collections. Working capital changes also included a $10.4 million decrease in costs and estimated earnings in excess of billings on uncompleted projects, a $3.6 million increase in billings in excess of costs and estimated earnings on uncompleted contracts, and an increase in inventories of $5.8 million primarily related to inventory purchased for a contract, with the balance of the change due to other working capital changes. Net cash used in investing activities was $6.5 million, consisting primarily of $6.0 million used for capital expenditures and $0.5 million for investments in available for sale securities and other. Net cash used in financing activities was $2.9 million, resulting primarily from repayments, net of borrowings under our credit facility and proceeds received in connection with the termination of the interest rate swap in February 2002, as discussed below.

Debt Financing. We are party to a $150.0 million revolving credit facility with a syndicate of lending institutions to be used for working capital, capital expenditures, acquisitions and other corporate purposes that matures May 22, 2004, as amended. 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 3.50 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 2.00 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. We were in compliance with the financial covenants of our credit facility, as amended, at March 31, 2002. At May 6, 2002, we had no outstanding borrowings under our credit facility.

We have $275.0 million in senior subordinated notes. 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 these derivatives was $3.2 million and was included in the balance sheet in other noncurrent assets. We terminated this contract in February, 2002 because the fair value of this derivative was $1.5 million. This amount will be amortized over the remaining life of the bonds.

In February, 2002 we entered into a new 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 March 31, 2002 the fair value of these derivatives was ($3.6) million and is included in the balance sheet in other noncurrent liabilities. 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 March 31, 2002.

Borrowings outstanding on our credit facility, our senior subordinated notes and our interest rate swap contract expose us to significant risks. Our credit facility and interest rate swap contract expose us to risks associated with floating interest rates. Our senior subordinated notes are fixed interest rate obligations. The competitiveness of those fixed rates may impair our ability to retire those obligations at reasonable rates before maturity.

Other Commitments. As is common in our industry, we have entered into certain off balance sheet arrangements that expose us to increased risk. Our significant off balance sheet transactions include liabilities associated with noncancelable operating leases, letter of credit obligations and surety guarantees.

We enter into noncancelable operating leases for many of our vehicle and equipment needs. These leases allow us to retain our cash when we do not own the vehicles or equipment and we pay a monthly lease rental fee. At the end of the lease, we have no further obligation to the lessor. We may determine to cancel or terminate a lease before the end of its term. Typically we are liable to the lessor for various lease cancellation or termination costs and the difference between the then fair market value of the leased asset and the implied book value of the leased asset as calculated in accordance with the lease agreement.

Some of our customers require us to post letters of credit as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. Depending on the circumstances surrounding a reimbursement to our creditor, we may have a charge to earnings in that period. To date we have not had a situation where a customer has had reasonable cause to effect payment under a letter of credit.

Many of our customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. In the event that we fail to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under our bond. Our relationship with our surety is such that we will indemnify the surety for any expenses it incurs in connection with any of the bonds it issues on our behalf. To date, we have not incurred significant expenses to indemnify our surety for expenses it incurred on our behalf.

We have 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 form deregulation and resulting convergence of the energy, utility and telecommunications industries. Through March 31, 2002, we had invested $1.8 million under our commitment to EnerTech.

Our future contractual obligations include (in thousands):

	LESS THAN ONE YEAR	2003	2004	2005	2006	THEREAFTER	TOTAL
Debt and capital lease obligations	$ 455	$ 1,160	$ 6,169	$ 85	$ 17	$ 275,000	$ 282,886
Operating lease obligations.......	$ 5,816	$ 8,951	$ 7,175	$ 5,134	$ 2,556	$ 3,294	$ 32,926

Our other commercial commitments expire as follows:

	LESS THAN ONE YEAR	2003	2004	2005	2006	THEREAFTER	TOTAL
Standby letters of credit.........	$ 4,768	$ 6,001	$ --	$ --	$ --	$ --	$ 10,769
Other commercial commitments......	$ --	$ --	$ --	$ --	$ --	$ 3,200 (1)	$ 3,200

(1) Balance of investment commitment in EnerTech.

Outlook. The following statements are based on current expectations. These statements are forward-looking and actual results may differ materially. Economic conditions across the country are challenging. We continue to focus on collecting receivables and reducing days sales outstanding. To improve our position for continued success, we have taken steps to reduce costs. We have made significant cuts in administrative overhead at the home office and in the field. We believe these cuts will result in savings of over $35 million as compared to the prior year. In connection with these cuts, we incurred restructuring charges of $5.6 million during the six months ended March 31, 2002.

