

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-13783

INTEGRATED ELECTRICAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of other jurisdiction of
incorporation or organization)

76-0542208
(I.R.S. Employer
Identification No.)

515 POST OAK BOULEVARD
SUITE 450
HOUSTON, TEXAS 77027
(Address of principal executive offices)

77027
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: NONE

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

Indicate by checkmark if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of December 16, 1998, there were outstanding 28,879,089 shares of common stock of the Registrant. The aggregate market value on such date of the voting stock of the Registrant held by non-affiliates was an estimated \$483.3 million.

FORM 10-K

INTEGRATED ELECTRICAL SERVICES, INC.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact included in this Form 10-K, including without limitation, statements under "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the planned capital expenditures, the Company's financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors.

DOCUMENT INCORPORATED BY REFERENCE

The information called for by Part III of this Form 10-K is incorporated by reference from the Proxy Statement for the Annual Meeting of Stockholders of the Company to be held February 10, 1999.

PART I

ITEM 1. BUSINESS

In this annual report, the words "Company," "IES," "we," "our," "ours," and "us" refer to Integrated Electrical Services, Inc. and, except as otherwise specified herein, to our subsidiaries. The words "Founding Companies" refer to the 16 electrical businesses we purchased concurrently with our initial public offering on January 30, 1998, "Acquired Companies" refers to those businesses acquired since the initial public offering and through September 30, 1998 and "Recent Acquisitions" refers to those businesses purchased since September 30, 1998. Our fiscal year is not a calendar year and ends on September 30.

Our Company is the third largest provider of electrical contracting and maintenance services in the United States. In late 1997, we recognized a significant opportunity for a well-capitalized company with critical mass and a nationwide presence to realize substantial competitive advantages by capitalizing on the fragmented nature of the electrical services industry. To that end, we began operations on January 30, 1998 with the acquisition of 16 electrical businesses, each of which had a strong identity and presence in their local markets, in order to create a nationwide provider of electrical services and to lead the consolidation of our industry. Since February 1998 and through September 30, 1998, we have acquired 21 additional electrical contracting and maintenance services businesses. On a pro forma basis for the year ended September 30, 1998 we generated revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") of \$750.4 million and \$76.9 million, respectively.

According to the most recently available U.S. Census data, the electrical contracting industry generated annual revenues in excess of \$40 billion in 1992. This data also indicates that the electrical contracting industry is highly fragmented with more than 54,000 companies, most of which are small, owner-operated businesses. We estimate that there are only five other U.S. electrical contractors with revenues in excess of \$200 million. Government sources indicate that total construction industry revenues have grown at an average compound rate of approximately 6% from 1995 through 1998. Over the same period, our pro forma combined revenues have increased at a compound annual rate of approximately 13%. We believe this growth in revenues is primarily due to the fact that our companies have been in business an average of 21 years, have strong relationships with customers, have effectively employed industry best practices and have focused on larger, higher margin projects.

We serve a broad range of markets, including the commercial, industrial, residential and power line markets. In addition, we have recently entered into the data communication market, which includes the installation of wiring for computer networks and fiber optic telecommunications systems. Our revenues are generated from a mix of new construction, renovation, maintenance and specialized services. We focus on higher margin, larger projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house engineers, as well as service, maintenance and certain renovation and upgrade work which tends to either be recurring, have lower sensitivity to economic cycles, or both.

INDUSTRY OVERVIEW

General. Virtually all construction and renovation in the United States generates demand for electrical contracting services. Electrical work generally accounts for approximately 8% to 12% of the total construction cost of commercial and industrial projects, 5% to 10% of the total construction cost for residential projects, and substantially all of the construction costs of power line projects. In recent years, electrical contractors have experienced a growing demand for their services due to more stringent electrical codes, increased use of electrical power, demand for increased data cabling capacity for high-speed computer systems and the construction of smart houses with integrated computer, temperature control and safety systems.

THE MARKETS WE SERVE

Commercial Market. Our commercial work consists primarily of electrical installations and renovations in office buildings, high-rise apartments and condominiums, theaters, restaurants, hotels, hospitals and school

districts. Our commercial customers include general contractors, developers, building owners, engineers and architects. We believe that demand for our commercial services is driven by construction and renovation activity levels, as well as more stringent local and national electrical codes. From fiscal 1995 through 1998, our pro forma revenues from commercial work have grown at a compound annual rate of approximately 11% per year and currently represent approximately 45% of our total pro forma 1998 revenues.

Industrial Market. Our industrial work consists primarily of electrical installations and upgrade, renovation and replacement service and maintenance work in manufacturing and processing facilities, military installations, airports, refineries and petrochemical and power plants. According to internal estimates, approximately 60% of our industrial revenues are associated with new construction with the balance derived from significant contracts for upgrade, renovation and replacement service and maintenance work. Our industrial customers include facility owners, general contractors, engineers, consultants and architects. We believe that demand for our industrial services is driven by facility upgrades and replacements as well as general activity levels in the particular industries served, which is in turn affected by general economic conditions. From fiscal 1995 through 1998, our pro forma revenues from industrial work have grown at a compound annual rate of approximately 14% per year and currently represent approximately 28% of our total pro forma 1998 revenues.

Residential Market. Our work for the residential market consists primarily of electrical installations in new single family housing and low-rise multifamily housing for customers which include local, regional and national homebuilders and developers. The residential market is primarily dependent on the number of single family and multi-family home starts, of which single-family starts are most affected by the level of interest rates and general economic conditions. Competitive factors particularly important in the residential market include our ability to build relationships with homebuilders and developers by providing services in each area of the country in which they operate. This ability has become increasingly important as consolidation has occurred within the residential construction industry and homebuilders and developers have sought out service providers on whom they can rely for consistent service in all of their operating regions. We believe we are currently one of the largest providers of electrical contracting services to the U.S. residential construction market and that there is significant additional opportunity for consolidation within this highly fragmented market. In the current low interest rate environment, our residential business has experienced significant growth. Our pro forma revenues from residential electrical contracting have grown at a compound annual rate of approximately 21% from fiscal 1995 through 1998 and currently represent approximately 16% of our pro forma 1998 revenues.

Power Line Market. Our work for the power line market consists primarily of the installation, repair and maintenance of electric power transmission lines and the construction of electric substations. We generally serve as the prime contractor and perform substantially all of the construction work on these contracts. Our customers in this market are government agencies and utilities. Demand for power line services is driven by new infrastructure development, utilities' efforts to reduce costs through the outsourcing of power line installation and maintenance services in anticipation of deregulation and the need to modernize and increase the capacity of existing transmission and distribution systems. The power line business is a new focus for our company and currently represents approximately 3% of our total pro forma 1998 revenues.

Service and Maintenance Market. The balance of our total pro forma 1998 revenues is derived from service calls and routine maintenance contracts. Our service and maintenance revenues have grown at a compound annual rate of approximately 14% from fiscal 1995 through 1998.

Data Communication Market. We recently formed a division to specifically target opportunities in the data communication market and completed our first data communication acquisition in November 1998. Our data communication work consists primarily of the installation, upgrade, maintenance and repair of computer network cabling, telecommunication systems and wireless telephone and microwave towers. We believe that demand for our data communication services will be driven by the pace of technological change, the overall growth in voice and data traffic and by the increasing use of personal computers and modems, with particular emphasis on the speed with which information can be retrieved from the Internet. As a result of our recent

entry into the market, our data communication revenues are not a significant component of our total pro forma 1998 revenues.

COMPETITIVE STRENGTHS

We believe several factors give us a competitive advantage in our industry, including our:

- Size and critical mass -- which gives us purchasing and other economies of scale, as well as greater ability to compete for larger jobs that require greater technical expertise, personnel availability and bonding capacity;
- Geographically diverse operations -- which enables us to effectively service large customers across operating regions, including regional and national homebuilders, national retailers and other commercial businesses, as well as to lessen the impact of regional economic cycles;
- Diverse business lines -- which we believe provide greater stability in sales revenue;
- Strong customer relationships -- which provide us repeat business and the opportunity for cross-selling our services;
- Expertise in specialized markets -- which provides us with access to high growth markets, including data cabling, wireless telecommunication, highway lighting and traffic control, video, security and fire systems;
- Substantial number of licensed electricians -- which enables us to deliver quality service with greater reliability than many of our competitors, which is particularly important given a current industry shortage of qualified electricians;
- Design technology and expertise -- which gives us the ability to participate in higher margin design-and-build projects; and
- Experienced management -- which holds in excess of 60% of the Company's outstanding common stock and includes executive management with extensive electrical, consolidation and public company experience, as well as regional and local management which have established reputations in their local markets.

BUSINESS STRATEGY

Our goal is to expand our position as a leading national provider of electrical contracting and maintenance services by:

- continuing to realize operational efficiencies;
- expanding our business and markets through internal growth; and
- pursuing a targeted acquisition strategy.

OPERATING STRATEGY. We believe there are significant opportunities to continue to increase our revenues and profitability. The key elements of our operating strategy are:

Implementation of Best Practices. We continue to expand the services we offer in our local markets by using the specialized technical and marketing strengths of each of our companies. Through a series of forums attended by management, we regularly identify and share best practices that can be successfully implemented throughout our operations. We have identified opportunities to enhance certain operational, administrative, safety, hiring and training practices, and we have adopted these practices throughout our operations. Additional areas of focus include expanding the use of our computer-aided-design technology and expertise and sharing information relating to specific projects or job requirements throughout our company.

Focus on Higher Margin, High Growth Opportunities. We intend to pursue projects and business markets which are higher value-added in nature and provide us with opportunities to expand our revenues, gross margins and operating margins. In particular, we intend to focus on leveraging our unique skill base and competitive strengths to achieve leading market shares in targeted business areas. Examples of high growth markets we have recently entered are the power line and data communication markets in which underlying industry dynamics are expected to lead to demand levels which will outpace the growth of the electrical services market as a whole. Examples of higher margin opportunities within our more established markets include the expansion of maintenance and specialized services, as well as increasing the amount of our repeat business with national customers.

Increase the Number of National Accounts. We intend to use our geographic diversity to bid for additional business from new and existing customers that operate on a regional and national basis, such as developers, contractors, homebuilders and owners of national chains. We believe that significant demand exists from such companies to utilize the services of a single electrical contracting and maintenance service provider. This demand is at least partially driven by the recent consolidation among a number of our principal customers, including homebuilders, developers and national contractors. Because we are able to understand the demands and needs of our customers based on prior, substantially similar projects, we are able to configure and install systems to their specifications on a more timely and cost-efficient basis than another electrical contractor. Moreover, we believe that the demand for a single-source contractor limits the opportunities for smaller contractors that may not be able to provide services at multiple locations simultaneously. We believe our existing local and regional relationships can be further expanded as we continue to develop a nationwide network.

Operate on Decentralized Basis. We believe that our decentralized operating structure helps us retain the entrepreneurial spirit present in each of our companies while maintaining disciplined operating and financial controls. We have recently structured our company into regional operating divisions to more efficiently share the considerable local and regional market knowledge and customer relationships possessed by each of our companies, as well as companies that we may acquire in the future. We believe that this regional framework will allow us to more effectively disseminate ideas, gather financial information and target customers. By maintaining a local focus, we believe we are able to continue to:

- build relationships with general contractors and other customers;
- address design preferences and code requirements;
- respond quickly to customer demands; and
- adjust to local market conditions.

Attract and Retain Quality Employees. We believe that our ability to attract and retain qualified electricians is a critical competitive factor. We plan to continue to attract and train skilled employees by:

- extending active recruiting and training programs;
- offering stock-based compensation for key employees; and
- offering expanded career paths and more stable income through a larger public company.

Achieve Additional Operating Efficiencies. We continue to focus on operating efficiencies by combining overlapping operations and centralizing certain administrative functions. We are also taking advantage of our combined purchasing power to gain volume discounts on items such as electrical materials, vehicles, bonding, employee benefits and insurance. Through sharing business practices and providing repeat services to national accounts, we believe we can continue to achieve operating margin improvements. In addition, we believe that significant opportunities exist to increase our profitability through such efforts as offsite prefabrication and standardized project management of similar jobs.

ACQUISITION STRATEGY. Due to the highly fragmented nature of the electrical contracting and maintenance services industry, we believe we have significant acquisition opportunities. We focus on acquiring companies

with an entrepreneurial attitude as well as a willingness to learn and share improved business practices through open communications. We believe that many electrical contracting and maintenance service businesses that lack the capital necessary to expand operations will become acquisition candidates. For these acquisition candidates, a sale of their company to us will provide them with several benefits, including:

- the ability to improve margins through implementing best practices;
- expertise to expand in specialized markets;
- enhanced productivity through the reduction of administrative burdens;
- national name recognition;
- potential for substantial financial return through equity participation in our company; and
- the opportunity for a continued role in management.

Other key elements of our acquisition strategy include:

Enter New Geographic Markets. We target acquisition candidates that are financially stable, have a strong presence in the market in which they operate and have the customer base necessary to integrate with or complement our existing business. We expect that increasing our geographic diversity will allow us to better serve an increasingly national customer base. It should also further reduce the impact of local and regional economic cycles, as well as weather-related or seasonal variations in our business.

Expand Within Existing Markets. Once we enter a market, we seek to acquire other well-established electrical contracting and maintenance businesses operating within that region, including "add-on" acquisitions of smaller companies. We believe that add-on acquisitions afford the opportunity to improve our overall cost structure through the integration of such acquisitions into existing operations as well as to increase revenues through access to additional specialized markets. Despite the integration opportunities afforded by such add-on acquisitions, we maintain existing business names and identities to retain goodwill for marketing purposes.

Diversify Business Operations. We will continue to diversify our business operations as we identify opportunities within related electrical businesses with similar characteristics to our current business lines. Since our inception, we have added power line and data communication operations to our business portfolio due to the fragmented nature of those markets, our belief in their strong growth potential and their lower sensitivity to economic downturns. We will continue to diversify into higher margin businesses to enhance revenue growth and profitability.

INTEGRATION OF ACQUISITIONS

The Company believes that it has been successful in integrating the companies it has acquired. Much of the work necessary to integrate the operations of an acquired company is begun prior to the closing of the transaction. In the process of extensive financial, operational and legal due diligence, the Company often identifies a number of areas in which efficiencies can be realized in the integration process. In addition, industrial psychologists often test key management personnel of the target company to determine whether they possess the qualities that the Company looks for in its management. Further, outside accountants who specialize in the construction industry conduct extensive financial due diligence with respect to the books and financial records of the target. As a condition to the closing of the acquisition and in order to retain the key management of the acquired company, the president of the acquired company is typically required to enter into an employment contract. Additionally, at the closing, the acquired company is added to the insurance and bonding policies of the Company, which typically results in an immediate cost savings. The Company's financial reporting package is put into place shortly after closing so that the results of operations of the acquired company can be reported to IES in a timely standardized format and easily incorporated into the Company's consolidated reports. In addition, the management of acquired companies is introduced to the policies and financial goals of the Company and attend regularly scheduled best practices forums as well as regional management meetings on an ongoing basis. In this manner, the Company attempts to share

efficiencies throughout its operations while maintaining the entrepreneurial atmosphere of the acquired business.

COMPANY OPERATIONS

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

In certain markets the Company offers design-and-build expertise and specialized services, which typically require specific skills and equipment, in order to provide value added services to the customer and to earn higher margins than those generated by general electrical contracting and maintenance services which are often obtained by competitive bid. The Company also acts as a subcontractor for a variety of national, regional and local builders in the installation of electrical and other systems.

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

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

Power Line. Power line work begins with a request for bids from either an electric utility or a general contractor. The Company will analyze the plans provided and determine the amount of its bid. Once the project is awarded, it is conducted in scheduled phases, and progress billings are rendered for payment. This work is capital intensive, requiring the use of various pieces of heavy equipment. Additionally, the electricians that perform power line work must be highly skilled in order to work with the high voltage power lines. In addition to running the lines, the Company often will construct the towers that carry the lines as well as electrical substations.

Data Communication. Data communication work can be either regional infrastructure, which involves running lines cross country, or site specific installation of cabling in a new or existing structure. Infrastructure work is similar in nature to power line work. Installation of cabling in a new or existing structure is usually done for general contractors, computer network consultants or end users. The work is similar to the installation of electrical wiring in commercial or residential structures. However, because the materials and certain of the methods used in the installation of data cabling differ from those used in the installation of electrical wiring, the work is typically performed by technicians who specialize in data cabling. Large data cabling projects often include traditional electrical contracting elements and create an opportunity for the Company to better serve the overall needs of the customer and to capture a larger percentage of that project's contractor expenditures. The Company's operations in the data communication market are currently focused on site specific installations.

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

Major Customers. The Company has a diverse customer base, with no single customer accounting for more than 5% of the Company's pro forma combined revenues for the year ended September 30, 1998. As a result of emphasis on quality and worker reliability, the Company's management and a dedicated sales and work force have been responsible for developing and maintaining successful relationships with key customers. Customers generally include general contractors; developers; consulting engineers; architects; owners and managers of large retail establishments, office buildings, apartments and condominiums, theaters and restaurants; hotels and casinos; manufacturing and processing facilities; arenas and convention centers; hospitals; school districts; military and other government agencies; airports and car lots. The Company intends to continue its emphasis on developing and maintaining relationships with its customers by providing superior, high-quality service.

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

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

Purchasing. As a result of economies of scale derived through its acquisitions, the Company has been able to purchase equipment, parts and supplies at discounts to historical levels. In addition, as a result of the Company's size, it is also able to lower its costs for (i) the purchase or lease of vehicles; (ii) bonding, casualty and liability insurance; (iii) health insurance and related benefits; (iv) retirement benefits administration; (v) office and computer equipment; and (vi) marketing and advertising.

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

MANAGEMENT INFORMATION AND CONTROLS

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

PROPERTY AND EQUIPMENT

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

At September 30, 1998, the Company maintained warehouses, sales facilities and administrative offices at 89 locations. Substantially all of the Company's facilities are leased. The Company leases its corporate headquarters located in Houston, Texas.

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

COMPETITION

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

REGULATIONS

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

Many state and local regulations governing electricians require permits and licenses to be held by individuals. In some cases, a required permit or license held by a single individual may be sufficient to authorize specified activities for all the Company's electricians who work in the state or county that issued the permit or license. The Company intends to implement a policy to ensure that, where possible, any such permits or licenses that may be material to the Company's operations in a particular geographic region are held by at least two Company employees within that region.

LITIGATION

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, 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.

RISK MANAGEMENT AND INSURANCE

The primary risks in the Company's operations include bodily injury, property damage and injured workers' compensation. The Company maintains automobile and general liability insurance for third party bodily injury and property damage and workers' compensation coverage which it considers appropriate to insure against these risks, subject to deductibles.

EMPLOYEES

At September 30, 1998, the Company had approximately 7,869 employees. The Company is not a party to any collective bargaining agreements with its employees. The Company believes that its relationship with its employees is satisfactory.

RISK FACTORS

EXPOSURE TO DOWNTURNS IN CONSTRUCTION

A large portion of our business is the installation of electrical systems in newly constructed and renovated buildings, plants and residences. Our ability to maintain or increase revenues from new installation services will depend on the number of new construction starts and renovations. Our revenue growth from year to year is likely to reflect the cyclical nature of the construction industry. The number of new building starts will be affected by local economic conditions, changes in interest rates and other related factors. The housing industry is similarly affected by changes in general and local economic conditions, such as the following:

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

Downturns in levels of construction or housing starts could have a material adverse effect on our business, financial condition and results of operations.

MANAGEMENT OF GROWTH

We expect to grow both internally and through acquisitions. We expect to expend significant time and effort in evaluating, completing and integrating acquisitions and opening new facilities. We cannot guarantee that our systems, procedures and controls will be adequate to support our expanding operations, including the timely receipt of financial information from acquired companies. This future growth will impose significant added responsibilities on our senior management, such as the need to identify, recruit and integrate new senior managers and executives. If we are unable to manage our growth, or if we are unable to attract and retain additional qualified management, there could be a material adverse effect on our financial condition and results of operations.

LIMITED AVAILABILITY OF ELECTRICIANS

There is currently a shortage of qualified electricians. Our ability to increase productivity and profitability will be limited by our ability to employ, train and retain skilled electricians who meet our requirements. There can be no assurance that, among other things:

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

ABSENCE OF COMBINED OPERATING HISTORY

Each of our companies formerly operated as separate independent entities. As we continue to grow, there can be no assurance that our management group will be able to oversee the company and effectively implement our operating or growth strategies. Our success will depend on our management's ability to profitably integrate future acquisitions.

EFFECT OF ACQUISITIONS ON OPERATIONS

We expect to grow through acquisitions. We cannot guarantee that we will be able to acquire additional businesses or integrate and manage them successfully. Such acquisitions may involve a number of issues, including:

- adverse short-term effects on our financial results;
- diversion of our management's attention;
- dependence on retention, hiring and training of key personnel; and
- risks associated with unanticipated problems or legal liabilities.

In addition, if industry consolidation becomes more prevalent, the prices for acquisition candidates may increase and the number of available candidates may decrease. We believe that the industry will experience continuing consolidation on both a national and a regional level by other companies that have acquisition objectives similar to ours. These competitors may have greater financial resources to finance acquisition and internal growth opportunities and might be willing to pay higher prices than we are willing to pay for the same acquisition opportunities. We cannot assure you that the businesses we acquire will achieve sales and profitability that justify our investment.

ACQUISITION FINANCING

We intend to continue to use our common stock as at least part of the consideration paid for companies we acquire. If the common stock does not maintain a sufficient value or company owners will not accept common stock as consideration for their businesses, we may be required to use more of our cash to pursue our acquisition program. If we do not have sufficient cash or borrowing capacity, our growth could be limited unless we are able to obtain additional cash from the sale of debt or common stock in the public market.

OPERATING HAZARDS

Our operations are subject to the numerous hazards associated with the construction of electrical systems. These hazards include, but are not limited to, electrocutions, fires, mechanical failures or transportation accidents. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and may result in suspension of operations. We maintain insurance coverage in the amounts and against the risks we believe are in accordance with industry practice, but this insurance does not cover all types or amounts of liabilities. No assurance can be given either that (i) this insurance will be adequate to cover all losses or liabilities we may incur in our operations or (ii) we will be able to maintain insurance of the types or at levels that are adequate or at reasonable rates.

CONTRACT BIDDING RISKS

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

DEPENDENCE ON KEY PERSONNEL

Our operations depend on the continued efforts of our current and future executive officers and senior management and key management personnel at the companies we have acquired. We cannot guarantee that any key member of management at the corporate or subsidiary level will continue in such capacity for any particular period of time. The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on our business, financial condition and results of operations. We do not maintain key man life insurance.

COMPETITION

Our industry is highly competitive and is served by small, owner-operated private companies, public companies and several large regional companies. We could also face competition in the future from other competitors entering the market. Some of our competitors offer a greater range of services, such as mechanical construction, plumbing and heating, ventilation and air conditioning services. Competition in the electrical contracting industry depends on a number of factors, including price. Some of our competitors may have lower overhead cost structures and may, therefore, be able to provide their services at lower rates.

CERTAIN ANTI-TAKEOVER PROVISIONS

Our amended and restated certificate of incorporation, bylaws, employment agreements and employee benefit plans contain provisions which may have the effect of delaying, deferring or preventing a change in our control. For example, the certificate of incorporation and bylaws provide for a classified board of directors, the prohibition of stockholder action by written consent and the affirmative vote of at least 66 2/3% of all outstanding shares of our stock to approve the removal of directors from office. Our board of directors has the authority to issue shares of preferred stock without stockholder approval. Any series of preferred stock is likely to be senior to the common stock with respect to dividends, liquidation rights and, possibly, voting. In addition, the board of directors is authorized by our certificate of incorporation to issue certain rights pursuant to a rights plan. The ability to issue preferred stock or rights could have the effect of discouraging unsolicited acquisition proposals. Our stock option plan contains provisions that allow for, among other things, the acceleration of vesting or payment of awards granted under such plan in the event of a "change of control," as defined in the plan. In addition, we have entered into employment agreements with certain executive officers and key employees allowing for cash payments under certain circumstances following a change in control, which is generally defined to occur upon:

- the acquisition by any person of 20% or more of the total voting power of our outstanding securities;
- the first purchase pursuant to a tender or exchange offer for common stock;
- the approval of certain mergers, sale of substantially all our assets, or our dissolution; or
- a change in a majority of the members of the our board of directors.

SEASONALITY; FLUCTUATION OF QUARTERLY OPERATING RESULTS

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

POTENTIAL FAILURE OF COMPUTER SYSTEMS TO RECOGNIZE YEAR 2000

We are dependent on our computer software programs and operating systems in operating our business. We also depend on the proper functioning of computer systems of third parties, such as vendors and clients. The failure of any of these systems to appropriately interpret the upcoming calendar year 2000 could have a material adverse effect on our financial condition, results of operations, cash flow and business prospects. We are currently identifying our own applications that will not be Year 2000 compliant and taking steps to determine whether third parties are doing the same. In addition, we are implementing a plan to prepare our computer systems to be Year 2000 compliant by September 30, 1999.

Our inability to remedy our own Year 2000 problems or the failure of third parties to do so may cause business interruptions or shutdown, financial loss, regulatory actions, reputational harm and/or legal liability. We can not assure you that our Year 2000 program will be effective or that our estimates about the timing and cost of completing our program will be accurate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000."

ITEM 2. PROPERTIES

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

At September 30, 1998, IES maintained warehouses, sales facilities and administrative offices at 89 locations. Substantially all of IES's facilities are leased. IES leases its corporate headquarters located in Houston, Texas.

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

ITEM 3. LEGAL PROCEEDINGS

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, 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.

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

None.

PART II

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

Since January 27, 1998, the Company's Common Stock has traded on the NYSE under the symbol "IEE." The following table presents the quarterly high and low sales prices for the Common Stock on the NYSE since January 26, 1998.

	HIGH	LOW
	----	---
FISCAL YEAR ENDED SEPTEMBER 30, 1998		
Second Quarter (From January 27, 1998).....	19 7/8	13
Third Quarter.....	24 1/2	17
Fourth Quarter.....	23 3/8	13

As of December 17, 1998 there were approximately 225 holders of record of the Common Stock.

