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 December 31, 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 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 February 13, 2002, of the issuer's common stock was 37,447,479 and of the issuer's restricted voting common stock was 2,605,709.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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

	September 30, 2001 (Audited)	December 31, 2001 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,475	$ 4,167
Accounts receivable:		
Trade, net of allowance of $5,206 and $4,978 respectively	275,922	270,258
Retainage	64,933	63,247
Related parties	222	230
Costs and estimated earnings in excess of billings on uncompleted contracts	62,249	50,504
Inventories	21,855	27,477
Prepaid expenses and other current assets	23,858	18,635
Total current assets	452,514	434,518
PROPERTY AND EQUIPMENT, net	70,343	69,959
GOODWILL, net	482,654	199,370
OTHER NON-CURRENT ASSETS	27,992	26,536
Total assets	$ 1,033,503	$ 730,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt and current maturities of long-term debt	$ 679	$ 643
Accounts payable and accrued expenses	164,272	134,157
Income taxes payable	700	248
Billings in excess of costs and estimated earnings on uncompleted contracts	50,234	57,138
Total current liabilities	215,885	192,186
LONG-TERM BANK DEBT	12,000	19,000
OTHER LONG-TERM DEBT, net of current maturities	872	1,478
SENIOR SUBORDINATED NOTES, net of $4,949 and $4,780 unamortized discount, respectively	273,210	270,365
OTHER NON-CURRENT LIABILITIES	2,892	2,260
Total liabilities	504,859	485,289
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 38,633,598 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 1,245,212 shares, respectively	(9,181)	(9,176)
Additional paid-in capital	428,640	430,348
Retained earnings (deficit)	108,719	(176,378)
Accumulated other comprehensive income (loss)	57	(112)
Total stockholders' equity	528,644	245,094
Total liabilities and stockholders' equity	$ 1,033,503	$ 730,383

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 December 31,	
	2000	2001
		(Unaudited)
Revenues	$ 427,030	$ 375,179
Cost of services (including depreciation)	352,489	317,950
Gross profit	74,541	57,229
Selling, general and administrative expenses	51,965	49,773
Restructuring charge	--	4,000
Goodwill amortization	3,249	--
Income from operations	19,327	3,456
Other (income)/expense:		
Interest expense	6,258	6,785
Gain on sale of assets	(36)	(71)
Other (income) expense, net	(175)	178
	6,047	6,892
Income (loss) before income taxes	13,280	(3,436)
Provision (benefit) for income taxes	6,272	(1,623)
Cumulative effect of change in accounting principle, net of tax	--	283,284
Net income (loss)	$ 7,008	$ (285,097)
Basic earnings (loss) per share:		
Basic earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.17	$ (0.04)
Cumulative effect of change in accounting principle	$ --	$ (7.13)
Basic earnings (loss) per share	$ 0.17	$ (7.17)
Diluted earnings (loss) per share:		
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.17	$ (0.04)
Cumulative effect of change in accounting principle	$ --	$ (7.13)
Diluted earnings (loss) per share	$ 0.17	$ (7.17)
Shares used in the computation of earnings (loss) per share (Note 5):		
Basic	40,756,732	39,759,175
Diluted	41,088,790	39,759,175

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)

Restricted
Voting
Compre-
Common Stock
Common Stock
Treasury
Stock
hensive ----

------ -----

----- ------

----- Income
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)
....
301,926 3 --
-- -- --
Exercise of
stock
options
(unaudited)
....
-- -- -- --
667 5
Unrealized
holding loss
on
securities,
net of tax
(unaudited)
.... $
(169) -- --
-- -- -- --
Net loss
(unaudited)
....
(285,097) --
-- -- -- --
-- --------
Comprehensive
loss
(unaudited)
....
$(285,266)

========= --
-------- ---
------- ----
------ -----
----- ------
---- -------
--- BALANCE,
December 31,
2001 ...
38,633,598 $
386
2,605,709 $
26
(1,245,212)
$ (9,176)
==========
==========
==========
==========
==========
==========