We expect to generate cash flow from operations. Our cash flows from operations tend to track with the seasonality of our business and historically have improved in the latter part of our fiscal year. We anticipate that our cash flow from operations 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. Additionally, we expect to generate enough cash flow from operations to repay any borrowings under our credit facility. Our ability to generate cash flow from operations is dependent on many factors, including demand for our products and services, the availability of work at margins acceptable to us and the ultimate collectibility of our receivables.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Our results of operations, particularly from residential construction, are seasonal, depending on weather trends, with typically higher revenues generated during the spring and summer and lower revenues during the fall and winter. The commercial and industrial aspect of our business is less subject to seasonal trends, as this work generally is performed inside structures protected from the weather. Our service 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 gross margins for both bid and negotiated projects, the timing of new construction projects and any acquisitions. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2001, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective October 1, 2001. Goodwill amortization for the three and six months ended March 31, 2002 would have otherwise been $3.2 million and $6.5 million, respectively. Material amounts of recorded goodwill attributable to each of our reporting units were tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using discounted cash flows, market multiples and market capitalization. These impairment tests are required to be performed at adoption of SFAS No. 142 and at least annually thereafter. Significant estimates used in the methodologies include estimates of future cash flows, future short term and long term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during our first fiscal quarter following our annual budgeting process.

Based on initial impairment tests performed upon adoption of SFAS No. 142, we recognized a charge of $283.3 million ($7.13 per share) in the first quarter of 2002 to reduce the carrying value of goodwill of our reporting units to their implied fair value. This impairment is a result of adopting a fair value approach, under SFAS No. 142, to testing impairment of goodwill as compared to the previous method utilized in which we made evaluations of goodwill impairment by using the estimated future undiscounted cash flows to the asset's carrying amount. Under

SFAS No. 142, the impairment adjustment recognized at adoption of the new rules was reflected as a cumulative effect of change in accounting principle in our first quarter 2002 income statement. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses.

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 3. 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 February 2002. 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 March 31, 2002:

	2002	2003	2004	2005	2006	THEREAFTER	TOTAL
Liabilities -Debt:							
Variable Rate (Credit Facility)...	$ --	$ --	$ 6,000	$ --	$ --	$ --	$ 6,000
Average Interest Rate.............	6.82%	6.82%	6.82%	--	--	--	6.82%
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							$ 6,000
Fixed Rate							$ 253,000
Interest Rate Swap:							
Pay variable/receive fixed........	$ --	$ --	$ --	$ --	$ --	$ 100,000	$ 100,000
Average rate paid (3-Month Trailing LIBOR plus 3.86%)..........	5.73%	5.73%	5.73%	5.73%	5.73%	5.73%	5.73%
Fixed rate received...............	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%
Fair Value of Interest Rate Swap:							$ (3,610)

PART II. OTHER INFORMATION

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

(A) The Company held its annual meeting of stockholders in Houston, Texas on February 6, 2002. The following sets forth matters submitted to a vote of the stockholders:

(B) The following individuals were elected to the Board of Directors as stated in the Company's Proxy Statement dated December 27, 2001, for terms expiring at the 2005 annual stockholders' meeting or until their successors have been elected and qualified - Class III Directors: Richard China, Alan Sielbeck and C. Byron Snyder.

Mr. China was elected by a vote of 30,197,980 shares, being more than a majority of common stock of the Company, and 2,168,808 shares withheld. Mr. Sielbeck was elected by a vote of 29,683,141 shares, being more than a majority of common stock of the Company, and 2,683,647 shares withheld. Mr. Snyder was elected by a vote of 2,586,528 shares, being more than a majority of restricted voting common stock of the Company, and 0 shares withheld.

(C) The stockholders ratified the appointment of Arthur Andersen LLP to audit the financial statements of the Company and its subsidiaries, by a vote of 29,300,464 shares, being more than a majority of the common stock and restricted voting common stock of the Company, with 4,214,766 shares of common stock voted against, and 144,822 shares of common stock abstained.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, who has signed this report on behalf of the Registrant and as the principal financial officer of the Registrant.

INTEGRATED ELECTRICAL SERVICES, INC.

Date: May 10, 2002

By: /s/ William W. Reynolds

William W. Reynolds
Executive Vice President and
Chief Financial Officer