The Company does not anticipate paying cash dividends on its Common Stock in the foreseeable future. The Company expects that it will retain all available earnings generated by the Company's operations for the development and growth of its business. Any future determination as to the payment of dividends will be made at the discretion of the Board of Directors of the Company and will depend upon the Company's operating results, financial condition, capital requirements, general business conditions and such other factors as the Board of Directors deems relevant. The Company's debt instruments include certain restrictions on the payment of cash dividends on the Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA

IES acquired the Founding Companies concurrently with the consummation of its initial public offering of common stock on January 30, 1998 (the "IPO"). Pursuant to the SEC's Staff Accounting Bulletin No. 97, Houston-Stafford Electric, Inc. ("Houston-Stafford") is considered for accounting purposes the entity which acquired the other Founding Companies and IES (the "Accounting Acquirer"). As such, IES's consolidated historical financial statements represent the financial position and results of operations of (i) Houston-Stafford as restated to include the financial position and results of operations of one Acquired Company that was acquired in a pooling of interests, and (ii) the other Founding Companies and the other Acquired Companies beginning on their respective dates of acquisition. The following selected consolidated historical financial information for IES should be read in conjunction with the audited historical consolidated Financial Statements of Integrated Electrical Services, Inc. and Subsidiaries and the notes thereto included in Item 8. "Financial Statements and Supplementary Data." The selected historical financial information for the nine months ended September 30, 1997 has been derived from the unaudited consolidated financial statements of IES, which have been prepared on the same basis as the audited financial statements and, in the opinion of Company management, reflect all adjustments consisting of normal recurring adjustments, necessary for a fair

presentation of such data. The results of operations for the interim period presented should not be regarded as indicative of the results that may be expected for a full year.

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	YEAR ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1997	1998
				(UNAUDITED)		
STATEMENT OF OPERATIONS DATA:						
Revenues.....	\$65,211	\$73,345	\$101,431	\$ 92,379	\$117,111	\$386,721
Cost of services (including depreciation).....	57,633	63,709	85,081	76,306	95,937	306,052
Gross profit.....	7,578	9,636	16,350	16,073	21,174	80,669
Selling, general and administrative expenses....	6,786	7,905	10,228	10,222	14,261	47,390
Non-cash, non-recurring compensation charge.....	--	--	--	--	--	17,036
Goodwill amortization.....	--	--	--	--	--	3,212
Income from operations.....	792	1,731	6,122	5,851	6,913	13,031
Interest and other income (expense), net.....	(80)	(182)	14	292	385	(393)
Income before income taxes...	712	1,549	6,136	6,143	7,298	12,638
Provision for income taxes...	287	563	2,471	2,408	2,923	12,690
Net income (loss).....	\$ 425	\$ 986	\$ 3,665	\$ 3,735	\$ 4,375	\$ (52)

	AS OF DECEMBER 31,			AS OF SEPTEMBER 30,	
	1994	1995	1996	1997	1998
BALANCE SHEET DATA:					
Cash.....	\$ 680	\$ 1,772	\$ 4,301	\$ 4,154	\$ 14,583
Working capital.....	3,095	3,905	7,068	7,770	75,020
Total assets.....	13,594	14,882	23,712	35,794	502,468
Total debt.....	3,294	1,221	1,959	2,169	94,177
Total stockholders' equity.....	4,431	5,842	8,700	12,636	302,704

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

INTRODUCTION

The following discussion should be read in conjunction with the financial statements, and related notes thereto, and "Selected Financial Data" appearing elsewhere in this annual report.

Our company is the third largest provider of electrical contracting and maintenance services in the United States. We began operations on January 30, 1998 with the acquisition of 16 electrical businesses and through September 30, 1998, we have acquired 21 additional electrical contracting and maintenance services businesses.

We serve a broad range of markets, including the commercial, industrial and residential and power line markets. In addition, we have recently entered into the data communication market, which includes the installation of wiring for computer networks and fiber optic telecommunications systems. Our revenues are generated from a mix of new construction, renovation, maintenance and specialized services. We also focus on higher margin, larger projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house engineers, as well as service, maintenance and certain renovation and upgrade work which tends to either be recurring, have lower sensitivity to economic cycles, or both.

Pursuant to the SEC's Staff Accounting Bulletin No. 97, Houston-Stafford is considered for accounting purposes the entity which acquired the other Founding Companies and IES. As such, IES's consolidated

historical financial statements represent the financial position and results of operations of (i) Houston-Stafford as restated to include the financial position and results of operations of one Acquired Company that was acquired in a pooling of interests transaction, and (ii) the other Founding Companies and the other Acquired Companies beginning on their respective dates of acquisition.

The Company's revenues are derived primarily from electrical construction and maintenance services provided to commercial, industrial, residential and power line and data communications customers. Revenues from fixed-price construction and renovation contracts are generally accounted for on a percentage-of-completion basis, using the cost-to-cost method. The cost-to-cost method measures the percentage completion of a contract based on total costs incurred to date compared to total estimated costs at completion. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of hours expended or some other measure of progress. Certain of the Company's customers require the Company to post performance and payment bonds upon the execution of the contract, depending upon the nature of the work to be performed. The Company's fixed-price contracts often include payment provisions pursuant to which the customer withholds up to ten percent from each payment during the course of a job and forwards all retained amounts to the Company upon completion and approval of the work. Maintenance and other service revenues are recognized as the services are performed.

Cost of services consists primarily of salaries and benefits of employees, subcontracted services, materials, parts and supplies, depreciation, fuel and other vehicle expenses and equipment rentals. The Company's gross margin, which is gross profit expressed as a percentage of revenues, depends on the relative proportions of costs related to labor and materials. On jobs in which a higher percentage of the cost of services consists of labor costs, the Company typically achieves higher gross margins than on jobs where materials represent more of the cost of services. Materials costs can be calculated with relatively greater accuracy than labor costs, and the Company seeks to maintain higher margins on its labor-intensive projects to compensate for the potential variability of labor costs for these projects. Selling, general and administrative expenses consist primarily of compensation and related benefits for presidents, administrative salaries and benefits, advertising, office rent and utilities, communications and professional fees.

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

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

The Company does not utilize financial instruments for trading purposes and holds no derivative financial instruments which could expose the company to significant market risk. The Company's exposure to market risk for changes in interest rates relates primarily to its long-term obligation under the Credit Facility, of which \$89.5 million had been borrowed as of September 30, 1998. The Credit Facility matures on July 30, 2001. The weighted average interest rate of the \$89.5 million of outstanding indebtedness was 6.87% at September 30, 1998.

RESULTS OF OPERATIONS

The following table presents selected historical results of operations of IES and subsidiaries, with dollar amounts in thousands. These historical statements of operations represent the results of operations of (i) Houston-Stafford (as restated to include the results of operations of one Acquired Company that was acquired in a pooling-of-interests transaction) for periods ending prior to January 30, 1998 and (ii) Houston-

Stafford (as restated) and the results of operations of the Founding Companies and other Acquired Companies beginning on their respective dates of acquisition.

	YEAR ENDED DECEMBER 31, 1996		NINE MONTHS ENDED SEPTEMBER 30, 1997		YEARS ENDED SEPTEMBER 30, 1997		YEARS ENDED SEPTEMBER 30, 1998	
	(UNAUDITED)							
Revenues.....	\$101,431	100%	\$92,379	100%	\$117,111	100%	\$386,721	100%
Cost of services.....	85,081	84	76,306	83	95,937	82	306,052	79
Gross profit.....	16,350	16	16,073	17	21,174	18	80,669	21
Selling, general and administrative expenses...	10,228	10	10,222	11	14,261	12	47,390	12
Goodwill amortization.....	--	--	--	--	--	--	3,212	1
Non-cash, non-recurring compensation charge in connection with the Founding Company acquisitions.....	--	--	--	--	--	--	17,036	5
Income from operations.....	6,122	6	5,851	6	6,913	6	13,031	3
Interest and other income (expense), net.....	14	--	292	1	385	--	(393)	--
Income before income taxes.....	6,136	6	6,143	7	7,298	6	12,638	3
Provision for income taxes.....	2,471	2	2,408	3	2,923	2	12,690	3
Net income (loss).....	\$ 3,665	4%	\$ 3,735	4%	\$ 4,375	4%	\$ (52)	--

Year ended September 30, 1998 compared to the year ended September 30, 1997

Revenues increased \$269.6 million, or 230%, from \$117.1 million for the year ended September 30, 1997 to \$386.7 million for the year ended September 30, 1998. The increase in revenues was principally due to the acquisition of the Founding Companies and the Acquired Companies.

Gross profit increased \$59.5 million, or 281%, from \$21.2 million for the year ended September 30, 1997 to \$80.7 million for the year ended September 30, 1998. The increase in gross profit was principally due to the acquisition of the Founding Companies and the Acquired Companies. As a percentage of revenues, gross profit increased from 18% in 1997 to 21% in 1998. This increase was attributable primarily to Houston-Stafford's lower margin on certain materials acquired for a significant customer and higher than normal levels of overtime in the prior year.

Selling, general and administrative expenses increased \$33.1 million, or 232%, from \$14.3 million for the year ended September 30, 1997 to \$47.4 million for the year ended September 30, 1998. Selling, general and administrative expenses as a percentage of revenues remained constant at approximately 12% in 1997 and 1998. Selling, general and administrative expenses were primarily attributable to the acquisitions of the Founding Companies and the Acquired Companies, a \$5.6 million bonus paid to the owners of Houston-Stafford during the four months ended in January 1998, compared to a \$1.5 million bonus during the four months ended in January 1997, and approximately \$3.3 million of public company related corporate costs incurred in 1998 which did not exist in 1997. Excluding such bonuses and higher corporate costs, selling, general and administrative expenses as a percentage of revenues decreased from 11% in 1997 to 10% in 1998.

Income from operations increased \$6.1 million, or 88%, from \$6.9 million for the year ended September 30, 1997 to \$13.0 million for the year ended September 30, 1998. This increase in operating income was primarily attributable to acquisition of the Founding Companies and the Acquired Companies and the non-recurring owner bonuses in 1997. These increases were partially offset by the higher corporate costs discussed above and the \$17.0 million non-cash, non-recurring compensation charge incurred in connection with the Company's IPO (see Note 1 of Notes to Consolidated Financial Statements). As a percentage of revenues,

income from operations (excluding the owner bonuses, higher corporate costs and the non-cash, non-recurring compensation charge noted above) increased from 7% in 1997 to 10% in 1998.

Interest and other income (expense), net changed from income of \$0.4 million in 1997 to \$(0.4) million in 1998, primarily as a result of interest expense on borrowings to fund the Company's 1998 acquisitions. The increase in the Company's tax provision from \$2.9 million in 1997 to \$12.7 million in 1998 is primarily attributed to the growth in income from operations discussed above. The Company's effective tax rate increased from 40% in 1997 to 100% in 1998, due to a \$17.0 million non-cash, non-recurring compensation charge recognized during 1998 in connection with the IPO which is not deductible for tax purposes. The change in net income (loss) is primarily attributed to the factors discussed above.

Year ended September 30, 1997 compared to the year ended December 31, 1996.

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

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

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

Income from operations increased \$0.8 million, or 13%, from \$6.1 million for the year ended December 31, 1996 to \$6.9 million for the year ended September 30, 1997. This increase in operating income was primarily attributable to the changes in revenues and selling, general and administrative expenses discussed above. As a percentage of revenues, income from operations remained constant at 6%.

Interest and other income, net increased from \$14,000 in 1996 to \$0.4 million in 1997 due to an increase in other income. The Company's effective tax rate remained constant at 40% in 1996 and 1997. The increase in net income is primarily attributed to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1998, the Company had cash of \$14.6 million, working capital of \$75.0 million, borrowings of \$89.5 million under its three-year revolving credit facility (the "Credit Facility"), \$2.2 million of letters of credit outstanding and available capacity under its Credit Facility of \$83.3 million.

During the year ended September 30, 1998, the Company generated \$8.3 million of net cash from operating activities, comprised of a net loss of \$52,000, increased by \$22.6 million of non-cash charges related to a non-recurring compensation charge and depreciation and amortization expense, decreased by a \$20.0 million increase in receivables as a result of revenue growth and the timing of collections, with the balance of the change due to other working capital changes. Net cash used in investing activities was \$131.9 million, including \$128.7 million used for the purchase of businesses, net of cash acquired. Net cash flow provided by financing activities was \$134.0 million, resulting primarily from \$91.5 million of net proceeds from the IPO, \$108.0 million from borrowings under the Company's Credit Facility, reduced by payments of debt of \$47.5 million, and cash payments of \$17.8 million representing consideration paid to the stockholders of Houston-Stafford.

In January 1998, the Company entered into a credit facility (the "Credit Facility"), which provided for borrowings of up to \$65.0 million, to be used for working capital, capital expenditures, other corporate purposes and acquisitions. In August 1998, the Company increased the amounts available for borrowings under its Credit Facility to \$175.0 million. The amounts borrowed under the Credit Facility bear interest at an

annual rate equal to either (a) the London interbank offered rate ("LIBOR") plus 1.0% to 2.0%, as determined by the ratio of the Company's total funded debt to EBITDA (as defined), or (b) the higher of (i) the bank's prime rate and (ii) the federal funds rate plus 0.5%, plus up to an additional 0.5% as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.25% to 0.375%, as determined by the ratio of the Company's total funded debt to EBITDA, are due on any unused borrowing capacity under the Credit Facility. The Company's subsidiaries have guaranteed the repayment of all amounts due under the facility, and the facility is secured by the capital stock of the guarantors and the accounts receivable of the Company and the guarantors. The Credit Facility requires the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibits the payment of cash dividends on the Company's common stock, restricts the ability of the Company to incur other indebtedness and requires the Company to comply with certain financial covenants. Availability of the Credit Facility is subject to customary drawing conditions.

The Company anticipates that its cash flow from operations and proceeds from its Credit Facility will provide sufficient cash to enable the Company to meet its working capital needs, debt service requirements and planned capital expenditures for property and equipment through fiscal 1999.

Through September 30, 1998, the Company utilized a combination of existing cash, borrowings under its Credit Facility, and its common stock to acquire 37 companies. Subsequent to September 30, 1998, the Company acquired five companies for an aggregate consideration of approximately 732,000 shares of Common Stock and \$6.0 million in cash, net of cash acquired. The cash component of the consideration paid for these companies was funded with proceeds from the IPO, existing cash, and borrowings under the Credit Facility.

The Company intends to continue to pursue acquisition opportunities and may be in various stages of negotiation, due diligence and documentation of potential acquisitions at any time. The timing, size or success of any acquisition effort and the associated potential capital commitments cannot be predicted. The Company expects to fund future acquisitions primarily with working capital, cash flow from operations and borrowings, including any un borrowed portion of the Credit Facility, as well as issuances of additional equity or debt. To the extent the Company funds a significant portion of the consideration for future acquisitions with cash, it may have to increase the amount available for borrowing under the Credit Facility or obtain other sources of financing through the public or private sale of debt or equity securities. There can be no assurance that the Company will be able to secure such financing if and when it is needed or on terms the Company deems acceptable. If the Company is unable to secure acceptable financing, its acquisition program could be negatively affected. Capital expenditures for equipment and expansion of facilities are expected to be funded from cash flow from operations and supplemented as necessary by borrowings under the Credit Facility.

SEASONALITY AND QUARTERLY FLUCTUATIONS

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

INFLATION

Due to the relatively low levels of inflation experienced in fiscal 1996, 1997 and 1998, inflation did not have a significant effect on the results of the company in those fiscal years, or any of the Founding Companies or the Acquired Companies during similar periods.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company will adopt in the first quarter of 1999 SFAS No. 130 "Reporting Comprehensive Income," which requires the display of comprehensive income and its components in the financial statements. Comprehensive income represents all changes in equity of an entity during the reporting period, including net income and charges directly to equity which are excluded from net income. The Company expects that there will be no difference between the Company's "traditional" and "comprehensive" net income.

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

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

YEAR 2000

Year 2000 Issue. Many software applications, hardware and equipment and embedded chip systems identify dates using only the last two digits of the year. These products may be unable to distinguish between dates in the year 2000 and dates in the year 1900. That inability (referred to as the "Year 2000" issue), if not addressed, could cause applications, equipment or systems to fail or provide incorrect information after December 31, 1999, or when using dates after December 31, 1999. This in turn could have an adverse effect on the Company due to the Company's direct dependence on its own applications, equipment and systems and indirect dependence on those of other entities with which the Company must interact.

Compliance Program. In order to address the Year 2000 issue, the Company has established a project team to assure that key automated systems and related processes will remain functional through year 2000. The team will address the project in the following stages: (i) awareness, (ii) assessment, (iii) remediation, (iv) testing and (v) implementation of the necessary modifications. The key automated systems consist of (a) project estimating, management and financial systems applications, (b) hardware and equipment, (c) embedded chip systems and (d) third-party developed software. The evaluation of the Year 2000 issue includes the evaluation of the Year 2000 exposure of third parties material to the operations of the Company. The Company has retained a consulting firm to assist with the review of its systems for Year 2000 issues.

Company State of Readiness. The awareness phase of the Year 2000 project has begun with a corporate-wide awareness program which will continue to be updated throughout the life of the project. The assessment phase of the project involves, among other things, efforts to obtain representations and assurances from third parties, including third party vendors, that their hardware and equipment, embedded chip systems and software being used by or impacting the Company or any of its business units are or will be modified to be Year 2000 compliant. To date, the Company does not expect that responses from such third parties will be conclusive. As a result, management cannot predict the potential consequences if these or other third parties are not Year 2000 compliant. The exposure associated with the Company's interaction with third parties is also currently being evaluated.

Management expects that the remediation, testing and implementation phases will be completed prior to the year 2000.

Costs to Address Year 2000 Compliance Issues. While the total cost to the Company of the Year 2000 project is still being evaluated, management currently estimates that the costs to be incurred by the Company in 1999 and 2000 associated with assessing and testing applications, hardware and equipment, embedded chip systems, and third party developed software will be less than \$300,000. The Company expects that planned capital expenditures to replace existing financial system applications and hardware will substantially address its existing Year 2000 issues with financial system applications and hardware. To date, the Company has not expended significant funds related to its Year 2000 compliance assessment.

Risk of Non-Compliance and Contingency Plans. The major applications which pose the greatest Year 2000 risks for the Company if implementation of the Year 2000 compliance program is not successful are the Company's project estimating and management systems, financial systems applications and related third-party software. Potential problems if the Year 2000 compliance program is not successful include disruptions of the Company's revenue gathering from and distribution to its customers and vendors and the inability to perform its other financial and accounting functions.

The goal of the Year 2000 project is to ensure that all of the critical systems and processes which are under the direct control of the Company remain functional. However, because certain systems and processes may be interrelated with systems outside of the control of the Company, there can be no assurance that all implementations will be successful. Accordingly, as part of the Year 2000 project, contingency and business plans will be developed to respond to any failures as they may occur. Such contingency and business plans are scheduled to be completed during 1999. Management does not expect the costs to the Company of the Year 2000 project to have a material adverse effect on the Company's financial position, results of operations or cash flows. However, based on information available at this time, the Company cannot conclude that any failure of the Company or third parties to achieve Year 2000 compliance will not adversely affect the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not utilize financial instruments for trading purposes and holds no derivative financial instruments which could expose the company to significant market risk. The Company's exposure to market risk for changes in interest rates relates primarily to its long-term obligation under the Credit Facility, of which \$89.5 million had been borrowed as of September 30, 1998. The Credit Facility matures on July 30, 2001. The weighted average interest rate of the \$89.5 million of outstanding indebtedness was 6.87% at September 30, 1998.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Integrated Electrical Services, Inc.:

We have audited the accompanying consolidated balance sheets of Integrated Electrical Services, Inc., a Delaware corporation, and subsidiaries as of September 30, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 1996, and for each of the two years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrated Electrical Services, Inc., and subsidiaries as of September 30, 1997 and 1998, and the results of their operations and their cash flows for the year ended December 31, 1996, and for each of the two years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 12, 1998

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)
(NOTE 1)

ASSETS

	SEPTEMBER 30,	
	1997	1998
CURRENT ASSETS:		
Cash.....	\$ 4,154	\$ 14,583
Accounts receivable:		
Trade, net of allowance of \$537 and \$4,160, respectively.....	14,287	120,153
Retainage.....	4,611	26,074
Related party.....	--	100
Inventories, net.....	2,878	6,440
Costs and estimated earnings in excess of billings on uncompleted contracts.....	1,368	12,502
Prepaid expenses and other current assets.....	1,173	3,198
	-----	-----
Total current assets.....	28,471	183,050
	-----	-----
RECEIVABLES FROM RELATED PARTIES.....	309	142
GOODWILL, net.....	970	293,066
PROPERTY AND EQUIPMENT, net.....	4,110	23,436
OTHER NONCURRENT ASSETS.....	1,934	2,774
	-----	-----
Total assets.....	\$35,794	\$502,468
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt and current maturities of long-term debt.....	\$ 894	\$ 3,823
Accounts payable and accrued expenses.....	14,669	69,225
Income taxes payable.....	1,540	6,686
Billings in excess of costs and estimated earnings on uncompleted contracts.....	3,266	27,807
Other current liabilities.....	332	489
	-----	-----
Total current liabilities.....	20,701	108,030
	-----	-----
LONG-TERM BANK DEBT.....	--	89,500
OTHER LONG-TERM DEBT, net of current maturities.....	1,275	854
OTHER NON-CURRENT LIABILITIES.....	1,182	1,380
	-----	-----
Total liabilities.....	23,158	199,764
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 10,000,000 authorized, none issued and outstanding.....	--	--
Common stock, \$.01 par value, 100,000,000 shares authorized, 4,492,039 and 28,105,363 shares issued and outstanding.....	45	281
Restricted common stock, \$.01 par value, 2,655,709 shares authorized, 2,655,709 shares issued and outstanding at September 30, 1998.....	--	27
Additional paid-in capital.....	887	291,650
Retained earnings.....	11,704	10,746
	-----	-----
Total stockholders' equity.....	12,636	302,704
	-----	-----
Total liabilities and stockholders' equity.....	\$35,794	\$502,468
	=====	=====

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE INFORMATION)
(NOTE 1)

	YEAR ENDED	NINE MONTHS	YEAR ENDED	
	DECEMBER 31, 1996	ENDED SEPTEMBER 30, 1997	SEPTEMBER 30,	
			1997	1998
		(UNAUDITED)		
REVENUES.....	\$ 101,431	\$ 92,379	\$ 117,111	\$ 386,721
COST OF SERVICES (including depreciation)..	85,081	76,306	95,937	306,052
Gross profit.....	16,350	16,073	21,174	80,669
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	10,228	10,222	14,261	47,390
NON-CASH, NON-RECURRING COMPENSATION CHARGE IN CONNECTION WITH THE FOUNDING COMPANY ACQUISITIONS (Note 1).....	--	--	--	17,036
GOODWILL AMORTIZATION.....	--	--	--	3,212
Income from operations.....	6,122	5,851	6,913	13,031
OTHER INCOME (EXPENSE):				
Interest expense, net.....	(171)	(164)	(214)	(728)
Other, net.....	185	456	599	335
Other income (expense), net.....	14	292	385	(393)
INCOME BEFORE INCOME TAXES.....	6,136	6,143	7,298	12,638
PROVISION FOR INCOME TAXES.....	2,471	2,408	2,923	12,690
NET INCOME (LOSS).....	\$ 3,665	\$ 3,735	\$ 4,375	\$ (52)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE.....	\$.82	\$.83	\$.97	\$ --
SHARES USED IN THE COMPUTATION OF BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 2).....	4,492,039	4,492,039	4,492,039	19,753,060

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 (IN THOUSANDS, EXCEPT SHARE INFORMATION)
 (NOTE 1)

	COMMON STOCK		RESTRICTED COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT			
BALANCE, December 31, 1995.....	4,492,039	\$ 45	--	\$--	\$ 887	\$ 4,109	\$ 5,041
Net income.....	--	--	--	--	--	3,665	3,665
BALANCE, December 31, 1996.....	4,492,039	45	--	--	887	7,774	8,706
Net income.....	--	--	--	--	--	3,735	3,735
Adjustment for change in fiscal year of pooled company.....	--	--	--	--	--	195	195
BALANCE, September 30, 1997.....	4,492,039	45	--	--	887	11,704	12,636
Non-cash non-recurring compensation charge.....	--	--	--	--	17,036	--	17,036
Initial public offering of stock.....	8,050,000	80	--	--	91,433	--	91,513
Issuance of stock for acquisitions.....	15,563,324	156	2,655,709	27	199,920	--	200,103
Distribution to accounting acquirer.....	--	--	--	--	(17,626)	(906)	(18,532)
Net loss.....	--	--	--	--	--	(52)	(52)
BALANCE, September 30, 1998.....	28,105,363	\$281	2,655,709	\$27	\$291,650	\$10,746	\$302,704
	=====	=====	=====	=====	=====	=====	=====

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(NOTE 1)

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)	YEAR ENDED SEPTEMBER 30, ----- 1997 1998 -----	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss).....	\$ 3,665	\$ 3,735	\$ 4,375	\$ (52)
Adjustment for change in fiscal year of the pooled company.....	--	195	--	--
Non-cash non-recurring compensation charge.....	--	--	--	17,036
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization.....	304	319	398	5,557
Loss (gain) on sale of property and equipment.....	3	(142)	(140)	(177)
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable.....	(4,157)	(4,399)	(3,886)	(20,000)
Inventories.....	(9)	(1,400)	(1,409)	631
Costs and estimated earnings in excess of billings on uncompleted contracts.....	(95)	(540)	(841)	(2,013)
Prepaid expenses and other current assets.....	(91)	(153)	(286)	1,603
Increase (decrease) in:				
Accounts payable and accrued expenses.....	1,675	2,613	2,379	(1,063)
Billings in excess of costs and estimated earnings on uncompleted contracts.....	1,609	(54)	(747)	4,838
Other current liabilities.....	906	688	272	(66)
Other, net.....	(20)	190	210	2,042
Net cash provided by operating activities.....	3,790	1,052	325	8,336
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of property and equipment.....	22	70	84	702
Additions of property and equipment.....	(900)	(1,025)	(997)	(4,352)
Purchase of businesses, net of cash acquired.....	--	(100)	(100)	(128,735)
Collections of notes receivable.....	--	77	77	475
Other, net.....	--	--	21	--
Net cash used in investing activities.....	(878)	(978)	(915)	(131,910)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of long-term debt.....	2,960	10,373	10,979	108,026
Payments of long-term debt.....	(3,408)	(10,594)	(11,545)	(47,778)
Distributions to stockholders.....	--	--	--	(17,758)
Proceeds from initial public offering.....	--	--	--	91,513
Net cash provided by (used in) financing activities.....	(448)	(221)	(566)	134,003
NET INCREASE (DECREASE) IN CASH.....	2,464	(147)	(1,156)	10,429
CASH, beginning of period.....	1,837	4,301	5,310	4,154
CASH, end of period.....	\$ 4,301	\$ 4,154	\$ 4,154	\$ 14,583
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest.....	\$ 171	\$ 160	\$ 193	\$ 755
Income taxes.....	1,643	1,421	2,571	10,779
Non-cash property distribution.....	--	--	--	774

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION AND BASIS OF PRESENTATION:

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

On January 30, 1998, concurrent with the closing of its initial public offering (the "IPO" or "Offering") of common stock, IES acquired, in separate transactions, for consideration including \$53.4 million of cash and 12.3 million shares of common stock, 16 companies and related entities engaged in all facets of electrical contracting and maintenance services (collectively, the "Founding Companies" or the "Founding Company Acquisitions"). Subsequent to its IPO, and through September 30, 1998, the Company acquired 21 additional electrical contracting and maintenance businesses for approximately \$93.0 million of cash and 6.3 million shares of common stock (the "Acquired Companies"). Of these 21 Acquired Companies, 20 were accounted for using the purchase method of accounting and one was accounted for using the pooling-of-interests method of accounting resulting in a restatement of the Company's financial statements for all periods presented (see Note 3).