Accumulated
Additional
Retained Other
Total Paid-In
Earnings
Comprehensive
Stockholders'
Capital (Deficit)
Income (Loss)
Equity ----------
-- ------------ -
----------- -----
------- BALANCE,
September 30,
2001 .... $
428,640 $ 108,719
$ 57 $ 528,644
Issuance of stock
(unaudited)
....
1,709 -- -- 1,712
Exercise of stock
options
(unaudited)
....
(1) -- -- 4
Unrealized
holding loss on
securities, net
of tax
(unaudited)
.... --
-- (169) (169)
Net loss
(unaudited)
.... --
(285,097) --
(285,097)
Comprehensive
loss (unaudited)
....
------------ ----
-------- --------
---- ------------
BALANCE, December
31, 2001 ....
$ 430,348 $
(176,378) $ (112)
$ 245,094
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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 December 31,	2000	2001
		(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 7,008	$ (285,097)
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	6,901	4,227
Gain on sale of property and equipment	(36)	(71)
Non-cash compensation expense	142	1,422
Changes in operating assets and liabilities (Increase) decrease in:		
Accounts receivable, net	17,047	7,342
Inventories	(13)	(5,622)
Costs and estimated earnings in excess of billings on uncompleted contracts	1,076	11,745
Prepaid expenses and other current assets	(6,385)	3,541
Increase (decrease) in:		
Accounts payable and accrued expenses	(60,129)	(31,537)
Billings in excess of costs and estimated earnings on uncompleted contracts	10,281	6,904
Income taxes payable	2,643	(452)
Other, net	241	75
Net cash used by operating activities	(21,224)	(4,239)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	190	170
Additions to property and equipment	(5,594)	(3,942)
Purchase of businesses, net of cash acquired	(233)	--
Investments in available for sale securities	(4,849)	--
Additions to note receivable from affiliate	--	(583)
Net cash used by investing activities	(10,486)	(4,355)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	50,000	44,291
Repayments of debt	(18,129)	(36,721)
Purchase of treasury stock	(1,298)	--
Proceeds from issuance of stock	--	1,712
Proceeds from sale of treasury stock	980	--
Proceeds from exercise of stock options	--	4
Net cash provided by financing activities	31,553	9,286
NET DECREASE IN CASH AND CASH EQUIVALENTS	(157)	692
CASH AND CASH EQUIVALENTS, beginning of period	770	3,475
CASH AND CASH EQUIVALENTS, end of period	$ 613	$ 4,167
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for Interest	$ 2,828	$ 475
Income taxes	$ 3,862	$ 3,383

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. OVERVIEW

Integrated Electrical Services, Inc. (the "Company" or "IES"), a Delaware corporation, was founded in December 1997 to create a leading national provider of electrical services, focusing primarily on the commercial and industrial, residential, communications and 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 three months ended December 31, 2001, 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. Historically, the Company has not disposed of any assets or incurred any asset impairments under SFAS No. 121.

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 quarter ended December 31, 2001 would have otherwise been $3.2 million. 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.

Based on our initial impairment tests, 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 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 our 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	December 31, 2001
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 three months ended December 31, 2001 and adjusted results of operations for the three month ended December 31, 2000 reflect the operations of the Company had we adopted the non-amortization provisions of SFAS No. 142 effective October 1, 2000:

	Three Months Ended December 31, 2001	2000
Net income (loss)	$ 7,008	$ (285,097)
Add: Cumulative effect of change in accounting principle, net of tax ...	--	283,284
Add: Goodwill amortization, net of tax	3,162	--
Adjusted net income (loss)	$ 10,170	$ (1,813)
Basic earnings (loss) per share:		
Reported net income (loss)	$ 0.17	$ (7.17)
Cumulative effect of change in accounting principle, net of tax	--	(7.13)
Goodwill amortization, net of tax	0.08	--
Adjusted net income (loss)	$ 0.25	$ (0.04)
Diluted earnings (loss) per share:		
Reported net income (loss)	$ 0.17	$ (7.17)
Cumulative effect of change in accounting principle, net of tax	--	(7.13)
Goodwill amortization, net of tax	0.08	--
Adjusted net income (loss)	$ 0.25	$ (0.04)

2. RESTRUCTURING CHARGE

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 a pre-tax restructuring charge of $4.0 million in the quarter ended December 31, 2001. The charge was based on the cost of the workforce reduction program and includes severance and other special termination benefits. The Company expects to record additional restructuring costs of approximately $0.9 to $1.4 million during the quarter ended March 31, 2002.