The financial statements of the Company for periods prior to January 30, 1998, reflect the historical accounts of Houston-Stafford as the accounting acquirer. The \$18.5 million of distributions to the accounting acquirer includes \$17.8 million of the \$53.4 million of cash consideration described above. The historical financial statements have been restated for all periods presented for the effect of the acquisition accounted for as a pooling-of-interest. The Founding Companies are included in the Company's results of operations beginning February 1, 1998, and the other Acquired Companies beginning on their respective dates of acquisition. Houston-Stafford's results of operations through January 30, 1998, include a non-cash, non-recurring compensation charge of approximately \$17.0 million required by the Securities and Exchange Commission ("SEC") in connection with a note receivable and rights held by an officer of Houston-Stafford which was exchanged for cash and shares of IES common stock in connection with the Founding Company Acquisitions (see Note 10). The Company has changed from a calendar to a September fiscal year.

In the course of its operations, the Company is subject to certain risk factors, including but not limited to: absence of combined operating history, exposure to downturns in commercial construction or housing starts, risks related to its acquisition strategy, management of growth, availability of qualified employees, competition, seasonality, and dependence on key personnel.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of IES and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year consolidated financial statements to conform with the presentation used in 1998.

Interim Financial Information

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Cash

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

Inventories

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

Property and Equipment

Additions of property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was approximately \$304,000 for the year ended December 31, 1996, and \$391,000 and \$2,148,000 for the years ended September 30, 1997 and 1998, respectively.

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

Goodwill

Goodwill represents the excess of the aggregate of purchase price paid by the Company in the acquisition of businesses accounted for as purchases over the estimated fair market value of the net assets acquired. Goodwill is amortized on a straight-line basis over 40 years. As of September 30, 1997 and 1998, accumulated amortization was approximately \$33,000 and \$3,245,000, respectively.

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

Debt Issue Costs

Debt issue costs related to the Company's credit facility (see Note 6) are included in other noncurrent assets and are amortized to interest expense over the scheduled maturity of the debt. As of September 30, 1998, accumulated amortization of debt issue costs was approximately \$197,000.

Revenue Recognition

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

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

Accounts Receivable and Provision for Doubtful Accounts

Accounts receivable at September 30, 1997 and 1998 include approved claims and change orders which were expected to be collected within the fiscal year. The Company provides an allowance for doubtful accounts for unknown collection issues in addition to reserves for specific accounts receivable where collection is no longer probable.

Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," allows entities to choose between a new fair value method of accounting for employee stock options or similar equity instruments and the current method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25 under which compensation expense is not recorded unless the fair market value of the related stock is in excess of the options exercise price at date of grant. The Company has elected to follow APB Opinion No. 25 for employee stock options and make pro forma disclosures of net income and earnings per share as if the fair value method of accounting prescribed in SFAS No. 123 had been applied.

Income Taxes

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

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Realization of Long-Lived Assets

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

Earnings per Share

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

For financial statement purposes as required by the rules and regulations of the Securities Act, Houston-Stafford has been identified as the accounting acquirer in the transaction with IES and its initial public offering. As such the shares of IES beneficially owned by the shareholders of Houston-Stafford and the shares issued in the pooling transaction have been used in the calculation of basic and diluted earnings per share of the Company, for all periods prior to the IPO. There was no impact on weighted average shares outstanding in fiscal 1998 as common stock equivalents are excluded in the calculation of weighted average shares outstanding for fiscal 1998 as the Company reported a net loss for this period. The number of potentially antidilutive shares excluded from the calculation of fully diluted earnings per share was 399,833 at September 30, 1998.

New Accounting Pronouncements

The Company will adopt in the first quarter of 1999 SFAS No. 130 "Reporting Comprehensive Income," which requires the display of comprehensive income and its components in the financial statements. Comprehensive income represents all changes in equity of an entity during the reporting period, including net income and charges directly to equity which are excluded from net income. The Company expects that there will be no difference between the Company's "traditional" and "comprehensive" net income.

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

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which becomes effective for the Company for its year ended September 30, 2000. SFAS No. 133 requires a company to recognize all derivative instruments (including certain derivative instruments embedded in other contracts) as assets or liabilities in its balance sheet and measure them at fair value. The statement requires that changes in the derivatives fair value be recognized currently in earnings unless specific

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

hedge accounting criteria are met. The Company is evaluating SFAS No. 133 and the impact on existing accounting policies and financial reporting disclosures. However, the Company has not to date engaged in activities or entered into arrangements normally associated with derivative instruments.

3. BUSINESS COMBINATIONS:

On January 30, 1998, concurrent with the closing of its IPO, IES acquired, in separate transactions, for consideration including \$53.4 million of cash and 12.3 million shares of common stock, 16 companies and related entities engaged in all facets of electrical contracting and maintenance services. Subsequent to its IPO, and through September 30, 1998, the Company has acquired 21 additional electrical contracting and maintenance businesses for approximately \$93.0 million of cash and 6.3 million shares of common stock. Of these 21 Acquired Companies, 20 were accounted for using the purchase method of accounting and one was accounted for using the pooling-of-interests method of accounting. Accordingly, the Company's historical financial statements have been restated to include the historical financial statements of this one Acquired Company.

The total consideration paid for the Acquired Companies, other than the one accounted for as a pooling-of-interest, through September 30, 1998, was approximately \$93.0 million of cash and 5.2 million shares of common stock. The \$137.8 million excess of the total consideration paid over the net tangible assets acquired has been recorded as goodwill in the accompanying consolidated financial statements. The accompanying September 30, 1998, consolidated balance sheet includes allocations of the respective purchase prices to the assets acquired and liabilities assumed based on preliminary estimates of fair value and are subject to final adjustment.

Pooling

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

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

	YEAR ENDED DECEMBER 31, 1996		YEAR ENDED SEPTEMBER 30, 1997		YEAR ENDED SEPTEMBER 30, 1998	
	REVENUES	NET INCOME	REVENUES	NET INCOME	REVENUES	NET INCOME
Revenues and net income (loss):						
As previously reported.....	\$ 70,493	\$3,047	\$ 81,575	\$3,316	\$366,208	\$(1,351)
Pooled Company.....	30,938	618	35,536	1,059	20,513	1,299
As restated.....	<u>\$101,431</u>	<u>\$3,665</u>	<u>\$117,111</u>	<u>\$4,375</u>	<u>\$386,721</u>	<u>\$ (52)</u>
Earnings per share:						
As previously reported.....		\$.91		\$.99		\$ (.07)
Pooled Company.....		(.09)		(.02)		.07
As restated.....		<u>\$.82</u>		<u>\$.97</u>		<u>\$ --</u>

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Pro Forma Presentation

The unaudited pro forma data presented below reflect the results of operations of the Company, the Founding Companies and the Acquired Companies acquired during fiscal 1998, and the IPO, assuming the transactions were completed on October 1, 1996 (in thousands):

	YEAR ENDED SEPTEMBER 30,	
	1997	1998
	----- (UNAUDITED) -----	
Revenues.....	\$705,034	\$750,449
	=====	=====
Net income.....	\$ 33,204	\$ 34,633
	=====	=====
Basic earnings per share.....	\$ 1.08	\$ 1.13
	=====	=====
Diluted earnings per share.....	\$ 1.08	\$ 1.11
	=====	=====

The unaudited pro forma data summarized above also reflects pro forma adjustments primarily related to: reductions in general and administrative expenses for contractually agreed reductions in owners' compensation, the reversal of the \$17 million non-cash, non-recurring compensation charge (see Note 1), estimated goodwill amortization for the excess of consideration paid over the net assets acquired assuming a 40-year amortization period, interest expense on borrowings incurred to fund acquisitions, elimination of interest income, and additional tax expense based on the Company's effective tax rate.

4. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	SEPTEMBER 30,	
		1997	1998
		----- ----- -----	
Land.....	N/A	\$ 1,773	\$ 1,523
Buildings.....	5-32	686	585
Transportation equipment.....	3-5	2,158	12,692
Machinery and equipment.....	3-10	1,214	9,926
Leasehold improvements.....	5-32	273	2,888
Furniture and fixtures.....	5-7	563	3,170
		-----	-----
		6,667	30,784
Less -- Accumulated depreciation and amortization.....		(2,557)	(7,348)
		-----	-----
Property and equipment, net.....		\$ 4,110	\$23,436
		=====	=====

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	SEPTEMBER 30,	
	1997	1998
Balance at beginning of period.....	\$459	\$ 537
Additions from the Acquired Companies (except Allen).....	--	3,534
Additions to costs and expenses.....	85	261
Deductions for uncollectible receivables written off and recoveries.....	(7)	(172)
Balance at end of period.....	\$537	\$4,160

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

	SEPTEMBER 30,	
	1997	1998
Accounts payable, trade.....	\$ 9,033	\$40,913
Accrued compensation and benefits.....	2,412	8,536
Other accrued liabilities.....	3,224	19,776
	\$14,669	\$69,225

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

	SEPTEMBER 30,	
	1997	1998
Costs incurred on contracts in progress.....	\$ 43,997	\$ 399,797
Estimated earnings.....	6,816	85,682
	50,813	485,479
Less -- Billings to date.....	(52,711)	(500,784)
	\$ (1,898)	\$ (15,305)
Costs and estimated earnings in excess of billings on uncompleted contracts.....	\$ 1,368	\$ 12,502
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts.....	(3,266)	(27,807)
	\$ (1,898)	\$ (15,305)

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

6. DEBT:

Debt consists of the following (in thousands):

	SEPTEMBER 30,	
	1997	1998
Secured credit facility with bank group, due July 30, 2001, at a weighted average interest rate of 6.87%.....	\$ --	\$89,500
Note payable to an officer, dated January 1998, payable on demand, including interest at 7%.....	--	3,149
Note payable to an officer, dated August 1996, payable in monthly payments of \$12 including interest at a rate of 8%, maturing August 2003 and secured by stock (see Note 10).....	699	--
Line of credit with a bank with total borrowing capacity of \$3,100, bearing interest at prime plus 1/2 percent, repaid in 1998 with proceeds from the Company's credit facility.....	507	--
Notes payable to banks bearing interest ranging from 8% to 8.25%, repaid in 1998 with proceeds from the Company's credit facility.....	387	--
Note payable to an officer, bearing interest at 11%, repaid in 1998 with proceeds from the Company's credit facility.....	47	--
Mortgage payables to a bank and an individual bearing interest at 9% and 10%, repaid in 1998 with proceeds from the Company's credit facility.....	145	--
Various capital lease obligations.....	65	941
Other notes payable.....	319	587
	-----	-----
	2,169	94,177
Less short-term debt and current maturities of long-term debt.....	894	3,823
	-----	-----
Total long-term debt.....	\$1,275	\$90,354
	=====	=====

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

1999.....	\$ 3,823
2000.....	463
2001.....	89,736
2002.....	89
2003.....	27
Thereafter.....	39

Total.....	\$94,177
	=====

Credit Facility

In January 1998, the Company obtained a three-year revolving credit facility of up to \$65.0 million from a commercial bank to be used for working capital, capital expenditures, other corporate purposes and acquisitions. In August, the Company increased the credit facility to \$175.0 million. The credit facility matures July 30, 2001. Amounts borrowed under the credit facility bear interest at an annual rate equal to either (a) the London interbank offered rate (LIBOR) plus 1.0 percent to 2.0 percent, as determined by the ratio of the Company's total funded debt to EBITDA (as defined in the credit facility) or (b) the higher of (i) the bank's prime rate and (ii) the Federal funds rate plus 0.5 percent plus up to an additional 0.5 percent, as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.25 percent to 0.375 percent, as determined by the ratio of the Company's total funded debt to EBITDA, will be due on any unused borrowing capacity under the credit facility. The Company's existing and future subsidiaries

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

guarantee the repayment of all amounts due under the facility, and the facility is secured by the capital stock of those subsidiaries and the accounts receivable of the Company and those subsidiaries. The credit facility requires the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibits the payment of cash dividends on the common stock, restricts the ability of the Company to incur other indebtedness and requires the Company to comply with various affirmative and negative covenants including certain financial covenants. Among other restrictions, the financial covenants include minimum net worth requirements and maintenance of a total consolidated funded debt to EBITDA ratio and a minimum fixed charge coverage ratio. The Company was in compliance with the financial covenants at September 30, 1998. As of September 30, 1998, the Company had outstanding indebtedness of \$89.5 million under its Credit Facility, letters of credit outstanding under its Credit Facility of \$2.2 million, and available borrowing capacity under its Credit Facility of \$83.3 million.

7. LEASES:

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

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

YEAR ENDED SEPTEMBER 30,	
1999.....	\$ 3,635
2000.....	3,377
2001.....	2,883
2002.....	2,494
2003.....	1,493
Thereafter.....	553

	\$14,435
	=====

Rental expense for the year ended December 31, 1996, and the years ended September 30, 1997 and 1998, was approximately \$155,000, \$206,000 and \$2,033,000, respectively.

8. INCOME TAXES:

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

	YEAR ENDED	YEAR ENDED	
	DECEMBER 31,	SEPTEMBER 30,	
	1996	1997	1998
	-----	-----	-----
Federal:			
Current.....	\$1,741	\$2,691	\$11,952
Deferred.....	434	(149)	(712)
State:			
Current.....	241	400	1,616
Deferred.....	55	(19)	(166)
	-----	-----	-----
	\$2,471	\$2,923	\$12,690
	=====	=====	=====

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	YEAR ENDED	YEAR ENDED	
	DECEMBER 31, 1996	1997	SEPTEMBER 30, 1998
	-----	-----	-----
Provision at the statutory rate.....	\$2,148	\$2,554	\$ 4,423
Increase resulting from:			
Non-cash, non-recurring compensation charge.....	--	--	5,963
Non-deductible goodwill.....	--	--	1,103
State income tax, net of benefit for federal deduction.....	184	219	942
Non-deductible expenses.....	139	150	259
	-----	-----	-----
	\$2,471	\$2,923	\$12,690
	=====	=====	=====

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

	YEAR ENDED	
	1997	SEPTEMBER 30, 1998
	-----	-----
Deferred income tax assets:		
Bad debts.....	\$ 162	\$1,029
Inventory.....	--	240
Reserves and accrued expenses.....	564	1,758
Other.....	--	521
	-----	-----
Total deferred income tax asset.....	726	3,548
	-----	-----
Deferred income tax liabilities:		
Property and equipment and goodwill.....	(112)	(1,438)
Deferred contract revenue and other.....	(1,012)	(3,089)
Accrued expenses.....	(47)	--
	-----	-----
Total deferred income tax liability.....	(1,171)	(4,527)
	-----	-----
Net deferred income tax liability.....	\$ (445)	\$ (979)
	=====	=====

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

	SEPTEMBER 30,	
	1997	1998
	-----	-----
Deferred tax assets:		
Current.....	\$ 726	\$ 326
Deferred tax liabilities:		
Current.....	\$(1,059)	\$ --
Long-Term.....	(112)	(1,305)
	-----	-----
Total.....	\$(1,171)	\$(1,305)
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. STOCKHOLDERS' EQUITY:

Restricted Common Stock

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

Stock Plan

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

Director's Stock Plan

In September 1997, the Company's board of directors and stockholders approved the 1997 Directors' Stock Plan (the "Directors' Plan"), which provides for the granting or awarding of stock options to nonemployee directors. The number of shares authorized and reserved for issuance under the Directors' Plan is 260,000 shares. Each nonemployee director is granted options to purchase an additional 5,000 shares at the time of an initial election of such director. In addition, each director will be automatically granted options to purchase 5,000 shares annually at each September 30 on which such director remains a director. All options have an exercise price based on the fair market value at the date of grant and vesting terms similar to options granted under the Plan discussed above.

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

As of September 30, 1998, the Company had total outstanding options under these plans to purchase up to a total of approximately 3,238,951 shares of common stock.

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

	SHARES -----	WEIGHTED AVERAGE EXERCISE PRICE -----
Outstanding, September 30, 1997.....	--	--
Granted (range of exercise prices, \$7.80 to \$22.125)....	3,464,014	\$13.99
Forfeited (range of exercise prices, \$13.00 to \$22.125).....	(225,063)	\$13.14
	=====	=====
Outstanding, September 30, 1998.....	3,238,951	\$13.48
	=====	=====
Exercisable, September 30, 1998.....	85,000	\$ 9.33
	=====	=====

Unexercised options expire at various dates from September 4, 2007 through September 14, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company follows APB No. 25 in accounting for stock options issued to employees. Under APB No. 25, compensation expense is not recorded for stock options issued to employees if the exercise price of the option is equal to the market price of the stock on the date of grant. SFAS No. 123, "Accounting for Stock-Based Compensation," requires that if a company does not record compensation expense for stock options issued to employees pursuant to APB No. 25, the company must also disclose the effects on its results of operations as if an estimate of the value of stock-based compensation at the date of grant was recorded as an expense. The following compares the Company's reported income and earnings per share to pro forma estimates of these amounts assuming that the Company had expensed the estimated fair value of options provided to its employees over the applicable vesting period.

		1998

Net Loss	As reported.....	\$ (52)
	Pro forma for SFAS No. 123.....	\$(2,173)
Loss Per Share	As reported.....	\$ --
	Pro forma for SFAS No. 123.....	\$ (0.11)

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

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

Expected dividend yield.....	0.00%
Expected stock price volatility.....	53.20%
Risk free interest rate.....	5.55%
Expected life of options.....	6 years

Options outstanding at September 30, 1998, had exercise prices ranging from \$7.80 to \$22.13, a weighted average remaining contractual life of 9.3 years, a weighted average fair value of \$7.98 per option and a weighted average exercise price of \$13.48 per option.

Initial Public Offering

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

10. RELATED-PARTY TRANSACTIONS:

The Company has transactions in the normal course of business with certain affiliated companies. Amounts due from related parties at September 30, 1997 and 1998 were \$309,000 and \$242,000, respectively. In connection with certain of the Founding Company Acquisitions and the acquisitions of the Acquired Companies, subsidiaries of the Company have entered into a number of lease arrangements for facilities. These lease agreements are for periods generally ranging from three to five years. Lease payments for the years ended December 31, 1996, September 30, 1997 and 1998 were \$291,000, \$216,000, and \$1,648,000, respectively. Future commitments with respect to these leases are included in the schedule of minimum lease payments in note 7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

11. EMPLOYEE BENEFIT PLANS:

Certain subsidiaries of the Company provide various defined contribution savings plans for their employees (the "Plans"). The Plans cover substantially all full-time employees of such subsidiaries. Participants vest at varying rates ranging from full vesting upon participation to those that provide for vesting to begin after three years of service and are fully vested after eight years. Certain plans provide for a deferral option that allows employees to elect to contribute a portion of their pay into the plan and provide for a discretionary profit sharing contribution by the individual subsidiary. Generally the subsidiaries match a portion of the amount deferred by participating employees. Contributions for the profit sharing portion of the Plans are generally at the discretion of the individual subsidiary board of directors. The aggregate contributions to the Plans were \$75,000, \$100,000 and \$1,127,000 for the years ended December 31, 1996 and September 30, 1997 and 1998, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

13. COMMITMENTS AND CONTINGENCIES:

Litigation

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

Insurance

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

14. RISK CONCENTRATION:

Financial instruments, which potentially subject the Company to concentrations of credit risk consist principally of cash deposits and trade accounts receivable. The Company grants credit, generally without collateral, to its customers, which are generally contractors and home builders throughout the United States. Consequently, the Company is subject to potential credit risk related to changes in business and economic

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

factors throughout the United States within the construction and home-building market. However, the Company generally is entitled to payment for work performed and has certain lien rights in that work. Further, management believes that its contract acceptance, billing and collection policies are adequate to minimize any potential credit risk.

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

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

Quarterly financial information for the years ended September 30, 1997 and 1998 are summarized as follows (in thousands, except per share data):

	FISCAL YEAR ENDED SEPTEMBER 30, 1997			
	DECEMBER QUARTER	MARCH QUARTER	JUNE QUARTER	SEPTEMBER QUARTER
Revenues.....	\$24,732	\$ 24,368	\$ 30,747	\$ 37,264
Gross profit.....	\$ 5,137	\$ 3,873	\$ 5,611	\$ 6,553
Net income.....	\$ 639	\$ 719	\$ 1,326	\$ 1,691
Earnings per share:				
Basic.....	\$.14	\$.16	\$.30	\$.38
Diluted.....	\$.14	\$.16	\$.30	\$.38

	FISCAL YEAR ENDED SEPTEMBER 30, 1998			
	DECEMBER QUARTER	MARCH QUARTER	JUNE QUARTER	SEPTEMBER QUARTER
Revenues.....	\$31,799	\$ 72,534	\$115,287	\$167,101
Gross profit.....	\$ 6,537	\$ 15,670	\$ 23,993	\$ 34,469
Non-cash, non-recurring compensation charge.....	\$ --	\$ 17,036	\$ --	\$ --
Net income (loss).....	\$ (681)	\$ (13,842)	\$ 6,381	\$ 8,090
Earnings (loss) per share:				
Basic.....	\$ (.15)	\$ (.76)	\$.24	\$.28
Diluted.....	\$ (.15)	\$ (.76)	\$.24	\$.28

The quarterly information has been restated to include the results of operations of Allen.

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

16. SUPPLEMENTAL PRO FORMA COMBINED RESULTS OF OPERATIONS (UNAUDITED):

The following supplemental unaudited pro forma income statements presented below reflect the results of operations of the Company (as restated for results of operations of Allen) and the Founding Companies and the IPO, assuming these transactions were completed on October 1, 1996. The 20 Acquired Companies accounted for under the purchase method of accounting have been included in the following supplemental pro forma income statements beginning on their respective dates of acquisition during fiscal 1998.

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	UNAUDITED SUPPLEMENTAL PRO FORMA YEAR ENDED SEPTEMBER 30,	
	1997	1998
Revenue.....	\$ 350,236	\$ 470,177
Cost of Services.....	279,472	370,760
Gross Profit.....	70,764	99,417
Selling, General and Administrative Expenses.....	37,893	52,008
Goodwill Amortization.....	3,848	4,481
Operating Income.....	29,023	42,928
Interest Expense.....	1,092	1,570
Interest Income.....	(89)	(615)
Other.....	(532)	(279)
	471	676
Income Before Income Taxes.....	28,552	42,252
Provision for Income Taxes.....	12,404	18,099
Net Income.....	\$ 16,148	\$ 24,153
Earnings Per Share:		
Basic.....	\$.63	\$.91
Diluted.....	\$.63	\$.89
Shares Outstanding:		
Basic.....	25,555,336	26,616,132
Diluted.....	25,675,336	27,015,965

The unaudited supplemental pro forma income statements summarized above also reflects pro forma adjustments primarily related to: reductions in general and administrative expenses for contractually agreed reductions in Founding Companies owners' compensation, the reversal of the \$17 million non-cash, non-recurring compensation charge (see Note 1), estimated goodwill amortization for the excess of consideration paid for the Acquired Companies over the net assets acquired assuming a 40-year amortization period, interest expense on borrowings incurred in connection with acquisitions, elimination of interest income, and additional tax expense based on the Company's effective tax rate.

17. EVENTS SUBSEQUENT TO DATE OF AUDITORS' REPORT (UNAUDITED):

Subsequent to September 30, 1998, the Company acquired five companies for an aggregate consideration of approximately 732,000 shares of common stock and \$6.0 million in cash, net of cash acquired. The cash portion of such consideration was provided by borrowings under the Company's credit facility and cash on hand.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference from the sections entitled "Management" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its 1999 Annual Meeting of Stockholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission no later than January 28, 1999.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

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

1. Consolidated Financial Statements.

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

2. Consolidated Financial Statement Schedules

All consolidated financial statements schedules have been omitted because they are not required, are not applicable or the information required has been included elsewhere herein.

3. Exhibits and Financial Statement Schedules (except as otherwise designated below, all exhibits have been previously filed).

(b) Reports on Form 8-K.

A report on Form 8-K was filed on July 14, 1998 in connection with the acquisition of three businesses on June 30, 1998. The financial statements of the businesses acquired were incorporated by reference from Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-50031) in an amendment to Form 8-K filed by amendment on September 14, 1998.