4. DEBT

Debt consists of the following (in thousands):

	September 30, 2001	December 31, 2001
Secured credit facility with a group of lending institutions, due May 22, 2004, at a weighted average interest rate of 7.56% and 6.66%, respectively	$ 12,000	$ 19,000
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	2,121
	288,551	296,121
Less - short-term debt and current maturities of long-term debt	(679)	(643)
Less - unamortized discount on Senior Subordinated Notes	(4,949)	(4,780)
Total long-term debt	$ 282,923	$ 290,698

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 through February 4, 2002 (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 through February 4, 2002, at December 31, 2001. As of December 31, 2001, the Company had borrowings outstanding under its Credit Facility of $19.0 million, letters of credit outstanding under its Credit Facility of $4.7 million, $2.1 million of other borrowings and available borrowing capacity under its Credit Facility of $126.3 million.

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 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 and December 31, 2001, the interest rate swap had a notional value of $100.0 million and a fair value of $3.2 million and $0.1 million, respectively. 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 Company's senior subordinated notes (in thousands):

	September 30, 2001	December 31, 2001
Senior subordinated notes, due February 1, 2009	$ 275,000	$ 275,000
Less: unamortized discount on senior subordinated notes	(4,949)	(4,780)
Add: Fair value of interest rate hedge	3,159	145
	$ 273,210	$ 270,365

5. PER SHARE INFORMATION

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the three months ended December 31, 2000 and 2001 (in thousands, except share information):

	Three Months Ended December 31, 2000	2001
Numerator: Net income (loss)	$ 7,008	$ (285,097)
Denominator: Weighted average shares outstanding - basic	40,756,732	39,759,175
Effect of dilutive stock options	332,058	--
Weighted average shares outstanding - diluted	41,088,790	39,759,175
Earnings (loss) per share: Basic	$ 0.17	$ (7.17)
Diluted	$ 0.17	$ (7.17)

For the three months ended December 31, 2000 and 2001, stock options of 5.1 million and 6.9 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. For the three months ended December 31, 2001, the weighted average diluted shares outstanding excluded 25,830 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.

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 three months ended December 31, 2001, the Company aligned its operations among 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 three months ended December 31, 2000 and 2001 is as follows (in thousands):

THREE MONTHS ENDED DECEMBER 31, 2000

	COMMERCIAL/ INDUSTRIAL	RESIDENTIAL	OTHER	TOTAL
Revenues	$ 364,718	$ 62,312	$ --	$ 427,030
Cost of services (including depreciation)	304,488	48,001	--	352,489
Gross profit	60,230	14,311	--	74,541
Selling, general and administrative	35,835	8,038	8,092	51,965
Goodwill amortization	2,851	398	--	3,249
Operating income	$ 21,544	$ 5,875	$ (8,092)	$ 19,327
Other data:				
Depreciation expense	$ 3,211	$ 251	$ 190	$ 3,652
Capital expenditures	4,759	388	447	5,594
Total assets	849,681	120,185	41,526	1,011,392

THREE MONTHS ENDED DECEMBER 31, 2001

	COMMERCIAL/ INDUSTRIAL	RESIDENTIAL	OTHER	TOTAL
Revenues	$ 308,045	$ 67,134	$ --	$375,179
Cost of services (including depreciation) ...	265,032	52,918	--	317,950
Gross profit	43,013	14,216	--	57,229
Selling, general and administrative	33,240	8,634	7,899	49,773
Restructuring charge	--	--	4,000	4,000
Operating income	$ 9,773	$ 5,582	$(11,899)	$ 3,456
Other data:				
Depreciation expense	$ 3,421	$ 332	$ 474	$ 4,227
Capital expenditures	2,638	112	1,192	3,942
Total assets	559,573	99,831	70,979	730,383

The Company's information for the three months ended December 31, 2000 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 underlying shares under its 1999 Plan. The award became fully vested during the three months ended December 31, 2001. The market value of the underlying stock on the date of grant for this award was $2.3 million. During the three months ended December 31, 2000 and 2001, the Company amortized $0.1 million and $1.4 million, respectively, in connection with this award.

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 December 31, 2001, the Company had invested $1.5 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 and assessment of goodwill impairment. 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 form estimated project costs can have a significant impact on our operating results for any fiscal quarter or year. We believe our exposure to loss 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 less than 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.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2000 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2001

The following table presents selected unaudited historical financial information for the three months ended December 31, 2000 and 2001.

(dollars in millions)	Three Months Ended December 31, 2000	%	2001	%
Revenues	$ 427.0	100%	$ 375.2	100%
Cost of services (including depreciation)	352.5	83%	318.0	85%
Gross profit	74.5	17%	57.2	15%
Selling, general & administrative expenses	51.9	12%	49.7	13%
Restructuring charge	--	0%	4.0	1%
Goodwill amortization	3.3	1%	--	0%
Income from operations	19.3	4%	3.5	1%
Interest and other expense, net	6.0	1%	6.9	2%
Income (loss) before income taxes and cumulative effect of change in accounting principle	13.3	3%	(3.4)	-1%
Provision (benefit) for income taxes	6.3	1%	(1.6)	0%
Cumulative effect of change in accounting principle, net of tax	--	0%	283.3	75%
Net income (loss)	$ 7.0	2%	$(285.1)	-76%

REVENUES

PERCENT OF TOTAL REVENUES -- THREE MONTHS ENDED DECEMBER 31,	2000	2001
Commercial and Industrial	85%	82%
Residential	15%	18%
Total Company	100%	100%

Total revenues decreased $51.8 million, or 12%, from $427.0 million for the three months ended December 31, 2000, to $375.2 million for the three months ended December 31, 2001. This decrease in revenues is primarily the result of non-recurring work performed for one customer during the three months ended December 31, 2000 and increased competition for available work during the three months ended December 31, 2001.

Commercial and industrial revenues decreased $56.7 million, or 16%, from $364.7 million for the three months ended December 31, 2000, to $308.0 million for the three months ended December 31, 2001. This decrease is primarily the result of non-recurring work performed for one customer during the three months ended December 31, 2000 and decreased awards of construction contracts at margins acceptable to us during the three months ended December 31, 2001.

Residential revenues increased $4.8 million, or 8%, from $62.3 million for the three months ended December 31, 2000, to $67.1 million for the three months ended December 31, 2001, 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 DECEMBER 31,	2000	2001
Commercial and Industrial	17%	14%
Residential	23%	21%
Total Company	17%	15%

Gross profit decreased $17.3 million, or 23%, from $74.5 million for the three months ended December 31, 2000, to $57.2 million for the three months ended December 31, 2001. Gross profit margin as a percentage of revenues decreased approximately 2% from 17% for the three months ended December 31, 2000 to 15% for the three months ended December 31, 2001. This decrease in gross profit margin as a percentage of revenues was primarily the result of increased competition for available work and project fade recorded on fixed-price contracts at one of our subsidiaries during the three months ended December 31, 2001.

Commercial and industrial gross profit decreased $17.2 million, or 29%, from $60.2 million for the three months ended December 31, 2000, to $43.0 million for the three months ended December 31, 2001. Commercial and industrial gross profit margin as a percentage of revenues decreased 3% from 17% for the three months ended December 31, 2000, to 14% for the three months ended December 31, 2001. This decrease in gross profit margin as a percentage of revenues was primarily due to increased competition for available work and project fade recorded on fixed-price contracts at one of our subsidiaries during the three months ended December 31, 2001.