A report on Form 8-K was filed on September 14, 1998 in connection with the acquisition of a business. The financial statements of the business acquired were incorporated by reference from Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-50031).

(c) Exhibits.

- 3.1 -- Amended and Restated Certificate of Incorporation as amended. (Incorporated by reference to 3.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- *3.2 -- Bylaws, as amended.
- 4.1 -- Specimen Common Stock Certificate. (Incorporated by reference to 4.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- 10.1 -- Form of Employment Agreement (Incorporated by reference to 10.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- 10.2 -- Form of Officer and Director Indemnification Agreement. (Incorporated by reference to 10.2 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- 10.3 -- Integrated Electrical Services, Inc. 1997 Stock Plan. (Incorporated by reference to 10.3 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- 10.4 -- Integrated Electrical Services, Inc. 1997 Directors Stock Plan. (Incorporated by reference to 10.4 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- 10.5 -- Form of Credit Agreement among the Company, the Financial Institutions named therein and NationsBank of Texas, N.A., including form of Subsidiary Guaranty Agreement, form of Pledge Agreement, form of Security Agreement, form of promissory note, and form of swing line note. (Incorporated by reference to 10.5 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- 10.6 -- Form of Lock-up Agreement entered into by the Company and the stockholders set forth on Schedule A thereto. (Incorporated by reference to 10.6 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
- *21.1 -- List of Subsidiaries.
- *23.1 -- Consent of Arthur Andersen LLP.
- *27 -- Financial Data Schedule
- *99.1 -- Integrated Electrical Services, Inc. 401(k) Retirement Savings Plan

- - - - -
 * Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on December 18, 1998.

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ JIM P. WISE

 Jim P. Wise
 President and Chief Executive
 Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on December 18, 1998.

SIGNATURE -----	TITLE -----
/s/ JIM P. WISE ----- Jim P. Wise	Chief Executive Officer and Chief Financial Officer
/s/ DONALD PAUL HODEL ----- Donald Paul Hodel	Director
/s/ JERRY M. MILLS ----- Jerry M. Mills	Senior Vice President and Chief Operating Officer -- Commercial and Industrial and Director
/s/ BEN L. MUELLER ----- Ben L. Mueller	Senior Vice President and Chief Operating Officer -- Residential and Director
/s/ RICHARD MUTH ----- Richard Muth	Director
/s/ JON POLLOCK ----- Jon Pollock	Vice Chairman of the Board of Directors
/s/ ALAN R. SIELBECK ----- Alan R. Sielbeck	Director
/s/ C. BYRON SNYDER ----- C. Byron Snyder	Chairman of the Board of Directors
/s/ ROBERT STALVEY ----- Robert Stalvey	Director
/s/ RICHARD L. TUCKER ----- Richard L. Tucker	Director
/s/ BOB WEIK ----- Bob Weik	Director
/s/ J. PAUL WITHROW ----- J. Paul Withrow	Vice President and Chief Accounting Officer

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	-- Amended and Restated Certificate of Incorporation as amended. (Incorporated by reference to 3.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
*3.2	-- Bylaws, as amended.
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10.3	-- Integrated Electrical Services, Inc. 1997 Stock Plan. (Incorporated by reference to 10.3 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.4	-- Integrated Electrical Services, Inc. 1997 Directors Stock Plan. (Incorporated by reference to 10.4 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.5	-- Form of Credit Agreement among the Company, the Financial Institutions named therein and NationsBank of Texas, N.A., including form of Subsidiary Guaranty Agreement, form of Pledge Agreement, form of Security Agreement, form of promissory note, and form of swing line note. (Incorporated by reference to 10.5 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
10.6	-- Form of Lock-up Agreement entered into by the Company and the stockholders set forth on Schedule A thereto. (Incorporated by reference to 10.6 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
*21.1	-- List of Subsidiaries.
*23.1	-- Consent of Arthur Andersen LLP.
*27	-- Financial Data Schedule
*99.1	-- Integrated Electrical Services, Inc. 401(k) Retirement Savings Plan

* Filed herewith

BYLAWS
OF
INTEGRATED ELECTRICAL SERVICES, INC.
(AS AMENDED)

ARTICLE I

OFFICES

Section 1. The registered office of Integrated Electrical Services, Inc. (the "Corporation") shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The Corporation may also have offices at such other places both within and without the state of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders for the election of Directors shall be held at such place as may be fixed from time to time by the Board of Directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof

Section 2. Annual meetings of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. At the annual meeting, the stockholders shall elect by a plurality vote the Directors pursuant to Article III of these Bylaws, and transact such other business as may properly be brought before the meeting.

Section 3. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to a vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed to and received at the principal executive offices of the Corporation not less than 80 days prior to the meeting; provided, however, that in the event that less than 90 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later

than the close of business on the tenth day following the date on which such notice of the date of the annual meeting was mailed or such public disclosure made.

A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 3.

The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with this Section 3, and if the presiding officer should so determine, the presiding officer shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 4. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 5. Special meetings of the stockholders for any purpose may be called only by the Chairman of the Board of Directors and shall be called within 10 days after receipt of the written request of the Board of Directors, pursuant to a resolution approved by a majority of the entire Board of Directors. The business permitted to be conducted at any special meeting of the stockholders is limited to the business brought before the meeting by the Chairman or by the Secretary at the request of a majority of the entire Board of Directors.

Section 6. Written notice of a special meeting stating the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each stockholder entitled to vote at such meeting.

Section 7. The holders of a majority of the stock issued, outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the

certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented.

Section 8. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting, except as otherwise required by this Section 8, if the time and place thereof are announced at the meeting at which the adjournment is taken. At such adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. If a quorum exists, action on a matter (other than the election of directors) shall be approved if the votes cast in favor of the matter exceed the votes cast opposing the matter. In determining the number of votes cast, shares abstaining from voting or not voted on a matter will not be treated as votes cast. The provisions of this paragraph will govern with respect to all votes of stockholders except as otherwise provided for in these Bylaws or in the certificate of incorporation or by a specific statutory provision superseding the provisions contained in these Bylaws or the certificate of incorporation.

Section 10. Each stockholder shall at every meeting of the stockholders, subject to any restriction or qualification set forth in the Certificate of Incorporation, be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted after three years from its date, unless the proxy provides for a longer period.

Section 11. After March 1, 1998, any action required or permitted to be taken by the stockholders of the Corporation must be affected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing of such stockholders.

Section 12. At each meeting of stockholders, the Chairman or Vice-Chairman of the Board of Directors shall preside, and the secretary shall keep records, and in the absence of either such officer, his duty shall be performed by a person appointed at the meeting.

ARTICLE III

DIRECTORS

Number, Nomination, Removal

Section 1. The number of Directors shall be fixed from time to time by the Board of Directors, but shall not be less than 1 nor more than 15 persons. The Directors shall be elected at

the annual meeting of the stockholders in accordance with the provisions of Section 2 of this Article, and each Director elected shall hold office until his successor is elected and qualified. Directors need not be stockholders.

Section 2. Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, nominations for the election of Directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of Directors generally. Any stockholder entitled to vote in the election of Directors generally may nominate one or more persons for election as Directors at a meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than 80 days prior to the date of any annual or special meeting. In the event that the date of such annual or special meeting was not publicly announced by the Corporation by mail, press release or otherwise more than 90 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of the Corporation not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was communicated to the stockholders.

Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, by the Board of Directors, and (e) the consent of each nominee to serve as a Director of the Corporation if so elected.

If the presiding officer of the meeting for the election of Directors determines that a nomination of any candidate for election as a Director at such meeting was not made in accordance with the applicable provisions of these Bylaws, such nomination shall be void.

Section 3. Subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional Directors under specified circumstances, newly created directorships resulting from any increase in the number of Directors and any vacancy on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining Directors then in office, even though less than a quorum of the Board of Directors. or by a sole remaining Director. Any Director elected or chosen as provided herein shall hold office until the sooner of the following events: (i) the expiration of the term of the directorship to which he is appointed, (ii) such time as his successor is elected and qualified or (iii) his resignation or

removal. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of an incumbent Director.

Section 4. Subject to the rights of the holders of any class or series of stock having preference over the Common Stock as to dividends or upon liquidation to elect additional Directors under specified circumstances, any Director may be removed from office only for cause by the stockholders in the manner provided in this Section 4. At any annual meeting of the stockholders of the Corporation or at any special meeting of the stockholders of the Corporation, the notice of which shall state that the removal of a Director or Directors is among the purposes of the meeting, the affirmative vote of the holders of at least 66 2/3 percent of the combined voting power of the outstanding shares of Voting Stock (as defined below), voting together as a single class, may remove such Director or Directors for cause.

For the purpose of this Section 4, "Voting Stock" shall mean the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of Directors. In any vote required by or provided for in this Section 4, each share of Voting Stock shall have the number of votes granted to it generally in the election of Directors.

Section 5. The business of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Meetings of the Board of Directors

Section 6. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 7. Meetings of the Board of Directors may be held at such time and place as shall be specified in a notice given in the manner hereinafter provided, or as shall be specified in a written waiver signed by all of the Directors.

Section 8. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

Section 9. Special meetings of the Board of Directors may be called by the Chairman of the Board on 24 hours' notice to each Director, either personally or by telecopy or telegram; special meetings shall be called by the president, chief executive officer or secretary in like manner and on like notice on the written request of three Directors.

Section 10. Except as provided in these Bylaws to the contrary, at all meetings of the board a majority of the total number of Directors shall constitute a quorum for the transaction of business and the vote of a majority of the Directors entitled to vote and present at a meeting at which a

quorum is present shall be the act of the Board of Directors, unless the certificate of incorporation shall require a vote of a greater number. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 11. Unless otherwise restricted by the certificate of incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting, if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 12. At all meetings of the Board of Directors, business shall be transacted in such order as from time to time the Board of Directors may determine.

At all meetings of the Board of Directors, the Chairman or Vice-Chairman of the Board of Directors shall preside, and in the absence of either such Director a person shall be chosen by the board from among the Directors present to act as chairman of the meeting.

The secretary of the Corporation shall act as secretary of the meeting of the Board of Directors, but in the absence of the secretary, the presiding officer may appoint any person to act as secretary of the meeting.

Committees of Directors

Section 13. The Board of Directors may, by resolution adopted by a majority of the whole board, designate one (1) or more committees, each committee to consist of one (1) or more Directors. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent or disqualified member of any meeting of the committee. In the absence or disqualification of a member, and the alternate or alternates, if any, designated for such member, of any committee, the member or members thereof present at the meetings and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member.

Any such committee, to the extent provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval or (ii) adopting, amending or repealing any bylaw of the Corporation. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

Section 14. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors.

Compensation of Directors

Section 15. The Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary or retainer as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

NOTICES

Section 1. Whenever notice is required to be given to any Director or stockholder pursuant to a statutory provision or the certificate of incorporation or these Bylaws, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such Director or stockholder, at his address as it appears in the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to Directors may also be given personally or by telegram or telecopy.

Section 2. Whenever notice is required to be given pursuant to a statutory provision or the certificate of incorporation or Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE V

OFFICERS

Section 1. The officers of the Corporation shall be chosen by the Board of Directors and shall be the Chairman of the Board of Directors, a chief executive officer, a president, a vice president, a secretary and a treasurer. The Board of Directors may also appoint chief operating officers, additional vice presidents and one or more assistant secretaries and assistant treasurers. Any number of offices may be held by the same person, unless the certificate of incorporation or these Bylaws otherwise provide.

Section 2. The Board of Directors at its first meeting after each annual meeting of stockholders shall choose a Chairman of the Board of Directors, a chief executive officer, a

president, one or more chief operating officers, one or more vice presidents, a secretary and a treasurer.

Section 3. The Board of Directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Section 4. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors.

Section 5. The officers of the Corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors.

The Chairman of the Board of Directors

Section 6. The Chairman of the Board of Directors of the Corporation shall preside at all meetings of stockholders and the Board of Directors. He shall perform such duties and have such powers as usually appertain to the office or as the Board of Directors may from time to time prescribe.

The Chief Executive Officer

Section 7. The Chief Executive Officer shall be a senior officer of the Corporation and shall perform such duties and have such powers as usually appertain to the office or as the Board of Directors may from time to time prescribe. He shall have the authority to execute all documents and instruments necessary to carry out the management of the business of the Corporation. He shall report to the Board of Directors.

The President

Section 8. The president of the Corporation shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall have the authority to execute all documents and instruments necessary to carry out the management of the business of the Corporation. He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of this Corporation. He shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe. He shall report to the Board of Directors.

The Chief Operating Officers

Section 9. The chief operating officers of the Corporation shall be responsible for the day-to-day operations of the Corporation and shall have the authority to execute all documents and instruments necessary to carry out such operations. They shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe. They shall report to the Board of Directors.

The Vice Presidents

Section 10. In the absence of the president or in the event of his inability or refusal to act, the vice president (or in the event there is more than one, the vice presidents in the order determined by the Board of Directors, or, if there be no such determination, then in the order of their election), shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions imposed upon the president. The vice presidents shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

The Secretary and the Assistant Secretary

Section 11. The secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or president, under whose supervision he shall be. He shall have custody of the corporate seal of the Corporation, if any such seal be adopted by resolution of the Board of Directors, and he, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his signature or by the signature of such assistant secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affirming thereof by his signature.

Section 12. The assistant secretary (or if there be more than one, the assistant secretaries in the order determined by the Board of Directors, or, if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

The Treasurer and Assistant Treasurer

Section 13. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall

disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the president and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as treasurer and of the financial condition of the Corporation.

Section 14. The assistant treasurer (or, if there shall be more than one, the assistant treasurers in the order determined by the Board of Directors, or, if there be no such determination, then in the order of their election) shall, in the absence of the treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

The Vice Chairman of the Board of Directors

Section 15. The Vice Chairman of the Board of Directors of the Corporation shall perform such duties and have such powers as the Board of Directors or Chief Executive Officer may from time to time prescribe.

ARTICLE VI

CERTIFICATES OF STOCK

Section 1. Every holder of stock in the Corporation shall be entitled to a certificate, signed by, or in the name of the Corporation by, the Chairman of the Board, the president or a vice president and the secretary or an assistant secretary of the Corporation, certifying the number of shares owned by him in the Corporation. Any signature on the certificate may be a facsimile. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class of stock, the designations, preferences, and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 2. Where a certificate is countersigned (1) by a transfer agent other than the Corporation or its employee or, (2) by a registrar other than the Corporation or its employee, any signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Lost Certificates

Section 3. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Transfers of Stock

Section 4. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by a proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Fixing Record Date

Section 5. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting prior to March 1, 1998, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Registered Stock Holders

Section 6. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII
GENERAL PROVISIONS

Dividends

Section 1. Dividends upon the capital stock of the Corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the Board of Directors at any regular or special meetings, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserve in the manner in which it was created.

Checks

Section 3. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Fiscal Year

Section 4. The fiscal year of the Corporation shall begin on the first day of October of each year and end on the last day of September of each year, unless otherwise determined by the Board of Directors.

Seal

Section 5. The corporate seal, if any such seal be adopted by resolution of the Board of Directors, will be in such form as the Board of Directors may prescribe. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise placed thereon.

Interested Directors and Officers

Section 6.

(a) No contract or transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other corporation, partnership, association,

or other organization in which one or more of its Directors or officers are Directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or officer is present at or participates in the meeting of the board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purposes, if;

(1) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum; or

(2) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract for transaction is specifically approved in good faith by vote of the stockholders; or

(3) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof, or the stockholder.

(b) Common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE VIII

AMENDMENTS

These Bylaws may be altered, amended or repealed, or new Bylaws may be adopted by the affirmative vote of a majority of the entire Board of Directors at any meeting and without the consent or vote of the stockholders. These Bylaws may be altered, amended or repealed, or new Bylaws may be adopted by the stockholders at any regular meeting of the stockholders or at any special meeting of the stockholders, if notice of such alteration, amendment, repeal or adoption of new Bylaws is contained in the notice of such meeting, by the holders of at least 66 2/3% of the total voting power of all shares of stock of the Corporation entitled to vote in the election of directors, considered for purposes of this Article VIII as one class.

ARTICLE IX

INDEMNIFICATION AND INSURANCE

Section 1. The Corporation shall, to the full extent permitted by Section 145 of Title 8 of the General Corporation Law of the State of Delaware, as amended from time to time, indemnify all officers and directors of the Corporation whom it may indemnify pursuant thereto. The provisions of this Article IX shall apply to acts or omissions occurring before or after the adoption hereof. The right of indemnification herein provided for shall not be exclusive of any other right to which any Director or officer may now or hereafter be entitled under any statute, bylaw, agreement, vote of stockholders or disinterested Directors or otherwise, shall continue as to a person who has ceased to be such Director or officer entitled to indemnification pursuant to this Article IX and shall inure to the benefit of the heirs, executors and administrators of such Director or officer.

Section 2. The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article IX or of Section 145 of the General Corporation Law of the State of Delaware.

Section 3. The indemnification provided by this Article IX shall be subject to all valid and applicable laws, and, in the event this Article IX or any of the provisions hereof or the indemnification contemplated hereby are found to be inconsistent with or contrary to any such valid laws, the latter shall be deemed to control, and this Article IX shall be regarded as modified accordingly and, as so modified, shall continue in full force and effect.

SUBSIDIARIES OF THE REGISTRANT

Ace Electric, Inc.
Aladdin-Ward Electric, Inc.
Amber Electric, Inc.
ARC Electric, Inc.
Bexar Electric Company, Ltd.
Brink Electrical Construction Co., Inc.
BW/CEC LLC
BW Consolidated, Inc.
BW/CEC, Inc.
BW/BEC, Inc.
BW/BEC LLC
Calhoun Electric, Inc.
Calhoun Electric Company, Ltd.
Charles P. Bagby Company, Inc.
Commercial Electrical Contractors, Inc.
Cypress Electrical Contractors, Inc.
Daniel Electrical of Treasure Coast, Inc.
Daniel Electrical Contractors, Inc.
Davis Electrical Constructors, Inc.
East Coast Electric Co., Inc.
Electro-Tech, Inc.
Florida Industrial Electric, Inc.
Fort Worth Regional Electrical Systems, LLC
Galbraith Acquisition Company, Inc.
Galbraith Electric Company, Inc.
GANP Leasing Co., Inc.
General Partner, Inc.
Goss Electric Company, Inc.
H. R. Allen, Inc.
Hamer Electric Acquisition, Inc.
Hatfield Electric, Inc.
Hatfield Reynolds Electric Co.
Haymaker Electric, Ltd.
Haynes Electrical Supply, Inc.
Holland Electrical Systems, Inc.
Houston-Stafford Electric, Inc.
Houston-Stafford Management LLC
Houston-Stafford Holdings LLC
Howard Brothers Electric Co., Inc.
HSE Electrical Contractors LP
ICS Management, LLC
ICS Integrated Communication Services, LP
ICS Holdings, LLC
IES Management LP
IES Holdings LLC
Integrated Electrical Finance, Inc.
Integrated Communication Services, Inc.
J. W. Gray Management LLC

J. W. Gray Holdings LLC
J. W. Gray Electric Company, Inc.
J. W. Gray Electrical Contractors, LP
Kayton Electric, Inc.
M-S Systems, Inc.
Mark Henderson, Inc.
MCS Enterprises, Inc.
Menninga Electric, Inc.
Mid-States Electric Company, Inc.
Mills Electric LP
Mills Electrical Contractors, Inc.
Mills Management LLC
Mills Electrical Holdings LLC
Muth Electric, Inc.
Paulin Electric Co., Inc.
Pollock Summit Electrical LP
Pollock Electric, Inc.
Pollock/Summit Holdings, Inc.
Raines Electric Co., Inc. (including CNR Services, Inc.)
Raines Management LLC
Raines Holdings LLC
Raines Electric LP
Reynolds Electric Corp.
RKT Electric, Inc.
Rodgers Electric Company
Spectrol, Inc.
Spoor Electric, Inc.
Stark Investments, Inc.
Summit Electric of Texas, Inc.
T & H Electrical Corporation
Thomas Popp & Co.
Thurman & O'Connell Corp.
Wright Electrical Contracting, Inc.

CONSENT OF INDEPENDENT ACCOUNTANTS

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

ARTHUR ANDERSEN LLP

Houston, Texas
December 16, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A) THE FINANCIAL STATEMENTS OF INTEGRATED ELECTRICAL SERVICES, INC. AS OF SEPTEMBER 30, 1998 AND FOR THE YEAR ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH (B) FINANCIAL STATEMENTS.

1,000

YEAR	SEP-30-1998	OCT-01-1997	SEP-30-1998
			14,583
			0
		146,327	
		4,160	
		6,440	
	183,050		30,784
		7,348	
	502,468		
	108,030		0
	0		0
			281
		302,423	
502,468			386,721
	386,721		306,052
		373,690	
		(335)	
		0	
		728	
		12,638	
		12,690	
	(52)		
		0	
		0	
			0
		(52)	
		0.00	
		0.00	

[INTEGRATED ELECTRICAL SERVICES LOGO]
INTEGRATED ELECTRICAL SERVICES, INC.
401(k) RETIREMENT SAVINGS PLAN

DECEMBER 9, 1998

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INTEGRATED ELECTRICAL SERVICES, INC. 401(k) RETIREMENT SAVINGS PLAN

WITNESSETH:

Integrated Electrical Services, Inc., a corporation organized under the laws of the State of Delaware, hereby establishes the Plan as of the Effective Date for the administration and distribution of contributions made by the Employer for the purpose of providing retirement benefits for eligible Employees. The provisions of this Plan apply solely to an Employee whose employment with the Employer terminates on or after the Effective Date of the Plan. If an Employee's employment with the Employer terminates prior to the Effective Date, that Employee is not entitled to any benefit under the Plan except to the extent such Employee's benefit under a plan has been merged into the Plan.

Now, therefore, in consideration of their mutual covenants, the Employer and the Trustee agree as follows:

ARTICLE I - DEFINITIONS

1.01 "ACCOUNT" means the separate account(s) which the Administrative Committee or the Trustee maintains for a Participant under the Plan.

1.02 "ACCOUNTING DATE" is each business day of the Plan Year on which the principal national securities markets are open.

1.03 "ACCRUED BENEFIT" means the amount standing in a Participant's Account(s) as of any date derived from both Employer contributions and Employee contributions, if any.

1.04 "ADMINISTRATIVE COMMITTEE" means the Administrative Committee as appointed pursuant to section 9.01.

1.05 "BENEFICIARY" is a person designated by a Participant (or the Plan) who is or may become entitled to a benefit under the Plan. A Beneficiary who becomes entitled to a benefit under the Plan remains a Beneficiary under the Plan until the Trustee has fully distributed his benefit to him. A Beneficiary's right to (and the Plan Administrator's, the Administrative Committee's or a Trustee's duty to provide to the Beneficiary) information or data concerning the Plan does not arise until he first becomes entitled to receive a benefit under the Plan.

1.06 "BREAK IN SERVICE" means a Plan Year in which the Employee does not complete more than 500 Hours of Service.

1.07 "CODE" means the Internal Revenue Code of 1986, as amended.

1.08 "COMPANY STOCK" means common stock issued by the Sponsor, or by a corporation which is a member of the same controlled group of corporations, having a combination of voting power and dividend rights equal to or in excess of -

(a) that class of common stock of the Sponsor (or any other such corporation) having the greatest voting power; and

(b) that class of common stock of the Sponsor (or of any other such corporation) having the greatest dividend rights.

1.09 "COMPANY STOCK FUND" means the total interest of the Plan invested in Company Stock, which may be 100% if so directed by Participants.

1.10 "COMPENSATION" means W-2 wages as defined under Code Section 3401 (a) for purposes of federal income tax withholding at the source, and all payments to an Employee in the course of the Employer's trade or business, for which the Employer must furnish the Employee a written statement under Code Sections 6041(d) and 6051(a)(3) (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips and bonuses). As long as the instructions to Form W-2, Box 10, are consistent with the instructions for the 1990 or 1991 Form W-2, the Employer may treat the amount reported in Box 10 as satisfying this definition. The Administrative Committee will determine Compensation by disregarding any rules limiting the remuneration included as wages based on the nature or location of the employment or services performed. Compensation also includes elective contributions made by the Employer on the Employee's behalf. "Elective contributions" are amounts excludible from the Employee's gross income under Code Section 125, 402(e)(3) or 402(h) and contributed by the Employer, at the Employee's election, to a Code Section 401(k) arrangement or a cafeteria plan. A Compensation payment includes Compensation paid by the Employer to an Employee through another person under the common paymaster provisions in Code Section 3121(s) and 3306(p).

Any reference in this Plan to Compensation is a reference to the definition in this Section 1.10, unless the Plan reference specifies a modification to this definition. The Administrative Committee will take into account only Compensation actually paid for the relevant period.

In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the contrary, the annual compensation of each Employee taken into account under the Plan shall not exceed \$160,000, as adjusted by the Commissioner for increases in the cost of living in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

For purposes of determining whether the Plan discriminates in favor of Highly Compensated Employees, Compensation means Compensation as defined in this Section 1.10, except the Employer may elect to include or to exclude elective contributions. The Employer's election described above must be consistent and uniform with respect to all Employees and all plans of the Employer for any particular Plan Year. The Employer, irrespective of this clause, may elect to exclude from this nondiscrimination definition of Compensation any items of Compensation excludible under Code Section 414(s) and the applicable Treasury regulations, provided such adjusted definition conforms to the nondiscrimination requirements of those regulations.

1.11 DETERMINATION OF TOP HEAVY STATUS. If this Plan is the only qualified plan maintained by the Employer, the Plan is top heavy for a Plan Year if the top heavy ratio as of the Determination Date exceeds 60%. The Top Heavy Ratio is a fraction, the numerator of which is the sum of the present value of Accrued Benefits of all Key Employees as of the Determination Date and the denominator of which is a similar sum determined for all Employees. The Administrative Committee must include in the top heavy ratio, as part of the present value of Accrued Benefits, any contribution not made as of the Determination Date but includible under Code Section 416 and the applicable Treasury regulations, and distributions made within the Determination Period. The Administrative Committee must calculate the top heavy ratio by disregarding the Accrued Benefit (and distributions, if any, of the Accrued Benefit) of any Non-Key Employee who was formerly a Key Employee, and by disregarding the Accrued Benefit (including distributions, if any, of the Accrued Benefit) of an individual who has not received credit for at least one Hour of Service with the Employer during the Determination Period. The Administrative Committee must calculate the top heavy ratio, including the extent to which it must take into account distributions, rollovers and transfers, in accordance with Code Section 416 and the regulations under that Code section. If the Employer maintains other qualified plans (including a simplified employee pension plan), or maintained another such plan which now is terminated, this Plan is top heavy only if it is part of the Required Aggregation Group, and the top heavy ratio for the Required Aggregation Group and for the Permissive Aggregation Group, if any, each exceeds 60%. The Administrative Committee will calculate the top heavy ratio in the same manner as required by the first paragraph of this Section 1.11, taking into account all plans within the Aggregation Group. To the extent the Administrative Committee must take into account distributions to a Participant, the Administrative Committee must include distributions from a terminated plan which would have been part of the Required Aggregation Group if it were in existence on the Determination Date.

The Administrative Committee will calculate the present value of accrued benefits under defined benefit plans or simplified employee pension plans included within the group in accordance with the terms of those plans, Code Section 416 and the regulations under that Code section. If a Participant in a defined benefit plan is a Non-Key Employee, the Administrative Committee will determine his accrued benefit under the accrual method, if any, which is applicable uniformly to all defined benefit plans maintained by the Employer or, if there is no uniform method, in accordance with the slowest accrual rate permitted under the fractional rule accrual method described in Code Section 411(b)(1)(C). To calculate the present value of benefits from a defined benefit plan, the Administrative Committee will use the actuarial assumptions (interest and mortality only) prescribed by the defined benefit plan(s) to value benefits for top heavy purposes. If an aggregated plan does not have a valuation date coinciding with the Determination Date, the Administrative Committee must value the Accrued Benefits in the aggregated plan as of the most recent valuation date falling within the twelve-month period ending on the Determination Date, except as Code Section 416 and applicable Treasury regulations require for the first and second plan year of a defined benefit plan. The Administrative Committee will calculate the top heavy ratio with reference to the Determination Dates that fall within the same calendar year.

Definitions. For purposes of applying the provisions of this Section 1.11:

(a) "Key Employee" means, as of any Determination Date, any Employee or former Employee (or Beneficiary of such Employee) who, for any Plan Year in the Determination Period: (i) has Compensation in excess of 50% of the dollar amount prescribed in Code Section 415(b)(1)(A) (relating to defined benefit plans) and is an officer of the Employer; (ii) has Compensation in excess of the dollar amount prescribed in Code Section 415(c)(1)(A) (relating to

defined contribution plans) and is one of the Employees owning the ten largest interests in the Employer; (iii) is a more than 5% owner of the Employer; or (iv) is a more than 1% owner of the Employer and has Compensation of more than \$150,000. The constructive ownership rules of Code Section 318 (or the principles of that section, in the case of an unincorporated Employer,) will apply to determine ownership in the Employer. The number of officers taken into account under clause (i) will not exceed the greater of 3 or 10% of the total number (after application of the Code Section 414(q) exclusions) of Employees, but no more than 50 officers. The Administrative Committee will make the determination of who is a Key Employee in accordance with Code Section 416(I)(1) and the regulations under that Code section.

(b) "Non-Key Employee" is an Employee who does not meet the definition of Key Employee.

(c) "Compensation" means Compensation as determined under Section 1.10 for purposes of identifying Highly Compensated Employees.

(d) "Required Aggregation Group" means: (1) each qualified plan of the Employer in which at least one Key Employee participates at any time during the Determination Period; and (2) any other qualified plan of the Employer which enables a plan described in clause (1) to meet the requirements of Code Section 401(a)(4) or of Code Section 410.

(e) "Permissive Aggregation Group" is the Required Aggregation Group plus any other qualified plans maintained by the Employer, but only if such group would satisfy in the aggregate the requirements of Code Section 401(a)(4) and of Code Section 410. The Administrative Committee will determine the Permissive Aggregation Group.

(f) "Employer" means the Sponsor and each Participating Employer.

(g) "Determination Date" for any Plan Year is the Accounting Date of the preceding Plan Year or, in the case of the first Plan Year of the Plan, the last Accounting Date of that Plan Year. The "Determination Period" is the 5 year period ending on the Determination Date.

1.12 "DISABILITY" means the Participant is totally and permanently disabled pursuant to Title II of the Federal Social Security Act. The Administrative Committee may adopt alternative disability standards. The Plan considers a Participant disabled on the date the Administrative Committee determines the Participant satisfies the definition of disability. The Administrative Committee may require a Participant to submit to a physical examination in order to confirm disability. The Administrative Committee will apply the provisions of this Section in a nondiscriminatory, consistent and uniform manner.

1.13 "EFFECTIVE DATE" of this Plan is January 1, 1999.

1.14 "ELIGIBLE CONTRIBUTIONS" means the deferral contributions allocated to the Participant for the matching contributions allocation period. Eligible Contributions do not include deferral contributions that are excess deferrals under Section 14.03. For this purpose: (a) excess deferrals relate first to deferral contributions for the Plan Year not otherwise eligible for a matching contribution; and (2) if the Plan Year is not a calendar year, the excess deferrals for a Plan Year are the last deferrals made for a calendar year.

1.15 "EMPLOYEE" means any common law employee of the Sponsor and the Related Employers and any Leased Employee.

1.16 "EMPLOYER" means the Sponsor and each Participating Employer.

1.17 "EMPLOYMENT COMMENCEMENT DATE" means the date on which the Employee first performs an Hour of Service.

1.18 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.19 "HIGHLY COMPENSATED EMPLOYEE" means an Employee (as determined in Code Section 414(q)) who, during the Plan Year or during the preceding Plan Year is more than a 5% owner of the Employer (applying the constructive ownership rules of Code Section 318, and applying the principles of Code Section 318, for an unincorporated entity); or who, during the preceding Plan Year has Compensation in excess of \$80,000 (as adjusted by the Commissioner of Internal Revenue for the relevant year) and, if the Employer elects, was part of the top-paid 20% group of Employees (based on Compensation for the preceding Plan Year).

For purposes of this Section 1.19, "Compensation" means Compensation as defined in Section 1.10, except any exclusions from Compensation do not apply, and Compensation must include "elective contributions" (as defined in Section 1.10). The Administrative Committee must make the determination of who is a Highly Compensated Employee, including the determinations of the number and identity of the top paid 20% group, consistent with Code Section 414(q) and regulations issued under that Code Section. The Employer may make a calendar year data election to determine the Highly Compensated Employees for the Plan Year, as prescribed by Treasury regulations or by other guidance published in the Internal Revenue Bulletin. A calendar year data election must apply to all plans of the Employer which reference the highly compensated employee definition in Code Section 414(q).

The term "Highly Compensated Employee" also includes any former Employee who separated from Service (or has a deemed Separation from Service, as determined under Treasury regulations) prior to the Plan Year, performs no Service for the Employer during the Plan Year, and was a Highly Compensated Employee either for the separation year or any Plan Year ending on or after his 55th birthday.

1.20 "HOUR OF SERVICE" means:

(a) Each Hour of Service for which the Employer, either directly or indirectly, pays an Employee, or for which the Employee is entitled to payment, for the performance of duties. The Administrative Committee credits Hours of Service under this paragraph (a) to the Employee for the computation period in which the Employee performs the duties, irrespective of when paid;

(b) Each Hour of Service for back pay, irrespective of mitigation of damages, to which the Employer or Related Employer has agreed or for which the Employee has received an award. The Administrative Committee credits Hours of Service under this paragraph (b) to the Employee for the computation period(s) to which the award or the agreement pertains rather than for the computation period in which the award, agreement or payment is made; and

(c) Each Hour of Service for which the Employer or Related Employer, either directly or indirectly, pays an Employee, or for which the Employee is entitled to payment (irrespective of whether the employment relationship is terminated), for reasons other than for the performance of duties during a computation period, such as leave of absence, vacation, holiday, sick leave, illness, incapacity (including disability), layoff, jury duty or military duty. The Administrative Committee will credit no more than 501 Hours of Service under this paragraph (c) to an Employee on account of any single continuous period during which the Employee does not perform any duties (whether or not such period occurs during a single computation period). The Administrative Committee credits Hours of Service under this paragraph (c) in accordance with the rules of paragraphs (b) and (c) of Labor Reg. Section 2530.200b-2, which the Plan, by this reference, specifically incorporates in full within this paragraph (c).

The Administrative Committee will not credit an Hour of Service under more than one of the above paragraphs. A computation period for purposes of this Section 1.20 is the Plan Year, Year of Service period, Break in Service period or other period, as determined under the Plan provision for which the Administrative Committee is measuring an Employee's Hours of Service. The Administrative Committee will resolve any ambiguity with respect to the crediting of an Hour of Service in favor of the Employee.

(A) METHOD OF CREDITING HOURS OF SERVICE. The Administrative Committee will credit every Employee with Hours of Service on the basis of months of employment. A Participant shall receive credit for 190 Hours of Service for each month or partial month for which and Employee receives credit for one Hour of Service.

(B) MATERNITY/PATERNITY LEAVE. Solely for purposes of determining whether the Employee incurs a Break in Service under any provision of this Plan, the Administrative Committee must credit Hours of Service during an Employee's unpaid absence period due to maternity or paternity leave. The Administrative Committee considers an Employee on maternity or paternity leave if the Employee's absence is due to the Employee's pregnancy, the birth of the Employee's child, the placement with the Employee of an adopted child, or the care of the Employee's child immediately following the child's birth or placement. The Administrative Committee credits Hours of Service under this paragraph on the basis of the number of Hours of Service the Employee would receive if he were paid during the absence period or, if the Administrative Committee cannot determine the number of Hours of Service the Employee would receive, on the basis of 8 hours per day during the absence period. The Administrative Committee will credit only the number (not exceeding 501) of Hours of Service necessary to prevent an Employee's Break in Service. The Administrative Committee credits all Hours of Service described in this paragraph to the computation period in which the absence period begins or, if the Employee does not need these Hours of Service to prevent a Break in Service in the computation period in which his absence period begins, the Administrative Committee credits these Hours of Service to the immediately following computation period.

(C) QUALIFIED MILITARY SERVICE. Hour of Service also includes any Service the Plan must credit in order to satisfy the crediting of Service requirements of Code Section 414(u).

1.21 LEASED EMPLOYEES. The Plan treats a Leased Employee as an Employee. A Leased Employee is an individual (who otherwise is not an Employee) who, pursuant to a leasing agreement between the Employer or Related Employer and any other person, has performed services for the Employer (or for the Employer and any persons related to the Employer within the meaning of Code Section 144(a)(3)) on a substantially full time basis for at least one year and who performs such services under primary direction or control of the Employer or Related Employer. If a Leased Employee is treated as an Employee by reason of this Section 1.21 of the Plan, "Compensation" includes Compensation from the leasing organization which is attributable to services performed for the Employer or Related Employer.

(A) SAFE HARBOR PLAN EXCEPTION. The Plan does not treat a Leased Employee as an Employee if the leasing organization covers the employee in a safe harbor plan and, prior to application of this safe harbor plan exception, 20% or less of the Employees (other than Highly Compensated Employees) are Leased Employees. A safe harbor plan is a money purchase pension plan providing immediate participation, full and immediate vesting, and a nonintegrated contribution formula equal to at least 10% of the employee's compensation without regard to employment by the leasing organization on a specified date. The safe harbor plan must determine the 10% contribution on the basis of compensation as defined in Code Section 415(c)(3) plus elective contributions (as defined in Section 1.10).

(B) OTHER REQUIREMENTS. The Administrative Committee must apply this Section 1.21 in a manner consistent with Code Sections 414(n) and 414(o) and the regulations issued under those Code sections.

1.22 "NONFORFEITABLE" means a Participant's or Beneficiary's unconditional claim, legally enforceable against the Plan, to the Participant's Accrued Benefit.

1.23 "NONTRANSFERABLE ANNUITY" means an annuity which by its terms provides that it may not be sold, assigned, discounted, pledged as collateral for a loan or security for the performance of an obligation or for any purpose to any person other than the insurance company. If the Plan distributes an annuity contract, the contract must be a Nontransferable Annuity.

1.24 "PARTICIPANT" is an Employee or former Employee who has an Account under the Plan and each other Employee who is eligible to be and becomes a Participant in accordance with the provisions of Section 2.01.

1.25 "PARTICIPATING EMPLOYER" means each Related Employer that adopts the Plan in accordance with the terms of Article XV.

1.26 "PLAN" means the retirement plan established by the Sponsor in the form of this Agreement, designated as the Integrated Electrical Services, Inc. 401(k) Retirement Savings Plan.

1.27 "PLAN ADMINISTRATOR" is the Sponsor.

1.28 "PLAN ENTRY DATE" means the Effective Date and each January 1, April 1, July 1, October 1.

1.28 "PLAN YEAR" means the fiscal year of the Plan, a 12 consecutive month period ending every December 31.

1.30 "RELATED EMPLOYERS" A related group is a controlled group of corporations (as defined in Code Section 414(b)), trades or businesses (whether or not incorporated) which are under common control (as defined in Code Section 414(c)) or an affiliated service group (as defined in Code Section 414(m) or in Code Section 414(o)). If the Employer is a member of a related group, the related group members shall be included for purposes of crediting Hours of Service, determining Years of Service and Breaks in Service under Articles II and V, applying the Coverage Test under Section 3.06(E), applying the limitations on allocations in Part 2 of Article III, applying the top heavy rules and the minimum allocation requirements of Article III, the definitions of Employee, Highly Compensated Employee, Compensation and Leased Employee, and for any other purpose required by the applicable Code section or by a Plan provision.

1.31 "SERVICE" means any period of time the Employee is in the employ of the Employer or a Related Employer, including any period the Employee is on an unpaid leave of absence authorized by the Employer or a Related Employer under a uniform, nondiscriminatory policy applicable to all Employees. "Separation from Service" means the Employee no longer has an employment relationship with the Employers or Related Employers.

1.32 "SERVICE FOR PREDECESSOR EMPLOYER" The Plan takes into account all service of all Employees with any entity acquired by (either by acquisition of stock or assets) or merged into Integrated Electrical Services, Inc. or its Related Employers for purposes of participation under Article II and for purposes of vesting under Article V.

1.33 "SPONSOR" means Integrated Electrical Services, Inc.

1.34 "TRUST" means the separate Trust created under the Plan.

1.35 "TRUSTEE" means American Industries Trust Company, or any successor who in writing accepts the position of Trustee.

1.36 "TRUST FUND" means all property of every kind held or acquired by the Plan.

1.37 "YEAR OF SERVICE" means an eligibility computation period during which the Employee completes not less than 1,000 Hours of Service. The initial eligibility computation period is the first 12 consecutive month period measured from the Employment Commencement Date. The Plan measures the subsequent periods by reference to the Plan Year, beginning with the Plan Year which includes the first anniversary of the Employee's Employment Commencement Date. For purposes of vesting under Section 5.03, Year of Service means any Plan Year during which an Employee completes not less than 1,000 Hours of Service with the Employer.

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ARTICLE II - EMPLOYEE PARTICIPANTS

2.01 ELIGIBILITY. Each Employee of the Employer (other than an Excluded Employee) is eligible to become a Participant in the Plan on the Plan Entry Date (if employed on that date) immediately following the later of the date on which he completes one Year of Service or attains age 21. "Plan Entry Date" means the Effective Date and each January 1, April 1, July 1, October 1 thereafter.

An Employee is an Excluded Employee if he is:

(a) a member of a collective bargaining unit, unless the collective bargaining agreement provides otherwise. An Employee is a member of a collective bargaining unit if he is included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and one or more employers if there is evidence that retirement benefits were the subject of good faith bargaining between such employee representatives and such employer or employers. The term "employee representatives" does not include an organization more than one half of the members of which are owners, officers or executives of the Employer;

(b) a nonresident alien who does not receive any earned income (as defined in Code Section 911(d)(2)) from the Employer which constitutes United States source income (as defined in Code Section 861(a)(3));

(c) a Leased Employee; or

(d) an Employee of a Related Employer that is not a Participating Employer.

Notwithstanding the above, an Employee (other than an Excluded Employee) who, as of the effective date of a Related Employer's adoption of this Plan as a Participating Employer, was a participant in a qualified plan of such Related Employer shall be eligible to become a Participant under this Plan on such adoption date, provided such other plan is either merged into this Plan, "frozen", or terminated as of such date.

If a Participant has not separated from Service but becomes an Excluded Employee, then during the period such a Participant is an Excluded Employee, the Administrative Committee will limit that Participant's sharing in the allocation of Employer contributions and Participant forfeitures, if any, under the Plan by disregarding his Compensation paid by the Employer for services rendered in his capacity as an Excluded Employee. However, during such period of exclusion, the Participant, without regard to employment classification, continues to receive credit for vesting under Article V for each included Year of Service and the Participant's Account continues to share fully in Trust Fund allocations under Section 9.11.

If an Excluded Employee who is not a Participant becomes eligible to participate in the Plan by reason of a change in employment classification, he will participate in the Plan immediately if he has satisfied the eligibility conditions of Section 2.01 and would have been a Participant had he not been an Excluded Employee during his period of Service. Furthermore, the Plan takes into account all of the Participant's included Years of Service with the Employer as an Excluded Employee for purposes of vesting credit under Article V.

2.02 YEAR OF SERVICE - PARTICIPATION. For purposes of an Employee's participation in the Plan under Section 2.01, the Plan takes into account all of his Years of Service except as provided in Section 2.03.

2.03 BREAK IN SERVICE - PARTICIPATION. For purposes of participation in the Plan, the Plan does not apply any Break in Service rule.

2.04 PARTICIPATION UPON RE-EMPLOYMENT. A Participant whose employment with the Employer and Related Employers terminates may re-enter the Plan on the date of his re-employment with the Employer. An Employee who satisfies the Plan's eligibility conditions but who terminates employment with the Employer and Related Employers prior to becoming a Participant will become a Participant on the later of the Plan Entry Date on which he would have entered the Plan had he not terminated employment or the date of his re-employment with the Employer. Any Employee who terminates employment prior to satisfying the Plan's eligibility conditions may become a Participant upon his rehire in accordance with the provisions of Section 2.01.

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ARTICLE III - EMPLOYER CONTRIBUTIONS AND FORFEITURES

PART 1. AMOUNT OF EMPLOYER CONTRIBUTIONS AND PLAN ALLOCATIONS: SECTIONS 3.01 THROUGH 3.06

3.01 AMOUNT.

(A) CONTRIBUTION FORMULA. For each Plan Year, the Employer will contribute to the Trust the following amounts:

DEFERRAL CONTRIBUTIONS. The amount by which the Participants have elected to reduce their Compensation for the Plan Year under their salary reduction agreements on file with the Administrative Committee.

MATCHING CONTRIBUTIONS. An amount equal to a percentage the Sponsor may from time to time establish for the Employers of the eligible Participant's Eligible Contributions. The Sponsor will determine the amount of its matching contributions by disregarding Participants not entitled to an allocation of matching contributions as provided in section 3.06(B).

QUALIFIED NONELECTIVE CONTRIBUTIONS. The amount the Sponsor, in its sole discretion, designates as qualified nonelective contributions.

NONELECTIVE CONTRIBUTIONS. For each Plan Year, the Employer will contribute to the Trust the additional amount, if any, which the Sponsor may from time to time deem advisable.

RESTRICTIONS ON CONTRIBUTIONS. Although the Employer may contribute to this Plan irrespective of whether it has net profits, the Employer intends the Plan to be a profit sharing plan for all purposes of the Code. The Employer may not make a contribution to the Trust for any Plan Year to the extent the contribution would exceed the Participant's Maximum Permissible Amounts. See Part 2 of this Article III.

Notwithstanding any provision in this Article III to the contrary, the Plan will provide contributions and Service credit with respect to qualified military service in accordance with Code Section 414(u).

(B) RETURN OF CONTRIBUTIONS. The Employer contributes to this Plan on the condition its contribution is not due to a mistake of fact and the Internal Revenue Service will not disallow the deduction for its contribution. The Trustee, upon written request from the Employer, must return to the Employer the amount of the Employer's contribution made by the Employer by mistake of fact or the amount of the Employer's contribution disallowed as a deduction under Code Section 404. The Trustee will not return any portion of the Employer's contribution under the provisions of this paragraph more than one year after:

(a) The Employer made the contribution by mistake of fact; or

(b) The disallowance of the contribution as a deduction, and then, only to the extent

of the disallowance.

The Trustee will not increase the amount of the Employer contribution returnable under this Section 3.01 for any earnings attributable to the contribution, but the Trustee will decrease the Employer contribution returnable for any losses attributable to it. The Trustee may require the Employer to furnish it whatever evidence the Trustee deems necessary to enable the Trustee to confirm the amount the Employer has requested be returned is properly returnable under ERISA.

3.02 DETERMINATION OF CONTRIBUTION. The Employer, from its records, determines the amount of any contributions to be made by it to the Trust under the terms of the Plan. Such contribution (excluding Deferral Contributions) may, at the discretion of the Sponsor, be made in whole or in part in the form of Company Stock to the extent such contribution is directed to be invested in the Company Stock Fund.

3.03 TIME OF PAYMENT OF CONTRIBUTION. The Employer may pay its contribution for each Plan Year in one or more installments without interest. The Employer must make its contribution to the Plan within the time prescribed by the Code or applicable Treasury regulations.

3.04 CONTRIBUTION ALLOCATION.

(A) METHOD OF ALLOCATION. To make allocations under the Plan, the Administrative Committee must establish the following accounts for each Participant: Deferral Contributions Account, Regular Matching Contributions Account, Qualified Nonelective Contributions Account, Employer Contributions Account.

DEFERRAL CONTRIBUTIONS. The Administrative Committee will allocate to each Participant's Deferral Contributions Account the deferral contributions the Employer makes to the Trust on behalf of the Participant. The Administrative Committee will make this allocation as of the date the deferral contributions are deposited to the Trust.

MATCHING CONTRIBUTIONS. The Administrative Committee will allocate matching contributions as of the date the contributions is deposited to the Trust. The matching contribution formula will be applied on a payroll-by-payroll basis. The Administrative Committee will allocate the matching contributions to the Matching Contributions Account of each Participant who satisfies the accrual requirements for matching contributions specified in Section 3.06.

QUALIFIED NONELECTIVE CONTRIBUTIONS. If the Sponsor, at the time of contribution, designates a contribution to be a qualified nonelective contribution for the Plan Year, the Administrative Committee will allocate that qualified nonelective contribution to the Qualified Nonelective Contributions Account of each Participant eligible for an allocation of qualified nonelective contributions. The Administrative Committee will make the allocation to each eligible Participant's Account in the same ratio that the Participant's Compensation for the Plan Year bears to the total Compensation of all eligible Participants for the Plan Year. For purposes of allocating qualified nonelective contributions, the term "eligible Participant" means any Participant who is a Nonhighly Compensated Employee and who satisfies the conditions of Section 3.06.

NONELECTIVE CONTRIBUTIONS. Subject to any restoration required under Section 5.04, the Administrative Committee will allocate and credit each annual Employer contribution (and Participant forfeitures, if any) to the Employer Contributions Account of each Participant who satisfies the conditions of Section 3.06. The Administrative Committee will make this allocation in the same ratio that each such Participant's Compensation for the Plan Year bears to the total Compensation of all such Participants for the Plan Year.

(B) **TOP HEAVY MINIMUM ALLOCATION.**

(1) **MINIMUM ALLOCATION.** If the Plan is top heavy in any Plan Year:

(a) Each Non-Key Employee who is a Participant and is employed by the Employer on the last day of the Plan Year will receive a top heavy minimum allocation for that Plan Year, irrespective of whether he satisfies the Hours of Service condition under Section 3.06; and

(b) The top heavy minimum allocation is the lesser of 3% of the Non-Key Employee's Compensation for the Plan Year or the highest contribution rate for the Plan Year made on behalf of any Key Employee. However, if a defined benefit plan maintained by the Employer which benefits a Key Employee depends on this Plan to satisfy the anti-discrimination rules of Code Section 401(a)(4) or the coverage rules of Code Section 410 (or another plan benefiting the Key Employee so depends on such defined benefit plan), the top heavy minimum allocation is 3% of the Non-Key Employee's Compensation regardless of the contribution rate for the Key Employees.

(2) **SPECIAL DEFINITIONS.** For purposes of this Section 3.04(B), the term "Participant" includes any Employee otherwise eligible to participate in the Plan but who is not a Participant because of his failure to make elective deferrals under a Code Section 401(k) arrangement or because of his failure to make mandatory employee contributions. For purposes of clause (b), "Compensation" means Compensation as defined in Section 1.10, except: (i) Compensation does not include elective contributions; (ii) any exclusions from Compensation (other than the exclusion of elective contributions) do not apply; and (iii) any modification to the definition of Compensation in Section 3.06 does not apply.

(3) **DETERMINING CONTRIBUTION RATES.** For purposes of this Section 3.04(B), a Participant's contribution rate is the sum of Employer contributions (not including Employer contributions to Social Security) and forfeitures allocated to the Participant's Account for the Plan Year divided by his Compensation for the entire Plan Year. However, for purposes of satisfying a Participant's top heavy minimum allocation in Plan Years beginning after December 31, 1988, a Participant's contribution rate does not include any elective contributions under a Code Section 401(k) arrangement nor any Employer matching contributions necessary to satisfy nondiscrimination requirements of Code Section 401(k) or of Code Section 401(m). To determine a Participant's contribution rate, the Administrative Committee must treat all qualified top heavy defined contribution plans maintained by the Employer (or by any Related Employers) as a single plan.

(4) **NO ALLOCATIONS.** If, for a Plan Year, there are no allocations of Employer

contributions or forfeitures for any Key Employee, the Plan does not require any top heavy minimum allocation for the Plan Year, unless a top heavy minimum allocation applies because of the maintenance by the Employer of more than one plan.