Residential gross profit decreased $0.1 million, or 1%, from $14.3 million for the three months ended December 31, 2000, to $14.2 million for the three months ended December 31, 2001. Residential gross profit margin as a percentage of revenues decreased 2% from 23% for the three months ended December 31, 2000, to 21% for the three months ended December 31, 2001. 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 $2.2 million, or 4%, from $51.9 million for the three months ended December 31, 2000, to $49.7 million for the three months ended December 31, 2001. This decrease results from the elimination of certain administrative field and home office personnel during the three months ended December 31, 2001. Selling, general and administrative expenses as a percentage of revenues increased from 12% for the three months ended December 31, 2000 to 13% for the three months ended December 31, 2001. This increase is a function of decreased revenues earned during the three months ended December 31, 2001, as compared to revenues earned during the three months ended December 31, 2000.

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 $4.0 million during the quarter ended December 31, 2001. 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 $15.8 million, from $19.3 million for the three months ended December 31, 2000, to $3.5 million for the three months ended December 31, 2001. This decrease in income from operations was primarily attributed to decreased revenues year over year, decreased margins earned on those revenues and a $4.0 million restructuring charge incurred during the three months ended December 31, 2001.

NET INTEREST AND OTHER EXPENSE

Interest and other expense, net increased from $6.0 million for the three months ended December 31, 2000, to $6.9 million for the three months ended December 31, 2001, primarily as a result of increased interest expense on borrowings and a $0.3 million loss recorded on our equity investment in Energy Photovoltaics, Inc.

PROVISION FOR INCOME TAXES

We recorded a tax benefit 47.2% for the three months ended December 31, 2001. This benefit is the result of a loss before income taxes recorded during the three months ended December 31, 2001. During the three months ended December 31, 2000, we recorded a tax provision of 47.2%.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, we had cash and cash equivalents of $4.2 million, working capital of $242.3 million, outstanding borrowings under our credit facility of $19.0 million, $4.7 million of letters of credit outstanding, and available capacity under our credit facility of $126.3 million. The amount outstanding under our senior subordinated notes was $275.0 million. All debt obligations are on our balance sheet. We have no off balance sheet debt obligations.

During the three months ended December 31, 2001, we used $4.2 million of net cash for operating activities. This net cash used in operating activities is comprised of a net loss of

$285.1 million, increased by $288.9 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 $31.5 million decrease in accounts payable and accrued expenses as a result of payments of year-end accruals, offset by a $7.3 million decrease in accounts receivable as a result of the timing of collections. Working capital changes also included an $11.7 million decrease in costs and estimated earnings in excess of billings on uncompleted projects, a $6.9 million increase in billings in excess of costs and estimated earnings on uncompleted contracts, and an increase in inventories of $5.6 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 $4.4 million, consisting primarily of $3.9 million used for capital expenditures and $0.4 million for investments in available for sale securities and other. Net cash provided by financing activities was $9.3 million, resulting primarily from borrowings, net of repayments under our credit facility.

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 expenditure, acquisitions and other corporate purposes that matures May 22, 2004, as amended through February 4, 2002. 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 through February 4, 2002, at December 31, 2001. At February 11, 2002, we had outstanding borrowings of $10.0 million on our credit facility.

We have $275.0 million in million 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 and December 31, 2001, the fair value of this derivative was $3.2 million and $0.1 million, respectively 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 December 31, 2001.

Borrowings outstanding on our credit facility and 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 December 31, 2001, we had invested $1.5 million under our commitment to EnerTech.

Our future contractual obligations include:

	LESS THAN ONE YEAR	2003	2004	2005	2006	THEREAFTER	TOTAL
Debt and capital lease obligations ...	$ 482	$ 1,272	$ 19,251	$ 95	$ 21	$ 275,000	$296,121
Operating lease obligations	$ 7,201	$ 8,496	$ 6,680	$ 4,718	$ 2,467	$ 3,210	$ 32,772

Our other commercial commitments expire as follows:

	LESS THAN ONE YEAR	2003	2004	2005	2006	THEREAFTER	TOTAL
Standby letters of credit	$ 890	$3,850	$ --	$ --	$ --	$ --	$4,740
Other							

commercial
commitments
..... $ --
$ -- $ --
$ -- $ --
$ 3,500
$3,500

Outlook. 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 $20 million as compared to the prior year. In connection with these cuts, we incurred a restructuring charge of $4.0 million during the quarter ended December 31, 2001. We expect to incur an additional restructuring charge of $0.9 million to $1.4 million during our quarter ended March 31, 2002.