(5) METHOD OF COMPLIANCE. The Plan will satisfy the top heavy minimum allocation in accordance with this Section 3.04(B)(5). The Administrative Committee first will allocate the Employer contributions (and Participant forfeitures, if any) for the Plan Year in accordance with the allocation formula under Section 3.04(A). The Employer then will contribute an additional amount for the Account of any Participant entitled under this Section 3.04(B) to a top heavy minimum allocation and whose contribution rate for the Plan Year, under this Plan and any other plan aggregated under paragraph (3), is less than the top heavy minimum allocation. The additional amount is the amount necessary to increase the Participant's contribution rate to the top heavy minimum allocation. The Administrative Committee will allocate the additional contribution to the Account of the Participant on whose behalf the Employer makes the contribution.

3.05 FORFEITURE ALLOCATION. The amount of a Participant's Accrued Benefit forfeited under the Plan is a Participant forfeiture. Subject to any restoration allocation required under Sections 5.04 or 9.14 and the special forfeiture allocation for certain excess aggregate contributions described in Section 14.05, the Administrative Committee first will use Participant forfeitures to pay the Plan's ordinary and necessary administrative expenses for the Plan Year. The Administrative Committee will then allocate a Participant forfeiture in accordance with Section 3.04, to reduce the Employer matching contributions and nonelective contribution otherwise to be made by the Employer for the Plan Year in which the forfeiture occurs. The Administrative Committee will continue to hold the undistributed, non-vested portion of a terminated Participant's Accrued Benefit in his Account solely for his benefit until a forfeiture occurs at the time specified in Section 5.09 or if applicable, until the time specified in Section 9.14.

3.06 ACCRUAL OF BENEFIT. The Administrative Committee will determine the accrual of benefits (Employer contributions) on the basis of the Plan Year.

(A) COMPENSATION TAKEN INTO ACCOUNT. In allocating an Employer qualified nonelective or nonelective contribution to a Participant's Account, the Administrative Committee, except for purposes of determining the top heavy minimum contribution under Section 3.04(B), will take into account only the Compensation determined for the portion of the Plan Year in which the Employee actually is a Participant and not an Excluded Employee.

(B) HOURS OF SERVICE REQUIREMENT. Subject to the top heavy minimum allocation requirement of Section 3.04(B), the Administrative Committee will not allocate any portion of an Employer contribution for a Plan Year to any Participant's Account if the Participant does not complete a minimum of 1,000 Hours of Service during the Plan Year, unless the Participant terminates employment during the Plan Year because of death or Disability or on or after the attainment of Normal Retirement Age in the current Plan Year or in a prior Plan Year. This Hours of Service requirement does not apply to an allocation of matching contributions or deferral contributions.

(C) EMPLOYMENT REQUIREMENT. A Participant who, during a particular Plan Year, completes

the Hours of Service requirement under Section 3.06(B) will not share in the allocation of Employer contributions and Participant forfeitures, if any, for that Plan Year unless he is an Employee on the last day of that Plan Year. This employment requirement does not apply if the Participant terminates employment during the Plan Year because of death or Disability or on or after the attainment of Normal Retirement Age in the current Plan Year or in a prior Plan Year. This employment requirement does not apply to an allocation of matching contributions or deferral contributions.

PART 2. LIMITATIONS ON ALLOCATIONS: SECTIONS 3.07 AND 3.08

3.07 LIMITATIONS ON ALLOCATIONS TO PARTICIPANTS' ACCOUNTS. The amount of Annual Additions which the Administrative Committee may allocate under this Plan on a Participant's behalf for a Limitation Year may not exceed the Maximum Permissible Amount. If the amount the Employer otherwise would contribute to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the Maximum Permissible Amount, the Employer will reduce the amount of its contribution so the Annual Additions for the Limitation Year will equal the Maximum Permissible Amount. If an allocation of Employer contributions, pursuant to Section 3.04, would result in an Excess Amount (other than an Excess Amount resulting from the circumstances described in Section 3.07(B)) to the Participant's Account, the Administrative Committee will reallocate the Excess Amount to the remaining Participants who are eligible for an allocation of Employer contributions for the Plan Year in which the Limitation Year ends. The Administrative Committee will make this reallocation on the basis of the allocation method under the Plan as if the Participant whose Account otherwise would receive the Excess Amount is not eligible for an allocation of Employer contributions.

(A) ESTIMATION OF COMPENSATION. Prior to the determination of the Participant's actual Compensation for a Limitation Year, the Administrative Committee may determine the Maximum Permissible Amount on the basis of the Participant's estimated annual Compensation for such Limitation Year. The Administrative Committee must make this determination on a reasonable and uniform basis for all Participants similarly situated. The Administrative Committee must reduce any Employer contributions (including any allocation of forfeitures) based on estimated annual Compensation by any Excess Amounts carried over from prior years. As soon as is administratively feasible after the end of the Limitation Year, the Administrative Committee will determine the Maximum Permissible Amount for such Limitation Year on the basis of the Participant's actual Compensation for such Limitation Year.

(B) DISPOSITION OF EXCESS AMOUNT. If, pursuant to Section 3.07(A), or because of the allocation of forfeitures, there is an Excess Amount with respect to a Participant for a Limitation Year, the Administrative Committee will dispose of such Excess Amount as follows:

(a) The Administrative Committee will return any nondeductible voluntary Employee contributions and earnings to the Participant to the extent the return would reduce the Excess Amount.

(b) If, after the application of paragraph (a), an Excess Amount still exists, and the Plan covers the Participant at the end of the Limitation Year, then the Administrative Committee will use the Excess Amount(s) to reduce future Employer contributions (including any allocation of forfeitures) under the Plan for the next Limitation Year and for each succeeding Limitation Year, as is necessary, for the Participant. The Participant may elect to limit his Compensation for allocation purposes to the extent necessary to reduce his allocation for the Limitation Year to the Maximum Permissible Amount and eliminate the Excess Amount.

(c) If, after the application of paragraph (a), an Excess Amount still exists, and the Plan does not cover the Participant at the end of the Limitation Year, then the Administrative Committee will hold the Excess Amount unallocated in a suspense account. The Administrative Committee will apply the suspense account to reduce Employer Contributions (including allocation of forfeitures) for all remaining Participants in the next Limitation Year, and in each succeeding Limitation Year if necessary. Neither the Employer nor any Employee may contribute to the Plan for any Limitation Year in which the Plan is unable to allocate fully a suspense account maintained pursuant to this paragraph (c).

(d) The Administrative Committee will not distribute any Excess Amount(s) to Participants or to former Participants.

(C) MORE THAN ONE PLAN. The Employer contributes under other defined contribution plans in addition to its contributions under this Plan. If the Administrative Committee allocated an Excess Amount to a Participant's Account on an allocation date of this Plan which coincides with an allocation date of the other defined contribution plan, the Administrative Committee will attribute the total Excess Amount allocated as of such date to the other defined contribution plan. The Administrative Committee will determine the Excess Amount by treating the Annual Additions attributable to a welfare benefit fund as allocated first, irrespective of the actual allocation under the welfare benefit fund.

(D) DEFINED BENEFIT PLAN LIMITATION. If the Participant presently participates, or has ever participated under a defined benefit plan maintained by the Employer, then the sum of the defined benefit plan fraction and the defined contribution plan fraction for the Participant for that Limitation Year must not exceed 1.0. To the extent necessary to satisfy this limitation, the Employer will reduce the Participant's contributions or allocations under the defined contribution plan under which the Participant participates.

3.08 DEFINITIONS - ARTICLE III. For purposes of Article III, the following terms mean:

(a) "Annual Addition" - The sum of the following amounts allocated on behalf of a Participant for a Limitation Year, of (i) all Employer contributions; (ii) all forfeitures; and (iii) all Employee contributions. Except to the extent provided in Treasury regulations, Annual Additions include excess contributions described in Code Section 401(k), excess aggregate contributions described in Code Section 401(m) and excess deferrals described in Code Section 402(g), irrespective of whether the plan distributes or forfeits such excess amounts. Annual Additions also include Excess Amounts reapplied to reduce Employer contributions under Section 3.07. Amounts allocated after March 31, 1984, to an individual medical account (as defined in Code Section 415(l)(2)) included as part of a defined benefit plan maintained by the Employer are Annual Additions. Furthermore, Annual Additions include contributions paid or accrued after December 31, 1985, for taxable years ending after December 31, 1985, attributable to post-retirement medical benefits allocated to the separate account of a key employee (as defined in Code Section 419A(d)(3)) under a welfare benefit fund (as defined in Code Section 419(e)) maintained by the Employer, but only for purposes of the dollar limitation applicable to the Maximum Permissible Amount.

(b) "Compensation" - For purposes of applying the limitations of Part 2 of this Article III, "Compensation" means Compensation as defined in Section 1.10, except Compensation does not include any exclusion, if any, from Compensation.

(c) "Maximum Permissible Amount" - The lesser of (i) \$30,000 (or, if greater, the \$30,000 amount as adjusted under Code Section 415(d)), or (ii) 25% of the Participant's Compensation for the Limitation Year. If there is a short Limitation Year because of a change in Limitation Year, the Administrative Committee will multiply the \$30,000 (or adjusted) limitation by the following fraction:

$$\frac{\text{Number of months in the short Limitation Year}}{\text{-----}} \\ 12$$

(d) "Employer" - The Employer that adopts this Plan and any Related Employers. Solely for purposes of applying the limitations of Part 2 of this Article III, the Administrative Committee will determine Related Employers by modifying Code Section 414(b) and (c) in accordance with Code Section 415(h).

(e) "Excess Amount" - The excess of the Participant's Annual Additions for the Limitation Year over the Maximum Permissible Amount.

(f) "Limitation Year" - The Plan Year. If the Employer amends the Limitation Year to a different 12 consecutive month period, the new Limitation Year must begin on a date within the Limitation Year for which the Employer makes the amendment, creating a short Limitation Year.

(g) "Defined contribution plan" - A retirement plan which provides for an individual account for each participant and for benefits based solely on the amount contributed to the participant's account, and any income, expenses, gains and losses, and any forfeitures of accounts of other participants which the plan may allocate to such participant's account. The Administrative Committee must treat all defined contribution plans (whether or not terminated) maintained by the Employer as a single plan. Solely for purposes of the limitations of Part 2 of this Article III, the Administrative Committee will treat employee contributions made to a defined benefit plan maintained by the Employer as a separate defined contribution plan. The Administrative Committee also will treat as a defined contribution plan an individual medical account (as defined in Code Section 415(l)(2)) included as part of a defined benefit plan maintained by the Employer and, for taxable years ending after December 31, 1985, a welfare benefit fund under Code Section 419(e) maintained by the Employer to the extent there are post-retirement medical benefits allocated to the separate account of a key employee (as defined in Code Section 419A(d)(3)).

(h) "Defined benefit plan" - A retirement plan which does not provide for individual accounts for Employer contributions. The Administrative Committee must treat all defined benefit plans (whether or not terminated) maintained by the Employer as a single plan.

(i) "Defined benefit plan fraction" -

Projected annual benefit of the Participant under the defined benefit plan(s)

 The lesser of (i) 125% (subject to the "100% limitation" in paragraph (l)) of the dollar limitation in effect under Code Section 415(b)(1)(A) for the Limitation Year, or (ii) 140% of the Participant's average Compensation for his high three (3) consecutive Years of Service

To determine the denominator of this fraction, the Administrative Committee will make any adjustment required under Code Section 415(b) and will determine a Year of Service as a Plan Year in which the Employee completed at least 1,000 Hours of Service. The "projected annual benefit" is the annual retirement benefit (adjusted to an actuarially equivalent straight life annuity if the plan expresses such benefit in a form other than a straight life annuity or qualified joint and survivor annuity) of the Participant under the terms of the defined benefit plan on the assumptions he continues employment until his normal retirement age (or current age, if later) as stated in the defined benefit plan, his compensation continues at the same rate as in effect in the Limitation Year under consideration until the date of his normal retirement age and all other relevant factors used to determine benefits under the defined benefit plan remain constant as of the current Limitation Year for all future Limitation Years.

CURRENT ACCRUED BENEFIT. If the Participant accrued benefits in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the dollar limitation used in the denominator of this fraction will not be less than the Participant's Current Accrued Benefit. A Participant's Current Accrued Benefit is the sum of the annual benefits under such defined benefit plans which the Participant had accrued as of the end of the 1986 Limitation Year (the last Limitation Year beginning before January 1, 1987), determined without regard to any change in the terms or conditions of the Plan made after May 5, 1986, and without regard to any cost of living adjustment occurring after May 5, 1986. This Current Accrued Benefit rule applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Code Section 415 as in effect at the end of the 1986 Limitation Year.

(j) "Defined contribution plan fraction"

The sum, as of the close of the Limitation Year, as of the close of the Limitation Year, of the Annual Additions to the Participant's Account under the defined contribution plan(s)

The sum of the lesser of the following amounts determined for the Limitation Year and for each prior Year of Service with the Employer: (i) 125% (subject to the "100% limitation" in paragraph (l)) of the dollar limitation in effect under Code 415(c)(1)(A) for the Limitation Year (determined without regard to the special dollar limitations for employee stock ownership plans), or (ii) 35% of the Participant's Compensation for the Limitation Year

For purposes of determining the defined contribution plan fraction, the Administrative Committee will not recompute Annual Additions in Limitation Years beginning prior to January 1, 1987, to treat all Employee contributions as Annual Additions. If the Plan satisfied Code Section 415 for Limitation Years beginning prior to January 1, 1987, the Administrative Committee will redetermine the defined contribution plan fraction and the defined benefit plan fraction as of the end of the 1986 Limitation Year, in accordance with this Section 3.19. If the sum of the redetermined fractions exceeds 1.0, the Administrative Committee will subtract permanently from the numerator of the defined contribution plan fraction an amount equal to the product of (1) the excess of the sum of the fractions over 1.0, times (2) the denominator of the defined contribution plan fraction. In making the adjustment, the Administrative Committee must disregard any accrued benefit under the defined benefit plan which is in excess of the Current Accrued Benefit. This Plan continues any transitional rules applicable to the determination of the defined contribution plan fraction under the Employer's Plan as of the end of the 1986 Limitation Year.

(k) "100% limitation." If the 100% limitation applies, the Administrative Committee must determine the denominator of the defined benefit plan fraction and the denominator of the defined contribution plan fraction by substituting 100% for 125%. The 100% limitation applies only if: (i) the Plan's top heavy ratio exceeds 90%; or (ii) the Plan's top heavy ratio is greater than 60%, and the Employer does not provide extra minimum benefits which satisfy Code Section 416(h)(2).

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ARTICLE IV - PARTICIPANT CONTRIBUTIONS

4.01 PARTICIPANT ROLLOVER CONTRIBUTIONS. Any Participant who is an Employee of an Employer (other than an Excluded Employee), with the Administrative Committee's written consent and after filing the form prescribed by the Administrative Committee, may contribute cash, or plan loans to the Trust if the contribution is a "rollover contribution" which the Code permits an employee to transfer either directly or indirectly from one qualified plan to another qualified plan. Before accepting a rollover contribution, the Trustee may require an Employee to furnish satisfactory evidence that the proposed transfer is in fact a "rollover contribution" which the Code permits an employee to make to a qualified plan. A rollover contribution is not an Annual Addition under Part 2 of Article III.

An Employee of an Employer (other than an Excluded Employee), prior to satisfying the Plan's eligibility conditions, may make a rollover contribution to the Trust to the same extent and in the same manner as a Participant. If an Employee makes a rollover contribution to the Trust prior to satisfying the Plan's eligibility conditions, the Administrative Committee and Trustee must treat the Employee as a Participant for all purposes of the Plan except the Employee is not a Participant for purposes of sharing in Employer contributions or Participant forfeitures under the Plan. If the Employee has a Separation from Service prior to becoming a Participant, the Trustee will distribute his Rollover Contribution Account to him as if it were an Employer Contribution Account.

4.02 PARTICIPANT ROLLOVER CONTRIBUTION - FORFEITABILITY. A Participant's Accrued Benefit is, at all times, 100% Nonforfeitable to the extent the value of his Accrued Benefit is derived from his Participant rollover contributions described in this Article IV.

4.03 PARTICIPANT ROLLOVER CONTRIBUTION - WITHDRAWAL/DISTRIBUTION. A Participant, by giving proper notice to the Trustee, may withdraw all or any part of the value of his Accrued Benefit derived from his Participant rollover contributions described in this Article IV. A distribution of Participant contributions must comply with the joint and survivor requirements described in Article VI, if those requirements apply to the Participant. A Participant may not exercise his right to withdraw the value of his Accrued Benefit derived from his Participant rollover contributions more than once during any Plan Year. The Trustee, in accordance with the direction of the Administrative Committee, will distribute a Participant's unwithdrawn Accrued Benefit attributable to his Participant rollover contributions in accordance with the provisions of Article VI applicable to the distribution of the Participant's Nonforfeitable Accrued Benefit.

4.04 PARTICIPANT CONTRIBUTION - ACCRUED BENEFIT. The Administrative Committee must maintain a separate Account(s) in the name of each Participant to reflect the Participant's Accrued Benefit under the Plan derived from his Participant rollover contributions. A Participant's Accrued Benefit derived from his Participant rollover contributions as of any applicable date is the balance of his separate Participant rollover contribution Account(s).

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ARTICLE V - TERMINATION OF SERVICE - PARTICIPANT VESTING

5.01 NORMAL RETIREMENT AGE. A Participant's Normal Retirement Age is 59 1/2 years of age. A Participant's Accrued Benefit derived from Employer contributions is 100% Nonforfeitable upon and after his attaining Normal Retirement Age (if an Employee on or after that date).

5.02 PARTICIPANT DISABILITY OR DEATH. If a Participant's employment with the Employer and Related Employers terminates as a result of death or Disability, the Participant's Accrued Benefit derived from Employer contributions will be 100% Nonforfeitable.

5.03 VESTING SCHEDULE.

(1) DEFERRAL CONTRIBUTIONS ACCOUNT AND QUALIFIED NONELECTIVE CONTRIBUTIONS ACCOUNT. A Participant has a 100% Nonforfeitable interest at all times in his Deferral Contributions Account and Qualified Nonelective Contributions Account.

(2) MATCHING CONTRIBUTION ACCOUNT AND EMPLOYER CONTRIBUTIONS ACCOUNT. Except as provided in Sections 5.01 and 5.02, for each Year of Service, a Participant's Nonforfeitable percentage of his Matching Contribution Account and Employer Contributions Account equals the percentage in the following vesting schedule:

Years of Service	Percent of Nonforfeitable Accrued Benefit

Less than 3	0%
3 or more	100%

5.04 CASH-OUT DISTRIBUTIONS TO PARTIALLY-VESTED PARTICIPANTS/ RESTORATION OF FORFEITED ACCRUED BENEFIT. If, pursuant to Article VI, a partially-vested Participant receives a cash-out distribution before he incurs a Forfeiture Break in Service (as defined in Section 5.05), the cash-out distribution will result in an immediate forfeiture of the nonvested portion of the Participant's Accrued Benefit derived from Employer contributions. See Section 5.06. A partially-vested Participant is a Participant whose Nonforfeitable Percentage determined under Section 5.03 is less than 100%. A cash-out distribution is a distribution of the entire present value of the Participant's Nonforfeitable Accrued Benefit.

(A) RESTORATION AND CONDITIONS UPON RESTORATION. A partially-vested Participant who is re-employed by the Employer after receiving a cash-out distribution of the Nonforfeitable percentage of his Accrued Benefit may repay the Trustee the amount of the cash-out distribution attributable to Employer contributions, unless the Participant no longer has a right to restoration by reason of the conditions of this Section 5.04(A). If a partially-vested Participant makes the cash-out distribution repayment, the Administrative Committee, subject to the conditions of this Section 5.04(A), must restore his Accrued Benefit attributable to Employer contributions to the same dollar amount as the dollar amount of his Accrued Benefit on the Accounting Date, or other valuation date, immediately preceding the date of the cash-out distribution, unadjusted for any gains or losses occurring subsequent to that Accounting Date, or other valuation date. Restoration of the Participant's Accrued Benefit includes restoration of all Code Section 411(d)(6) protected benefits with respect to that restored Accrued Benefit, in accordance with applicable Treasury regulations. The Administrative Committee will not restore a re-employed Participant's Accrued Benefit under this paragraph if:

(1) 5 years have elapsed since the Participant's first re-employment date with the Employer or Related Employers following the cash-out distribution; or

(2) The Participant incurred a Forfeiture Break in Service (as defined in Section 5.05). This condition also applies if the Participant makes repayment within the Plan Year in which he incurs the Forfeiture Break in Service and that Forfeiture Break in Service would result in a complete forfeiture of the amount the Administrative Committee otherwise would restore.

(B) TIME AND METHOD OF RESTORATION. If neither of the two conditions preventing restoration of the Participant's Accrued Benefit applies, the Administrative Committee will restore the Participant's Accrued Benefit as of the Plan Year Accounting Date coincident with or immediately following the repayment. To restore the Participant's Accrued Benefit, the Administrative Committee, to the extent necessary, will allocate to the Participant's Account:

(1) First, the amount, if any, of Participant forfeitures the Administrative Committee would otherwise allocate under Section 3.05; and

(2) Second, the Employer contribution for the Plan Year to the extent made under a discretionary formula.

To the extent the amounts described in clauses (1) and (2) are insufficient to enable the Administrative Committee to make the required restoration, the Employer must contribute, without regard to any requirement or condition of Section 3.01, the additional amount necessary to enable the Administrative Committee to make the required restoration. If, for a particular Plan Year, the Administrative Committee must restore the Accrued Benefit of more than one re-employed Participant, then the Administrative Committee will make the restoration allocations to each such Participant's Account in the same proportion that a Participant's restored amount for the Plan Year bears to the restored amount for the Plan Year of all re-employed Participants. The Administrative Committee will not take into account any allocation under this Section 5.04 in applying the limitation on allocations under Part 2 of Article III.

(C) 0% VESTED PARTICIPANT. The deemed cash-out rule applies to a 0% vested Participant. A 0% vested Participant is a Participant whose Accrued Benefit derived from Employer contributions is entirely forfeitable at the time of his Separation from Service. Under the deemed cash-out rule, the Administrative Committee will treat the 0% vested Participant as having received a cash-out distribution on the date of the Participant's Separation from Service or, if the Participant's Account is entitled to an allocation of Employer contributions for the Plan Year in which he separates from Service, on the last day of that Plan Year. For purposes of applying the restoration provisions of this Section 5.04, the Administrative Committee will treat the 0% vested Participant as repaying his cash-out "distribution" on the first date of his re-employment with the Employer or Related Employers.

5.05 INCLUDED YEARS OF SERVICE - VESTING.

(A) INCLUDED YEARS OF SERVICE. For purposes of determining "Years of Service" under Section 5.06, the Plan takes into account all Years of Service an Employee completes with the Employer, or Related Employers and/or Predecessor Employer.

(B) FORFEITURE BREAK IN SERVICE. For the sole purpose of determining a Participant's Nonforfeitable percentage of his Accrued Benefit derived from Employer contributions which accrued for his benefit prior to a Forfeiture Break in Service, the Plan disregards any Year of Service after the Participant first incurs a Forfeiture Break in Service. The Participant incurs a Forfeiture Break in Service when he incurs 5 consecutive Breaks in Service.

5.06 FORFEITURE OCCURS. A Participant's forfeiture, if any, of his Accrued Benefit derived from Employer contributions occurs under the Plan on the earlier of:

(a) The last day of the Plan Year in which the Participant first incurs a Forfeiture Break in Service; or

(b) The date the Participant receives a cash-out distribution or deemed cash out distribution.

The Administrative Committee determines the percentage of a Participant's Accrued Benefit forfeiture, if any, under this Section 5.06 solely by reference to the vesting schedule of Section 5.03. A Participant will not forfeit any portion of his Accrued Benefit for any other reason or cause except as expressly provided by this Section 5.06 or as provided under Section 9.14.

* * * * *

5.4

ARTICLE VI - TIME AND METHOD OF PAYMENT OF BENEFITS

6.01 TIME OF PAYMENT OF ACCRUED BENEFIT. Unless the Participant or the Beneficiary elects in writing to a different time or method of payment, the Administrative Committee will direct the Trustee to commence distribution of a Participant's Nonforfeitable Accrued Benefit in accordance with this Section 6.01. A Participant must consent, in writing, to any distribution required under this Section 6.01 if the present value of the Participant's Nonforfeitable Accrued Benefit, at the time of the distribution to the Participant, exceeds \$5,000 and the Participant has not attained age 62. Furthermore, the Participant's spouse also must consent, in writing, to any distribution, for which Section 6.04 requires the spouse's consent. For all purposes of this Article VI, the term "annuity starting date" means the first day of the first period for which the Plan pays an amount as an annuity or in any other form but in no event is the "annuity starting date" earlier than a Participant's Separation from Service. A distribution date under this Article VI, unless otherwise specified within the Plan, is each day of the Plan Year, or as soon as administratively practicable following that distribution date. For purposes of the consent requirements under this Article VI, if the present value of the Participant's Nonforfeitable Accrued Benefit, at the time of any withdrawal or distribution, exceeds \$5,000, the Administrative Committee must treat that present value as exceeding \$5,000 for purposes of all subsequent Plan distributions to the Participant.

(A) SEPARATION FROM SERVICE FOR A REASON OTHER THAN DEATH.

(1) PARTICIPANT'S NONFORFEITABLE ACCRUED BENEFIT NOT EXCEEDING \$5,000. If the Participant's Separation from Service is for any reason other than death, the Administrative Committee will direct the Trustee to distribute the Participant's Nonforfeitable Accrued Benefit in a lump sum as soon as administratively practicable following the Participant's Separation from Service, but in no event later than the 60th day following the close of the Plan Year in which the Participant attains Normal Retirement Age.

(2) PARTICIPANT'S NONFORFEITABLE ACCRUED BENEFIT EXCEEDS \$5,000. If the Participant's Separation from Service is for any reason other than death, the Administrative Committee will direct the Trustee to commence distribution of the Participant's Nonforfeitable Accrued Benefit in a form and at the time elected by the Participant, pursuant to Section 6.03. In the absence of an election by the Participant, the Administrative Committee will direct the Trustee to distribute the Participant's Nonforfeitable Accrued Benefit in the normal annuity form of distribution required under Section 6.04, on the 60th day following the close of the Plan Year in which the latest of the following events occurs: (a) the Participant attains age 62; or (b) the Participant's Separation from Service.

(3) DISABILITY. If the Participant's Separation from Service is because of his Disability, the Administrative Committee will direct the Trustee to pay the Participant's Nonforfeitable Accrued Benefit in the automatic annuity form, unless an optional form is properly elected, at the same time as any other Separation from Service, subject to the notice and consent requirements of this Article VI and to the applicable mandatory commencement dates described in Paragraph (1).

(B) REQUIRED BEGINNING DATE

TIMING OF REQUIRED DISTRIBUTION. If any distribution commencement date described under Paragraph (A) of this Section 6.01, either by Plan provision or by Participant election (or nonelection), is later than the Participant's Required Beginning Date, the Administrative Committee instead must direct the Trustee to make distribution on the Participant's Required Beginning Date, subject to the transitional election, if applicable, under Section 6.03(D). A Participant's Required Beginning Date is the April 1 following the close of the calendar year in which the Participant attains age 70 1/2 if the Participant is a more than 5% owner with respect to the Plan Year ending in that calendar year. For any other Participant, his Required Beginning Date is the April 1 following the close of the calendar year in which the Participant separates from Service or, if later, the April 1 following the close of the calendar year in which the Participant attains age 70 1/2. A mandatory distribution at the Participant's Required Beginning Date will be made pursuant to the provisions of this Article VI.

(C) **DEATH OF THE PARTICIPANT.** In the event of a Participant's death prior to the annuity starting date, the Administrative Committee will direct the Trustee, in accordance with this Section 6.01(C), to distribute to the Participant's Beneficiary the Participant's Nonforfeitable Accrued Benefit remaining in the Trust at the time of the Participant's death. Subject to the requirements of Section 6.04, the Administrative Committee will determine the death benefit by reducing the Participant's Nonforfeitable Accrued Benefit by any security interest the Plan has against that Nonforfeitable Accrued Benefit by reason of an outstanding Participant loan.

(1) **DECEASED PARTICIPANT'S NONFORFEITABLE ACCRUED BENEFIT DOES NOT EXCEED \$5,000.** The Administrative Committee, subject to the requirements of Section 6.04, must direct the Trustee to distribute the deceased Participant's Nonforfeitable Accrued Benefit in a single cash sum, as soon as administratively practicable following the Participant's death or, if later, the date on which the Administrative Committee receives notification of or otherwise confirms the Participant's death.

(2) **DECEASED PARTICIPANT'S NONFORFEITABLE ACCRUED BENEFIT EXCEEDS \$5,000.** The Administrative Committee will direct the Trustee to distribute the deceased Participant's Nonforfeitable Accrued Benefit at the time and in the form elected by the Participant or, if applicable by the Beneficiary, as permitted under this Article VI. In the absence of an election, subject to the requirements of Section 6.04, the Administrative Committee will direct the Trustee to distribute the Participant's undistributed Nonforfeitable Accrued Benefit in a lump sum as soon as administratively practicable on or after the first distribution date following the close of the Plan Year in which the Participant's death occurs or, if later, the first distribution date following the date the Administrative Committee receives notification of or otherwise confirms the Participant's death.

(D) **DEFAULT ON A LOAN.** If a Participant defaults on a loan made pursuant to a loan policy adopted by the Administrative Committee pursuant to Section 9.04, the Plan treats the default as a distributable event. The Trustee, at the time of the default, will reduce the Participant's

Nonforfeitable Accrued Benefit by the lesser of the amount in default (plus accrued interest) or the Plan's security interest in that Nonforfeitable Accrued Benefit. To the extent the loan is attributable to the Participant's Deferral Contributions Account or Qualified Matching Contributions Account or Qualified Nonelective Contributions Account, the Trustee will not reduce the Participant's Nonforfeitable Accrued Benefit unless the Participant has separated from Service or unless the Participant has attained age 59 1/2.

6.02 METHOD OF PAYMENT OF ACCRUED BENEFIT. Subject to the annuity distribution requirements, if any, prescribed by Section 6.04, and any restrictions prescribed by Section 6.03, a Participant or Beneficiary may elect distribution under one of the following methods: (a) by payment in a lump sum; (b) by payment in monthly, quarterly or annual installments over a fixed reasonable period of time, not exceeding the life expectancy of the Participant, or the joint life and last survivor expectancy of the Participant and his Beneficiary; or (c) by payment in a life annuity, a joint and 50% or 100% survivor annuity, or a life annuity with a guaranteed payment of 5, 10, 15 or 20 years.

The distribution options permitted under this Section 6.02 are available only if the present value of the Participant Nonforfeitable Accrued Benefit, at the time of distribution begins to the Participant, exceeds \$5,000. To facilitate annuity or installment payments under this Article VI, the Administrative Committee shall direct the Trustee to purchase a Nontransferable Annuity contract. Under an installment distribution, the Participant or Beneficiary, at any time, may elect to accelerate the payment of all, or any portion, of the Participant's unpaid Nonforfeitable Accrued Benefit, subject to the requirements of Section 6.04.

6.3

(A) MINIMUM DISTRIBUTION REQUIREMENTS FOR PARTICIPANTS. The Administrative Committee may not direct the Trustee to distribute the Participant's Nonforfeitable Accrued Benefit, nor may the Participant elect to have the Trustee distribute his Nonforfeitable Accrued Benefit, under a method of payment which, as of the Required Beginning Date, does not satisfy the minimum distribution requirements under Code Section 401(a)(9) and the applicable Treasury regulations. The minimum distribution for a calendar year equals the Participant's Nonforfeitable Accrued Benefit as of the latest valuation date preceding the beginning of the calendar year divided by the Participant's life expectancy or, if applicable, the joint and last survivor expectancy of the Participant and his designated Beneficiary (as determined under Article VIII, subject to the requirements of the Code Section 401(a)(9) regulations). The Administrative Committee will increase the Participant's Nonforfeitable Accrued Benefit, as determined on the relevant valuation date, for contributions or forfeitures allocated after the valuation date and by December 31 of the valuation calendar year, and will decrease the valuation by distributions made after the valuation date and by December 31 of the valuation calendar year. For purposes of this valuation, the Administrative Committee will treat any portion of the minimum distribution for the first distribution calendar year made after the close of that year as a distribution occurring in that first distribution calendar year. In computing a minimum distribution, the Administrative Committee must use the unisex life expectancy multiples under Treas. Reg. Section 1.72-9. The Administrative Committee, only upon the Participant's written request, will compute the minimum distribution for a calendar year subsequent to the first calendar year for which the Plan requires a minimum distribution by redetermining the applicable life expectancy. However, the Administrative Committee may not redetermine the joint life and last survivor expectancy of the Participant and a nonspouse designated Beneficiary in a manner which takes into account any adjustment to a life expectancy other than the Participant's life expectancy.

If the Participant's spouse is not his designated Beneficiary, a method of payment to the Participant (whether by Participant election or by Administrative Committee direction) may not provide more than incidental benefits to the Beneficiary. The Plan must satisfy the Minimum Distribution Incidental Benefit ("MDIB") requirement in the Treasury regulations issued under Code Section 401(a)(9) for distributions made on or after the Participant's Required Beginning Date and before the Participant's death. To satisfy the MDIB requirement, the Administrative Committee will compute the minimum distribution required by this Section 6.02(A) by substituting the applicable MDIB divisor for the applicable life expectancy factor, if the MDIB divisor is a lesser number. Following the Participant's death, the Administrative Committee will compute the minimum distribution required by this Section 6.02(A) solely on the basis of the applicable life expectancy factor and will disregard the MDIB factor.

The minimum distribution for the first distribution calendar year is due by the Participant's Required Beginning Date. The minimum distribution for each subsequent distribution calendar year, including the calendar year in which the Participant's Required Beginning Date occurs, is due by December 31 of that year. If the Participant receives distribution in the form of a Nontransferable Annuity Contract, the distribution satisfies this Section 6.02(A) if the contract complies with the requirements of Code Section 401(a)(9) and the applicable Treasury regulations.

(B) MINIMUM DISTRIBUTION REQUIREMENTS FOR BENEFICIARIES. The method of distribution to the Participant's Beneficiary must satisfy Code Section 401(a)(9) and the applicable Treasury regulations. If the Participant's death occurs after his Required Beginning Date or, if earlier, the date the Participant commences an irrevocable annuity pursuant to Section 6.04, the method of payment to the Beneficiary must provide for completion of payment over a period which does not exceed the payment period which had commenced for the Participant. If the Participant's death occurs prior to his Required Beginning Date, and the Participant had not commenced an irrevocable annuity pursuant to Section 6.04, the method of payment to the Beneficiary, subject to Section 6.04, must provide for completion of payment to the Beneficiary over a period not exceeding: (i) 5 years after the date of the Participant's death; or (ii) if the Beneficiary is a designated Beneficiary, the designated Beneficiary's life expectancy. The Administrative Committee may not direct payment of the Participant's Nonforfeitable Accrued Benefit over a period described in clause (ii) unless the Trustee will commence payment to the designated Beneficiary no later than the December 31 following the close of the calendar year in which the Participant's death occurred or, if later, and the designated Beneficiary is the Participant's surviving spouse, December 31 of the calendar year in which the Participant would have attained age $70\frac{1}{2}$. If the Trustee will make distribution in accordance with clause (ii), the minimum distribution for a calendar year equals the Participant's Nonforfeitable Accrued Benefit as of the latest valuation date preceding the beginning of the calendar year divided by the designated Beneficiary's life expectancy. The Administrative Committee must use the unisex life expectancy multiples under Treas. Reg. Section 1.72-9 for purposes of applying this paragraph. The Administrative Committee, only upon the written request of the Participant or of the Participant's surviving spouse, will recalculate the life expectancy of the Participant's surviving spouse not more frequently than annually, but may not recalculate the life expectancy of a nonspouse designated Beneficiary after the Trustee commences payment to the designated Beneficiary. The Administrative Committee will apply this paragraph by treating any amount paid to the Participant's child, which becomes payable to the Participant's surviving spouse upon the child's attaining the age of majority, as paid to the Participant's surviving spouse. Upon the Beneficiary's written request, the Administrative Committee must direct the Trustee to accelerate payment of all, or any portion, of the Participant's unpaid Accrued Benefit, as soon as administratively practicable following the effective date of that request.

6.03 BENEFIT PAYMENT ELECTIONS. Not earlier than 90 days, but not later than 30 days, before the Participant's annuity starting date, the Administrative Committee must provide a benefit notice to a Participant who is eligible to make an election under this Section 6.03. The benefit notice must explain the optional forms of benefit in the Plan, including the material features and relative values of those options, and the Participant's right to defer distribution until he attains age 62.

If a Participant or Beneficiary makes an election prescribed by this Section 6.03, the Administrative Committee will direct the Trustee to distribute the Participant's Nonforfeitable Accrued Benefit in accordance with that election. Any election under this Section 6.03 is subject to the requirements of Section 6.02 and of Section 6.04. The Participant or Beneficiary must make an election under this Section 6.03 by filing his election with the Administrative Committee at any time before the Trustee otherwise would commence to pay a Participant's Accrued Benefit in accordance with the requirements of Article VI.

(A) PARTICIPANT ELECTIONS AFTER SEPARATION FROM SERVICE. If the present value of a Participant's Nonforfeitable Accrued Benefit exceeds \$5,000, subject to the further provisions of the Plan, he may elect to have the Trustee commence distribution as of any distribution date following his Separation from Service. The Participant may reconsider an election at any time prior to the annuity starting date and elect to commence distribution as of any other distribution date, but not earlier than the date described in the first sentence of this Paragraph (A). Following his attainment of Normal Retirement Age, a Participant who has separated from Service may elect distribution as of any distribution date, irrespective of the restrictions otherwise applicable under this Section 6.03(A). If the Participant is partially-vested in his Accrued Benefit, an election under this Paragraph (A) to distribute prior to the Participant's incurring a Forfeiture Break in Service (as defined in Section 5.08), must be in the form of a cash-out distribution (as defined in Article V). A Participant may not receive a cash-out distribution if, prior to the time the Trustee actually makes the cash-out distribution, the Participant returns to employment with the Employer or Related Employer.

(B) PARTICIPANT ELECTIONS PRIOR TO SEPARATION FROM SERVICE.

(1) AGE 59 1/2 WITHDRAWALS. A Participant, until he separates from service, has a continuing election to receive all or any portion of his Qualified Nonelective Contributions Account, Deferral Contributions Account, Regular Matching Contributions and Employee Contributions Account if he has attained age 59 1/2.

(2) FINANCIAL HARDSHIP WITHDRAWALS. A Participant, until he separates from Service, has a continuing election to receive all or any part of the Non-forfeitable portion of his Regular Matching Contributions Account or his Employer Contributions Account, or his Deferral Contributions Account (excluding any Trust earnings thereon) if he satisfies the conditions for hardship as described in paragraph (5).

(3) ROLLOVER ACCOUNTS. A Participant, until he separates from Service, has a continuing election to receive all or any part of his Rollover Contributions Account.

(4) PROCEDURE. A Participant must make an election under this Section 6.03(B) on a form prescribed by the Administrative Committee at any time during the Plan Year for which his election is to be effective. A Participant's spouse must consent to such distribution by making a valid waiver election as provided in Section 6.06. In his written election, the Participant must specify the percentage or dollar amount he wishes the Trustee to distribute to him. The Participant's election relates solely to the percentage or dollar amount specified in his election form and his right to elect to receive an amount, if any, for a particular Plan Year greater than the

dollar amount or percentage specified in his election form terminates on the Accounting Date. The Trustee must make a distribution to a Participant in accordance with his election under this Section 6.03(B) within the 90 day period (or as soon as administratively practicable) after the Participant files his written election with the Trustee. The Trustee will distribute the balance of the Participant's Accrued Benefit not distributed pursuant to his election(s) in accordance with the other distribution provisions of this Plan.

(5) DEFINITION OF HARDSHIP. For purposes of this Section 6.03(B), a hardship distribution must be on account of one or more of the following immediate and heavy financial needs: (1) medical expenses described in Code Section 213(d) incurred by the Participant, by the Participant's spouse, or by any of the Participant's dependents or necessary for such persons to obtain such care; (2) costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Participant; (3) the payment of post-secondary education tuition, related educational fees and room and board expenses for the next 12-month period, for the Participant, for the Participant's spouse, or for any of the Participant's dependents; (4) to prevent the eviction of the Participant from his principal residence or the foreclosure on the mortgage of the Participant's principal residence; or (5) any other event designated by Treasury regulations for the safe harbor definition of hardship.

RESTRICTIONS. The following restrictions apply to a Participant who receives a hardship distribution: (a) the Participant may not make elective deferrals or employee contributions to the Plan for the 12-month period following the date of his hardship distribution; (b) the distribution is not in excess of the amount of the immediate and heavy financial need (including any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution); (c) the Participant must have obtained all distributions, other than hardship distributions, and all nontaxable loans currently available under this Plan and all other qualified plans maintained by the Employer; and (d) the Participant agrees to limit elective deferrals under this Plan and under any other qualified plan maintained by the Employer, for the Participant's taxable year immediately following the taxable year of the hardship distribution, to the 402(g) limitation (as described in Section 14.03), reduced by the amount of the Participant's elective deferrals made in the taxable year of the hardship distribution. The suspension of elective deferrals and employee contributions described in clause (a) also must apply to all other qualified plans and to all nonqualified plans of deferred compensation maintained by the Employer, other than any mandatory employee contribution portion of a defined benefit plan, including stock option, stock purchase and other similar plans, but not including health or welfare benefit plans (other than the cash or deferred arrangement portion of a cafeteria plan).

EARNINGS. A hardship distribution may not include earnings on an Employee's elective deferrals, and may not include qualified matching contributions and qualified nonelective contributions, nor any earnings on such contributions, irrespective of when credited.

(C) DEATH BENEFIT ELECTIONS. If the present value of the deceased Participant's Nonforfeitable Accrued Benefit exceeds \$5,000, the Participant's Beneficiary may elect to have the Trustee distribute the Participant's Nonforfeitable Accrued Benefit in a form and within a period permitted under Section 6.02. The Beneficiary's election is subject to any restrictions designated in writing by the Participant and not revoked as of his date of death.

6.04 ANNUITY DISTRIBUTIONS TO PARTICIPANTS AND SURVIVING SPOUSES.

(A) JOINT AND SURVIVOR ANNUITY. The Administrative Committee must direct the Trustee to distribute a married or unmarried Participant's Nonforfeitable Accrued Benefit in the form of a qualified joint and survivor annuity, unless the Participant makes a valid waiver election as (and within the period) described in Section 6.05. If, as of the annuity starting date, the Participant is married, a qualified joint and survivor annuity is an immediate annuity which is purchasable with the Participant's Nonforfeitable Accrued Benefit and which provides a life annuity for the Participant and a survivor annuity payable for the remaining life of the Participant's surviving spouse equal to 50% of the amount of the annuity payable during the life of the Participant. If, as of the annuity starting date, the Participant is not married, a qualified joint and survivor annuity is an immediate life annuity for the Participant which is purchasable with the Participant's Nonforfeitable Accrued Benefit. Upon a Participant's separation from service, the Administrative Committee, without Participant or spousal consent, must direct the Trustee to pay the Participant's Nonforfeitable Accrued Benefit in a lump sum, in lieu of a qualified joint and survivor annuity, in accordance with Section 6.01, if the Participant's Nonforfeitable Accrued Benefit is not greater than \$5,000. This Section 6.04(A) applies only to a Participant who has completed at least one Hour of Service with the Employer after August 22, 1984.

(B) PRERETIREMENT SURVIVOR ANNUITY. If a married Participant dies prior to his annuity starting date, the Administrative Committee will direct the Trustee to distribute a portion of the Participant's Nonforfeitable Accrued Benefit to the Participant's surviving spouse in the form of a preretirement survivor annuity, unless the Participant has a valid waiver election (as described in Section 6.06) in effect. A preretirement survivor annuity is an annuity which is purchasable with 50% of the Participant's Nonforfeitable Accrued Benefit (determined as of the date of the Participant's death) and which is payable for the life of the Participant's surviving spouse. The value of the preretirement survivor annuity is attributable to Employer contributions and to Employee contributions in the same proportion as the Participant's Nonforfeitable Accrued Benefit is attributable to those contributions. The portion of the Participant's Nonforfeitable Accrued Benefit not payable under this paragraph is payable to the Participant's Beneficiary, in accordance with the other provisions of this Article VI. If the present value of the preretirement survivor annuity does not exceed \$5,000, the Administrative Committee, on or before the annuity starting date, must direct the Trustee to make a lump sum distribution to the Participant's surviving spouse, in lieu of a preretirement survivor annuity.

(C) SURVIVING SPOUSE ELECTIONS. If the present value of the preretirement survivor annuity exceeds \$5,000, the Participant's surviving spouse may elect to have the Trustee commence payment of the preretirement survivor annuity at any time following the date of the Participant's death, but not later than the mandatory distribution periods described in Section 6.02, and may elect any of the forms of payment described in Section 6.02, in lieu of the preretirement survivor annuity. In the absence of an election by the surviving spouse, the Administrative Committee must direct the Trustee to distribute the preretirement survivor annuity on the first distribution date following the close of the Plan Year in which the latest of the following events occurs: (i) the Participant's death; (ii) the date the Administrative Committee receives notification of or otherwise confirms the Participant's death; or (iii) the date the Participant would have attained age 62.

(D) SPECIAL RULES. If the Participant has in effect a valid waiver election regarding the qualified joint and survivor annuity or the preretirement survivor annuity, the Administrative Committee must direct the Trustee to distribute the Participant's Nonforfeitable Accrued Benefit in accordance with Sections 6.01, 6.02 and 6.03. The Administrative Committee will reduce the Participant's Nonforfeitable Accrued Benefit by any security interest (pursuant to any offset rights authorized by Section 10.03[B]) held by the Plan by reason of a Participant loan to determine the value of the Participant's Nonforfeitable Accrued Benefit distributable in the form of a qualified joint and survivor annuity or preretirement survivor annuity, provided any post-August 18, 1985, loan satisfied the spousal consent requirement described in Section 10.03[B] of the Plan. For purposes of applying this Article VI, the Administrative Committee treats a former spouse as the Participant's spouse or surviving spouse to the extent provided under a qualified domestic relations order described in Section 6.07. The provisions of this Section 6.04, and of Sections 6.05 and 6.06, apply separately to the portion of the Participant's Nonforfeitable Accrued Benefit subject to the qualified domestic relations order and to the portion of the Participant's Nonforfeitable Accrued Benefit not subject to that order.

6.05 WAIVER ELECTION - QUALIFIED JOINT AND SURVIVOR ANNUITY. At least 30 days (but not earlier than 90 days), before the Participant's annuity starting date, the Administrative Committee must provide the Participant a written explanation of the terms and conditions of the qualified joint and survivor annuity, the Participant's right to make, and the effect of, an election to waive the joint and survivor form of benefit, the rights of the Participant's spouse regarding the waiver election and the Participant's right to make, and the effect of, a revocation of a waiver election. The Plan does not limit the number of times the Participant may revoke a waiver of the qualified joint and survivor annuity or make a new waiver during the election period. The Participant (and his spouse, if the Participant is married), may revoke an election to receive a particular form of benefit at any time until the annuity starting date. The Participant (and his spouse, if applicable) may waive the 30-day election period if the distribution of the elected form of benefit commences more than 7 days after the Administrative Committee provides the Participant (and his spouse, if applicable) the written explanation.

A married Participant's waiver election is not valid unless (a) the Participant's spouse (to whom the survivor annuity is payable under the qualified joint and survivor annuity), after the Participant has received the written explanation described in this Section 6.05, has consented in writing to the waiver election, the spouse's consent acknowledges the effect of the election, and a notary public or the Plan Administrator (or his representative) witnesses the spouse's consent, (b) the spouse consents to the alternate form of payment designated by the Participant or to any change in that designated form of payment, and (c) unless the spouse is the Participant's sole primary Beneficiary, the spouse consents to the Participant's Beneficiary designation or to any change in the Participant's Beneficiary designation. The spouse's consent to a waiver of the qualified joint and survivor annuity is irrevocable, unless the Participant revokes the waiver election. The spouse may execute a blanket consent to any form of payment designation or to any Beneficiary designation made by the Participant, if the spouse acknowledges the right to limit that consent to a specific designation but, in writing, waives that right. The consent requirements of this Section 6.05 apply to a former spouse of the Participant, to the extent required under a qualified domestic relations order described in Section 6.07.

The Administrative Committee will accept as valid a waiver election which does not satisfy the spousal consent requirements if the Administrative Committee establishes the Participant does not have a spouse, the Administrative Committee is not able to locate the Participant's spouse, the Participant is legally separated or has been abandoned (within the meaning of State law) and the Participant has a court order to that effect, or other circumstances exist under which the Secretary of the Treasury will excuse the consent requirement. If the Participant's spouse is legally incompetent to give consent, the spouse's legal guardian (even if the guardian is the Participant) may give consent.

6.06 WAIVER ELECTION - PRERETIREMENT SURVIVOR ANNUITY. The Administrative Committee must provide a written explanation of the preretirement survivor annuity to each married Participant, within the following period which ends last: (1) the period beginning on the first day of the Plan Year in which the Participant attains age 32 and ending on the last day of the Plan Year in which the Participant attains age 34; (2) a reasonable period after an Employee becomes a Participant; (3) a reasonable period after the joint and survivor rules become applicable to the Participant; or (4) a reasonable period after a fully subsidized preretirement survivor annuity no longer satisfies the requirements for a fully subsidized benefit. A reasonable period described in clauses (2), (3) and (4) is the period beginning one year before and ending one year after the applicable event. If the Participant separates from Service before attaining age 35, clauses (1), (2), (3) and (4) do not apply and the Administrative Committee must provide the written explanation within the period beginning one year before and ending one year after the Separation from Service. The written explanation must describe, in a manner consistent with Treasury regulations, the terms and conditions of the preretirement survivor annuity comparable to the explanation of the qualified joint and survivor annuity required under Section 6.05. The Plan does not limit the number of times the Participant may revoke a waiver of the preretirement survivor annuity or make a new waiver during the election period. The election period for waiver of the preretirement survivor annuity ends on the date of the Participant's death.

A Participant's waiver election of the preretirement survivor annuity is not valid unless (a) the Participant makes the waiver election no earlier than the first day of the Plan Year in

which he attains age 35 and (b) the Participant's spouse (to whom the preretirement survivor annuity is payable) satisfies the consent requirements described in Section 6.05, except the spouse need not consent to the form of benefit payable to the designated Beneficiary. The spouse's consent to the waiver of the preretirement survivor annuity is irrevocable, unless the Participant revokes the waiver election. Irrespective of the time of election requirement described in clause (a), if the Participant separates from Service prior to the first day of the Plan Year in which he attains age 35, the Administrative Committee will accept a waiver election as respects the Participant's Accrued Benefit attributable to his Service prior to his Separation from Service. Furthermore, if a Participant who has not separated from Service makes a valid waiver election, except for the timing requirement of clause (a), the Administrative Committee will accept that election as valid, but only until the first day of the Plan Year in which the Participant attains age 35. A waiver election described in this paragraph is not valid unless made after the Participant has received the written explanation described in this Section 6.06.