We expect to generate cash flow from operations. Our cash flows from operations tends to track the seasonality of our business and historically has 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 borrowings currently outstanding on 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 in 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 quarter ended December 31, 2001 would have otherwise been $3.2 million. 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 our initial impairment tests, 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 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 our first quarter 2002 income statement. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses. Historically, we have not disposed of any assets or incurred any asset impairments under SFAS No. 121.

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. Historically, we have not disposed of any assets or incurred any asset impairments under SFAS No. 121.

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 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 December 31, 2001:

	2002	2003	2004	2005	2006	THEREAFTER	TOTAL
Liabilities - Debt:							
Variable Rate (Credit Facility)	$ --	$ --	$19,000	$ --	$ --	$ --	$ 19,000
Average Interest Rate	6.66%	6.66%	6.66%	--	--	--	6.66%
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							$ 19,000
Fixed Rate							$241,313
Interest Rate Swap:							
Pay variable/receive fixed	$ --	$ --	$ --	$ --	$ --	$ 100,000	$100,000
Average rate paid (3-Month LIBOR plus 3.495)	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%	5.72%
Fixed rate received	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%	9.357%
Fair Value of Interest Rate Swap:							$ 145

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS:

10.1 Amendment No. 3 dated February 4, 2002, to the Credit Facility 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.

B. REPORTS ON FORM 8-K:

A report on Form 8-K was filed with the SEC on December 21, 2001, in connection with a press release issued on December 20, 2001.

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: February 14, 2002

By: /s/ William W. Reynolds

William W. Reynolds
Executive Vice President and
Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
10.1	Amendment No. 3 dated February 4, 2002, to the Credit Facility 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.

EXHIBIT 10.1

THIRD AMENDMENT

THIRD AMENDMENT (this "Amendment"), dated as of December 31, 2001, 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 JPMorgan Chase 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. The definition of "Applicable Margin" set forth in Section 1.1 of the Credit Agreement is hereby amended to read in its entirety as follows:

> "Applicable Margin" means, with respect to interest rates and letter of credit fees and as of any date of its determination, an amount equal to the percentage amount set forth in the table below opposite the applicable ratio of (a) the consolidated Total Debt of the Borrower as of the end of the fiscal quarter then most recently ended to (b) the consolidated EBITDA of the Borrower for the four fiscal quarters then most recently ended:

Total Debt to EBITDA	Applicable Margin LIBOR Tranches and Letter of Credit Fee	Applicable Margin Prime Rate Tranche
<1.50	1.75%	0.25%
>1.50 but <2.00	2.00%	0.50%
>2.00 but <2.50	2.25%	0.75%
>2.50 but <3.00	2.50%	1.00%
>3.00 but <3.50	2.75%	1.25%
>3.50 but <4.00	3.00%	1.50%
>4.00 but <4.50	3.25%	1.75%
>4.50	3.50%	2.00%

The foregoing ratio and resulting Applicable Margin shall be based upon Schedule C of the most recent Compliance Certificate delivered to the Administrative Agent pursuant to Section 5.2(a) or Section 5.2(b).

Any adjustments to the Applicable Margin shall become effective on the 45th day following the last day of each fiscal quarter or on the 90th day following the last day of each fiscal year as applicable; provided, however, that if any such Compliance Certificate is not delivered when required hereunder, the Applicable Margin shall be deemed to be the maximum percentage amount in each table from such 45th or 90th day until such Compliance Certificate is received by the Administrative Agent.

Upon any change in the Applicable Margin, the Administrative Agent shall promptly notify the Borrower and the Banks of the new Applicable Margin.

2. Section 5.5(b)(ii) of the Credit Agreement (Maximum Total Debt to EBITDA Ratio) is hereby amended to read in its entirety as follows:

(ii) Maximum Total Debt to EBITDA Ratio. As of the last day of each fiscal quarter of the Borrower, the Borrower shall not permit the ratio of (a) the consolidated Total Debt of the Borrower as of end of such fiscal quarter minus, so long as there are no outstanding Revolving Loans as of such date, cash on the consolidated balance sheet of the Borrower as of such date to (b) the consolidated EBITDA of the Borrower for the preceding four fiscal quarters then ended, to be greater than the applicable ratios set forth below as of the dates indicated:

Fiscal Quarter Ending	Ratio
December 31, 2001	3.50 to 1.00
March 31, 2002	4.25 to 1.00
June 30, 2002	4.75 to 1.00
September 30, 2002	4.25 to 1.00
December 31, 2002	4.00 to 1.00
March 31, 2003	3.75 to 1.00
June 30, 2003	3.50 to 1.00
September 30, 2003 and each fiscal quarter thereafter	3.25 to 1.00

3. Section 5.5(c) of the Credit Agreement (Minimum Interest Coverage Ratio) is hereby amended to read in its entirety as follows

(c) Minimum Interest Coverage Ratio. As of the last day of each fiscal quarter, the Borrower shall not permit the ratio of (i) the consolidated EBIT of the Borrower for the preceding four fiscal quarters then ended to (ii) the consolidated Interest Expense of the Borrower (to the extent paid in cash) for the preceding four fiscal quarters then ended minus any income of the Borrower or any of its consolidated Subsidiaries during such period which is attributable to any Interest Hedge Agreement plus any expenses of the Borrower or any of its consolidated Subsidiaries during such period which is attributable to any Interest Hedge Agreement, to be less than the applicable ratios set forth below as of the dates indicated:

Fiscal Quarter Ending	Ratio
December 31, 2001	2.25 to 1.00
March 31, 2002	1.75 to 1.00
June 30, 2002	1.50 to 1.00
September 30, 2002	1.75 to 1.00
December 31, 2002	2.00 to 1.00
March 31, 2003	2.25 to 1.00
fiscal quarter thereafter	2.50 to 1.00

Compliance with this paragraph (c) shall be determined in the applicable Compliance Certificate based upon the adjusted financial reports contained in Schedule A of such Compliance Certificate.

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 and the Borrower shall have paid to the Administrative Agent, for disbursement to each Bank which joins in the execution of this Amendment, a fee in an amount equal to 0.20% of the Commitment of each such Bank.

IV. General.

1. Representations and Warranties. The Borrower represents and warrants that 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.

INTEGRATED ELECTRICAL SERVICES, INC.

By:

Name:

Title

JPMORGAN CHASE BANK,
as Administrative Agent and as a 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

RZB FINANCE LLC

By: ______________________________________

Name: ____________________________________

Title ____________________________________

SOUTHWEST BANK OF TEXAS, N.A.

By:

Name:

Title

The undersigned hereby join in this Amendment to evidence their consent to execution by Borrower of this Amendment, to confirm that each Credit Document now or previously executed by the undersigned applies and shall continue to apply to the Credit Agreement, as amended hereby, and to acknowledge that without such consent and confirmation, the Banks would not execute this Amendment.

1ST GROUP TELECOMMUNICATIONS, INC.
ACE ELECTRIC, INC.
ALADDIN WARD ELECTRIC & AIR, INC.
AMBER ELECTRIC, INC.
ANDERSON & WOOD CONSTRUCTION CO., INC.
ARC ELECTRIC, INCORPORATED
BACHOFNER ELECTRIC, INC.
BEAR ACQUISITION CORPORATION
BRINK ELECTRIC CONSTRUCTION CO.
BRITT RICE ELECTRIC, INC.
BRITT RICE MANAGEMENT LLC
BRYANT ELECTRIC COMPANY, INC.
BW CONSOLIDATED, INC.
BW/BEC, INC.
CANOVA ELECTRICAL CONTRACTING, INC.
CARROLL MANAGEMENT LLC
CARROLL SYSTEMS, INC.
CHARLES P. BAGBY COMPANY, 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.
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

HOLLAND ELECTRICAL SYSTEMS, INC.
HOUSTON-STAFFORD ELECTRIC, INC.
HOUSTON-STAFFORD MANAGEMENT LLC
HOWARD BROTHERS ELECTRIC CO., INC.
I.C.G. ELECTRIC, INC.
IES COMMUNICATIONS, INC.
IES CONTRACTORS MANAGEMENT LLC
IES ELECTRICAL GROUP, INC.
IES PROPERTIES MANAGEMENT, INC.
IES PROPERTIES, INC.
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 CO., INC.
J.W. GRAY MANAGEMENT LLC
KAYTON ELECTRIC, INC.
KEY ELECTRICAL SUPPLY, INC.
LINEMEN, INC.
MARK HENDERSON, INCORPORATED
MENNINGA ELECTRIC, INC.
MIDLANDS ELECTRICAL CONTRACTORS, INC.
MID-STATES ELECTRIC COMPANY, INC.
MILLS ELECTRICAL CONTRACTORS, INC.
MILLS MANAGEMENT LLC
MITCHELL ELECTRIC COMPANY, INC.
M-S SYSTEMS, INC.
MURRAY ELECTRICAL CONTRACTORS, INC.
MUTH ELECTRIC, INC.
NEAL ELECTRIC MANAGEMENT LLC
NEW TECHNOLOGY ELECTRICAL CONTRACTORS, INC.
NEWCOMB ELECTRIC COMPANY, INC.
PAN AMERICAN ELECTRIC COMPANY, INC.
PAN AMERICAN ELECTRIC, INC.
PAULIN ELECTRIC COMPANY, INC.
POLLOCK ELECTRIC INC.
PRIMENET, INC.
PRIMO ELECTRIC COMPANY
PUTZEL ELECTRICAL CONTRACTORS, INC.
RAINES ELECTRIC CO., INC.
RAINES MANAGEMENT LLC
RKT ELECTRIC, INC.

ROCKWELL ELECTRIC, INC.
RODGERS ELECTRIC COMPANY, INC.
RON'S ELECTRIC, INC.
SPECTROL, INC.
SPOOR ELECTRIC, INC.
SUMMIT ELECTRIC OF TEXAS, INC.
T&H ELECTRICAL CORPORATION
TECH ELECTRIC CO., INC.
TESLA POWER G.P., INC.
THOMAS POPP & COMPANY
VALENTINE ELECTRICAL, INC.
WOLFE ELECTRIC CO., INC.
WRIGHT ELECTRICAL CONTRACTING, INC.

By:

William Reynolds, Chief Financial Officer

BRITT RICE HOLDINGS LLC
BW/BEC, L.L.C.
CARROLL HOLDINGS LLC
DKD ELECTRIC COMPANY, INC.
HOUSTON-STAFFORD HOLDINGS LLC
ICS HOLDINGS LLC
IES CONTRACTORS HOLDINGS LLC
IES HOLDINGS LLC
J.W. GRAY HOLDINGS LLC
MILLS ELECTRICAL HOLDINGS LLC
NBH HOLDING CO., INC.
POLLOCK SUMMIT HOLDINGS INC.
RAINES HOLDINGS LLC
TESLA POWER (NEVADA), INC.

By:

Adrianne M. Horne, President

IES PROPERTIES HOLDINGS, INC.

By:

Victoria Garrett, President

B. RICE ELECTRIC LP
BEXAR ELECTRIC COMPANY, LTD.
CARROLL SYSTEMS LP
HAYMAKER ELECTRIC, LTD.
HOUSTON-STAFFORD ELECTRICAL CONTRACTORS LP
ICS INTEGRATED COMMUNICATION SERVICES LP
IES CONTRACTORS LP
IES MANAGEMENT LP
IES PROPERTIES LP
J.W. GRAY ELECTRICAL CONTRACTORS LP
MILLS ELECTRIC LP
NEAL ELECTRIC LP
POLLOCK SUMMIT ELECTRIC LP
POLLOCK SUMMIT ELECTRIC LP
RAINES ELECTRIC LP
TESLA POWER AND AUTOMATION, L.P.
TESLA POWER PROPERTIES, L.P.

By: ITS GENERAL PARTNER

By:

William Reynolds,
Chief Financial Officer