6.07 DISTRIBUTIONS UNDER DOMESTIC RELATIONS ORDERS. Nothing contained in this Plan prevents the Trustee, in accordance with the direction of the Administrative Committee, from complying with the provisions of a Qualified Domestic Relations Order (as defined in Code Section 414(p)). This Plan specifically permits distribution to an alternate payee under a qualified domestic relations order at any time, irrespective of whether the Participant has attained his earliest retirement age (as defined under Code Section 414(p)) under the Plan. A distribution to an alternate payee prior to the Participant's attainment of earliest retirement age is available only if: (1) the order specifies distribution at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; and (2) if the present value of the alternate payee's benefits under the Plan exceeds \$5,000, and the order requires, the alternate payee consents to any distribution occurring prior to the Participant's attainment of earliest retirement age. Nothing in this Section 6.07 gives a Participant a right to receive distribution at a time otherwise not permitted under the Plan nor does it permit the alternate payee to receive a form of payment not otherwise permitted under the Plan.

The Administrative Committee must establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Administrative Committee promptly will notify the Participant and any alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving the domestic relations order, the Administrative Committee must determine the qualified status of the order and must notify the Participant and each alternate payee, in writing, of its determination. The Administrative Committee must provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order, or in a manner consistent with Department of Labor regulations.

If any portion of the Participant's Nonforfeitable Accrued Benefit is payable during the period the Administrative Committee is making its determination of the qualified status of the domestic relations order, the Administrative Committee must make a separate accounting of the amounts payable. If the Administrative Committee determines the order is a qualified domestic relations order within 18 months of the date amounts first are payable following receipt of the order, the Administrative Committee will direct the Trustee to distribute the payable amounts in accordance with the order. If the Administrative Committee does not make its determination of the qualified status of the order within the 18-month determination period, the Administrative Committee will direct the Trustee to distribute the payable amounts in the manner the Plan would distribute if the order did not exist and will apply the order prospectively if the Administrative Committee later determines the order is a qualified domestic relations order.

For distributions made on or after January 1, 1993 and notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

(a) "Eligible rollover distribution." An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion of net unrealized appreciation with respect to employer securities).

(b) "Eligible retirement plan." An eligible retirement plan is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(c) "Distributee." A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are distributees with regard to the interest of the spouse or former spouse.

(c) "Direct rollover." A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee.

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ARTICLE VII - EMPLOYER ADMINISTRATIVE PROVISIONS

7.01 INFORMATION TO ADMINISTRATIVE COMMITTEE. The Employer must supply current information to the Administrative Committee as to the name, date of birth, date of employment, annual compensation, leaves of absence, Years of Service and date of termination of employment of each Employee who is, or who will be eligible to become, a Participant under the Plan, together with any other information which the Administrative Committee considers necessary. The Employer's records as to the current information the Employer furnishes to the Administrative Committee are conclusive as to all persons.

7.02 NO LIABILITY. The Employer assumes no obligation or responsibility to any of its Employees, Participants or Beneficiaries for any act of, or failure to act, on the part of its Administrative Committee (unless the Employer is the Administrative Committee).

7.03 INDEMNITY OF CERTAIN FIDUCIARIES. The Employer indemnifies and saves harmless the Plan Administrator and the members of the Administrative Committee, and each of them, from and against any and all loss resulting from liability to which the Plan Administrator and the Administrative Committee, or the members of the Administrative Committee, may be subjected by reason of any act or conduct (except willful misconduct or gross negligence) in their official capacities in the administration of this Trust or Plan or both, including all expenses reasonably incurred in their defense, in case the Employer fails to provide such defense. The indemnification provisions of this Section 7.03 do not relieve the Plan Administrator or any Administrative Committee member from any liability he may have under ERISA for breach of a fiduciary duty. Furthermore, the Plan Administrator and the Administrative Committee members and the Employer may execute a letter agreement further delineating the indemnification agreement of this Section 7.03, provided the letter agreement must be consistent with and does not violate ERISA. The indemnification provisions of this Section 7.03 extend to the Trustee (or to a Custodian, if any) solely to the extent provided by a letter agreement executed by the Trustee (or Custodian) and the Employer.

7.04 EMPLOYER DIRECTION OF INVESTMENT. The Administrative Committee has the right to direct the Trustee with respect to the investment and re-investment of assets comprising the Trust Fund only if the Trustee consents in writing to permit such direction. If the Trustee consents to Administrative Committee direction of investment, the Trustee and the Employer must execute a letter agreement as a part of this Plan containing such conditions, limitations and other provisions they deem appropriate before the Trustee will follow any Administrative Committee direction as respects the investment or re-investment of any part of the Trust Fund.

7.05 AMENDMENT TO VESTING SCHEDULE. Though the Sponsor reserves the right to amend the vesting schedule at any time, the Administrative Committee will not apply the amended vesting schedule to reduce the Nonforfeitable percentage of any Participant's Accrued Benefit derived from Employer contributions (determined as of the later of the date the Employer adopts the amendment, or the date the amendment becomes effective) to a percentage less than the Nonforfeitable percentage computed under the Plan without regard to the amendment. An amended vesting schedule will apply to a Participant only if the Participant receives credit for at least one Hour of Service after the new schedule becomes effective.

If the Sponsor makes a permissible amendment to the vesting schedule, each Participant having at least 3 Years of Service with the Employer may elect to have the percentage of his Nonforfeitable Accrued Benefit computed under the Plan without regard to the amendment. The Participant must file his election with the Administrative Committee within 60 days of the latest of (a) the Employer's adoption of the amendment; (b) the effective date of the amendment; or (c) his receipt of a copy of the amendment. The election described in this Section 7.05 does not apply to a Participant if the amended vesting schedule provides for vesting at least as rapid at all times as the vesting schedule in effect prior to the amendment. For purposes of this Section 7.05, an amendment to the vesting schedule includes any Plan amendment which directly or indirectly affects the computation of the Nonforfeitable percentage of an Employee's rights to his Employer derived Accrued Benefit.

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ARTICLE VIII - PARTICIPANT ADMINISTRATIVE PROVISIONS

8.01 BENEFICIARY DESIGNATION. Any Participant may from time to time designate, in writing, any person or persons, contingently or successively, to whom the Trustee will pay his Nonforfeitable Accrued Benefit (including any life insurance proceeds payable to the Participant's Account) in the event of his death and the Participant may designate the form and method of payment. The Administrative Committee will prescribe the form for the written designation of Beneficiary and, upon the Participant's filing the form with the Administrative Committee, the form effectively revokes all designations filed prior to that date by the same Participant. A Participant's marriage will automatically revoke any previously filed designation and a divorce will automatically revoke the designation of the Participant's former spouse as his Beneficiary except to the extent provided otherwise in a Qualified Domestic Relations Order.

(A) COORDINATION WITH SURVIVOR REQUIREMENTS. If the joint and survivor requirements of Article VI apply to the Participant, this Section 8.01 does not impose any special spousal consent requirements on the Participant's Beneficiary designation. However, in the absence of spousal consent (as required by Article VI) to the Participant's Beneficiary designation: (1) any waiver of the joint and survivor annuity or of the preretirement survivor annuity is not valid; and (2) if the Participant dies prior to his annuity starting date, the Participant's Beneficiary designation will apply only to the portion of the death benefit which is not payable as a preretirement survivor annuity. Regarding clause (2), if the Participant's surviving spouse is a primary Beneficiary under the Participant's Beneficiary designation, the Trustee will satisfy the spouse's interest in the Participant's death benefit first from the portion which is payable as a preretirement survivor annuity.

8.02 NO BENEFICIARY DESIGNATION/DEATH OF BENEFICIARY. If a Participant fails to name a Beneficiary in accordance with Section 8.01, or if the Beneficiary named by a Participant predeceases him, then the Trustee will pay the Participant's Nonforfeitable Accrued Benefit in accordance with Section 6.02 in the following order of priority to:

- (a) The Participant's surviving spouse;
- (b) The Participant's estate.

If the Beneficiary does not predecease the Participant, but dies prior to distribution of the Participant's entire Nonforfeitable Accrued Benefit, the Trustee will pay the remaining Nonforfeitable Accrued Benefit to the Beneficiary's estate. The Administrative Committee will direct the Trustee as to the method and to whom the Trustee will make payment under this Section 8.02.

8.03 PERSONAL DATA TO ADMINISTRATIVE COMMITTEE. Each Participant and each Beneficiary of a deceased Participant must furnish to the Administrative Committee such evidence, data or information as the Administrative Committee considers necessary or desirable for the purpose of administering the Plan. The provisions of this Plan are effective for the benefit of each Participant upon the condition precedent that each Participant will furnish promptly full, true and complete evidence, data and information when requested by the Administrative Committee, provided the Administrative Committee advises each Participant of the effect of his failure to comply with its request.

8.04 ADDRESS FOR NOTIFICATION. Each Participant and each Beneficiary of a deceased Participant must file with the Administrative Committee from time to time, in writing, his post office address and any change of post office address. Any communication, statement or notice addressed to a Participant, or Beneficiary, at his last post office address filed with the Administrative Committee, or as shown on the records of the Employer, binds the Participant, or Beneficiary, for all purposes of this Plan.

8.05 ASSIGNMENT OR ALIENATION. Subject to Code Section 414(p) relating to qualified domestic relations orders, neither a Participant nor a Beneficiary may anticipate, assign or alienate (either at law or in equity) any benefit provided under the Plan, and the Trustee will not recognize any such anticipation, assignment or alienation. Furthermore, a benefit under the Plan is not subject to attachment, garnishment, levy, execution or other legal or equitable process.

8.06 LITIGATION AGAINST THE TRUST. A fiduciary may receive reimbursement of expenses properly and actually incurred in the performance of his duties with the Plan.

8.07 APPEAL PROCEDURE FOR DENIAL OF BENEFITS. A Participant or a Beneficiary ("Claimant") may file with the Administrative Committee a written claim for benefits, if the Participant or Beneficiary determines the distribution procedures of the Plan have not provided him his proper Nonforfeitable Accrued Benefit. The Administrative Committee must render a decision on the claim within 60 days of the Claimant's written claim for benefits. The Plan Administrator must provide adequate notice in writing to the Claimant whose claim for benefits under the Plan the Administrative Committee has denied. The Plan Administrator's notice to the Claimant must set forth:

(a) The specific reason for the denial;

(b) Specific references to pertinent Plan provisions on which the Administrative Committee based its denial;

(c) A description of any additional material and information needed for the Claimant to perfect his claim and an explanation of why the material or information is needed; and

(d) That any appeal the Claimant wishes to make of the adverse determination must be in writing to the Administrative Committee within 75 days after receipt of the Plan Administrator's notice of denial of benefits. The Plan Administrator's notice must further advise the Claimant that his failure to appeal the action to the Administrative Committee in writing within the 75-day period will render the Administrative Committee's determination final, binding and conclusive.

If the Claimant should appeal to the Administrative Committee, he, or his duly authorized representative, may submit, in writing, whatever issues and comments he, or his duly authorized representative, feels are pertinent. The Claimant, or his duly authorized representative, may review pertinent Plan documents. The Administrative Committee will re-examine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Administrative Committee must advise the Claimant of its decision within 60 days of the Claimant's written request for review, unless special circumstances (such as a hearing) would make the rendering of a decision within the 60-day limit unfeasible, but in no event may the Administrative Committee render a decision respecting a denial for a claim for benefits later than 120 days after its receipt of a request for review.

The Plan Administrator's notice of denial of benefits must identify the name of each member of the Administrative Committee and the name and address of the Administrative Committee member to whom the Claimant may forward his appeal.

8.08 PARTICIPANT DIRECTION OF INVESTMENT. A Participant has the right to direct the Trustee with respect to the investment or re-investment of the assets comprising the Participant's individual Account only if the Trustee consents to such direction. If the Trustee consents to Participant direction of investment, the Trustee will accept direction from each Participant in such form as a part of this Plan, containing such conditions, limitations and other provisions the parties deem appropriate. The Trustee or, with the Trustee's consent, the Administrative Committee, may establish procedures, incorporated specifically as part of this Plan, relating to Participant direction of investment under this Section 8.08. The Trustee will maintain a segregated investment Account to the extent a Participant's Account is subject to Participant self-direction. The Trustee is not liable for any loss, nor is the Trustee liable for any breach, resulting from a Participant's direction of the investment of any part of his directed Account.

The Administrative Committee, to the extent provided in a written loan policy adopted under Section 9.04, will treat a loan made to a Participant as a Participant direction of investment under this Section 8.10. To the extent of the loan outstanding at any time, the borrowing Participant's Account alone shares in any interest paid on the loan, and it alone bears any expense or loss it incurs in connection with the loan. The Trustee may retain any principal or interest paid on the borrowing Participant's loan in an interest bearing segregated Account on behalf of the borrowing Participant until the Trustee (or the Named Fiduciary, in the case of a nondiscretionary Trustee) deems it appropriate to add the amount paid to the Participant's separate Account under the Plan.

The Administrative Committee or duly authorized individuals appointed by the Administrative Committee shall choose the allowable investment options under the Plan.

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ARTICLE IX - ADMINISTRATIVE COMMITTEE - DUTIES WITH RESPECT TO PARTICIPANTS' ACCOUNTS

9.01 MEMBERS' COMPENSATION, EXPENSES. The Sponsor must appoint an Administrative Committee to administer the Plan, the members of which may or may not be Participants in the Plan, or which may be the Plan Administrator acting alone. In the absence of an Administrative Committee appointment, the Plan Administrator assumes the powers, duties and responsibilities of the Administrative Committee. The members of the Administrative Committee will serve without compensation for services as such, but the Employer will pay all expenses of the Administrative Committee, except to the extent the Trust properly pays for such expenses.

9.02 TERM. Each member of the Administrative Committee serves until the appointment of his successor or resignation or ceasing to be an Employee, whichever occurs first.

9.03 POWERS. In case of a vacancy in the membership of the Administrative Committee, the remaining members of the Administrative Committee may exercise any and all of the powers, authority, duties and discretion conferred upon the Administrative Committee pending the filling of the vacancy.

9.04 GENERAL. The Administrative Committee has the following powers and duties:

(a) To select a Secretary, who need not be a member of the Administrative Committee;

(b) To determine the rights of eligibility of an Employee to participate in the Plan, the value of a Participant's Accrued Benefit and the Nonforfeitable percentage of each Participant's Accrued Benefit;

(c) To adopt rules of procedure and regulations necessary for the proper and efficient administration of the Plan provided the rules are not inconsistent with the terms of this Agreement;

(d) To construe and enforce the terms of the Plan, including determining eligibility of Participant's rights as to benefits and the amount of benefits, and the rules and regulations it adopts, including interpretation of the Plan documents and documents related to the Plan's operation;

(e) To direct the Trustee as respects the crediting and distribution of the Trust;

(f) To review and render decisions respecting a claim for (or denial of a claim for) a benefit under the Plan;

(g) To furnish the Employer with information which the Employer may require for tax or other purposes;

(h) To engage the service of agents who may or may not be Employees of the Employer whom it may deem advisable to assist it with the performance of its duties;

(i) To engage the services of an Investment Manager or Managers (as defined in ERISA Section 3(38)), each of whom will have full power and authority to manage, acquire or dispose (or direct the Trustee with respect to acquisition or disposition) of any Plan asset under its control;

(j) To establish, in its sole discretion, a nondiscriminatory policy (see Section 9.04(A)) which the Trustee must observe in making loans, if any, to Participants and Beneficiaries; and

(k) To establish and maintain a funding standard account and to make credits and charges to the account to the extent required by and in accordance with the provisions of the Code.

The Administrative Committee must exercise all of its powers, duties and discretion under the Plan in a uniform and nondiscriminatory manner.

(A) LOAN POLICY. If the Administrative Committee adopts a loan policy, pursuant to paragraph (j), the loan policy must be a written document and must include: (1) the identity of the person or positions authorized to administer the participant loan program; (2) a procedure for applying for the loan; (3) the criteria for approving or denying a loan; (4) the limitations, if any, on the types and amounts of loans available; (5) the procedure for determining a reasonable rate of interest; (6) the types of collateral which may secure the loan; and (7) the events constituting default and the steps the Plan will take to preserve plan assets in the event of default. This Section 9.04 specifically incorporates a written loan policy as part of the Employer's Plan.

9.05 FUNDING POLICY. The Administrative Committee will review, not less often than annually, all pertinent Employee information and Plan data in order to establish the funding policy of the Plan and to determine the appropriate methods of carrying out the Plan's objectives. The Administrative Committee must communicate periodically, as it deems appropriate, to the Trustee and to any Plan Investment Manager the Plan's short-term and long-term financial needs so investment policy can be coordinated with Plan financial requirements.

9.06 MANNER OF ACTION. The decision of a majority of the members appointed and qualified controls.

9.07 AUTHORIZED REPRESENTATIVE. The Administrative Committee may authorize any one of its members, or its Secretary, to sign on its behalf any notices, directions, applications, certificates, consents, approvals, waivers, letters or other documents. The Administrative Committee must evidence this authority by an instrument signed by all members and filed with the Trustee.

9.08 INTERESTED MEMBER. No member of the Administrative Committee may decide or determine any matter concerning the distribution, nature or method of settlement of his own benefits under the Plan, except in exercising an election available to that member in his capacity as a Participant, unless the Plan Administrator is acting alone in the capacity of the Administrative Committee.

9.09 INDIVIDUAL ACCOUNTS. The Administrative Committee will maintain, or direct the Trustee to maintain, a separate Account or multiple Accounts, in the name of each Participant to reflect the Participant's Accrued Benefit under the Plan. If a Participant re-enters the Plan subsequent to his having a Forfeiture Break in Service, the Administrative Committee, or the Trustee, must maintain a separate Account for the Participant's pre-Forfeiture Break in Service Accrued Benefit and a separate Account for his post-Forfeiture Break in Service Accrued Benefit, unless the Participant's entire Accrued Benefit under the Plan is 100% Nonforfeitable.

The Administrative Committee will make its allocations, or request the Trustee to make its allocations, to the Accounts of the Participants in accordance with the provisions of Section 9.11. The Administrative Committee may direct the Trustee to maintain a temporary segregated investment Account in the name of a Participant to prevent a distortion of income, gain or loss allocations under Section 9.11. The Administrative Committee must maintain records of its activities.

9.10 VALUE OF PARTICIPANT'S ACCRUED BENEFIT. The value of each Participant's Accrued Benefit consists of that proportion of the net worth (at fair market value) of the Employer's Trust Fund which the net credit balance in his Account bears to the total net credit balance in the Accounts of all Participants.

For purposes of a distribution, withdrawal or loan under the Plan, the value of a Participant's Accrued Benefit is its value as of the date of the distribution.

9.11 ALLOCATION AND DISTRIBUTION OF NET INCOME GAIN OR LOSS. A "valuation date" under this Plan is each Accounting Date and each interim valuation date as established by the Administrative Committee. As of each valuation date the Administrative Committee must adjust Accounts to reflect net income, gain or loss since the last valuation date. The valuation period is the period beginning the day after the last valuation date and ending on the current valuation date.

(A) TRUST FUND ACCOUNTS. The allocation provisions of this paragraph apply to all Participant Accounts. The Administrative Committee first will adjust the Participant Accounts, as those Accounts stood at the beginning of the current valuation period, by reducing the Accounts for any forfeitures arising under Section 5.06 or under Section 9.14 and for amounts charged during the valuation period to the Accounts in accordance with Section 9.13 (relating to distributions). The Administrative Committee then, subject to the restoration allocation requirements of Section 5.04 or of Section 9.14, will allocate the net income, gain or loss pro rata to the adjusted Participant Accounts. The allocable net income, gain or loss is the net income (or net loss), including the increase or decrease in the fair market value of assets, since the last valuation date.

(B) ADDITIONAL RULES. An Excess Amount or suspense account described in Part 2 of Article III does not share in the allocation of net income, gain or loss described in this Section 9.11. This Section 9.11 applies solely to the allocation of net income, gain or loss of the Trust. The Administrative Committee will allocate the Employer contributions and Participant forfeitures, if any, in accordance with Article III.

9.12 INDIVIDUAL STATEMENT. As soon as practicable after the Accounting Date of each Plan Year, but within the time prescribed by ERISA and the regulations under ERISA, the Plan Administrator will deliver to each Participant (and to each Beneficiary) a statement reflecting the condition of his Accrued Benefit in the Trust as of that date and such other information ERISA requires be furnished the Participant or Beneficiary. No Participant, except a member of the Administrative Committee, has the right to inspect the records reflecting the Account of any other Participant.

9.13 ACCOUNT CHARGED. The Administrative Committee will charge a Participant's Account for all distributions made from that Account to the Participant, to his Beneficiary or to an alternate payee. The Administrative Committee also will charge a Participant's Account for any administrative expenses incurred by the Plan directly related to that Account.

9.14 UNCLAIMED ACCOUNT PROCEDURE. The Plan does not require either the Trustee or the Administrative Committee to search for, or to ascertain the whereabouts of, any Participant or Beneficiary.

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ARTICLE X - INVESTMENT PROVISIONS

10.01 INVESTMENT FUNDS. For the investment of amounts contributed to the Plan, the Trustee shall maintain those investment funds as selected by the Administrative Committee and as set forth from time to time on Appendix C hereto, which is made a part of the Plan for all purposes. The Administrative Committee may direct the Trustee to invest one or more of such funds with a specified insurance company, mutual fund or appoint an Investment Manager to manage the same and may also direct the Trustee to maintain new, delete or "freeze" existing investments funds from time to time.

10.02 INVESTMENT OPTIONS. Each Participant's contributions and the Employer's contributions made on behalf of such Participant shall be invested by the Trustee in one or more of the investment funds provided as specified by the Participant (or Beneficiary). Separate elections may not be applicable with respect to all his Accounts. If no investment election is made by a Participant, he shall be deemed to have elected the default option set forth on Appendix C.

10.03 CHANGE IN INVESTMENT OPTION. An investment election made by a Participant shall be deemed to be a continuing one until changed in accordance with this Section 10.03. A Participant may change his investment election with respect to the current balance of all his Accounts and/or his and the Employer's matching contributions in accordance with the Plan's administrative procedures. Separate elections may be made for current account balances and for future contributions.

10.04 VOTING OF COMPANY STOCK. The Trustee shall vote the shares of Company Stock held by the Plan in the manner directed by the Administrative Committee, which shall deliver instructions to the Trustee directing it how to vote such shares at least ten days prior to the date such vote shall be required. In the event the Administrative Committee fails to deliver such instructions, such failure shall constitute an instruction to the Trustee to not vote such shares.

10.05 TENDER AND EXCHANGE OFFERS. The provisions of this Section shall apply in the event that a tender offer, which is subject to Section 14(d)(1) of the Securities Exchange Act of 1934, as amended, is made of shares of Company Stock or an offer to exchange securities of another company for shares of Company Stock, which is subject to the Securities Act of 1933, as amended, is made. Upon such a tender or exchange offer occurring, the Sponsor and Administrative Committee shall be Responsible for their best efforts to notify each affected Participant and to cause to be distributed to each Participant such information as will be distributed to the shareholders of the Sponsor generally in connection with any such tender or exchange offer and a form by which the Participant may direct in writing the Trustee as to what action, as set forth below, to take on behalf of that Participant with respect to the shares of Company Stock allocated to his Accounts under the Plan. If the Trustee does not receive such written directions from a Participant such failure to provide written directions shall constitute an instruction to the Trustee to not tender or offer to exchange any shares of the Company Stock held in the Participant's Accounts.

- (a) Cash Tender Offer. In connection with a cash tender offer, a Participant may direct the Trustee to tender any or all shares of Company Stock held in the Participant's Accounts. Any cash received by the Trustee as a result of such tender shall be reinvested by the Trustee as directed by the Participant and pending any such direction, the Trustee shall invest the cash in the investment fund which is a money market fund or, if there is no such fund, in short-term interest bearing investments as directed by the Administrative Committee.
- (b) Exchange Offer. In connection with an exchange offer, a Participant may direct the Trustee to offer for exchange any or all shares of Company Stock held in the Participant's Accounts. Any property received by the Trustee in connection with such exchange shall be held by the trustee in a separate investment fund for the affected Participants; however, if such property does not constitute "employer securities" within the meaning of Code Section 409(1), the Trustee shall sell such property and reinvest the proceeds in the investment fund which is a money market fund or, if there is on such fund, in such short-term investments as directed by the Administrative Committee.

- (c) Tender and Exchange Offer. In connection with a combination tender and exchange offer, a Participant may direct the Trustee to tender and offer for exchange any or all shares of Company Stock held in the Participant's Accounts with any cash received by the Trustee as a result of such tender treated as provided in (a) above and any property received by the Trustee in connection with the exchange treated as provided in (b) above.

A tender or exchange offer direction given by a Participant may be revoked by the Participant by completion of the form prescribed therefor by the Administrative Committee provided such form is filed with the Trustee at least (two) business days prior to the withdrawal-date-deadlines provided for in the regulations with respect to tender or exchange offers prescribed by the Securities and Exchange Commission.

The Trustee shall use its best efforts to effect on a uniform and nondiscriminatory basis the sale or exchange of the shares of Company Stock as directed by the Participants. However, neither the Administrative Committee nor the Trustee insures that all or any part of the shares of Company Stock directed by a Participant to be tendered or exchanged will be accepted under the tender or exchange offer. Any such shares of Company Stock not so accepted shall remain in the Participant's accounts and the Participant shall continue to have the same rights with respect to such shares as he had immediately prior to the Trustee's tendering of the shares.

If a tender or exchange offer is made, the Administrative Committee shall not adopt such rules, prescribe the use of such special administrative forms and procedures, delegate such authority, take such action and execute such instruments or documents and do every other act or thing as shall be necessary or in its judgement proper for the implementation of this Section.

Notwithstanding anything in the Plan to the contrary, in administering the tendering or exchange of shares pursuant to the applicable provisions of the Plan, it is intended that the confidentiality of the tenders or exchanges, as the case may be, made by Participants pursuant to the provisions of the Plan shall be maintained by the Administrative Committee and the Trustee.

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ARTICLE XI - PROVISIONS RELATING TO INSURANCE AND INSURANCE
COMPANY

11.01 INSURANCE BENEFIT. The Plan does not provide Incidental Life
Insurance Benefits for Participants.

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ARTICLE XII - MISCELLANEOUS

12.01 EVIDENCE. Anyone required to give evidence under the terms of the Plan may do so by certificate, affidavit, document or other information which the person to act in reliance may consider pertinent, reliable and genuine, and to have been signed, made or presented by the proper party or parties. The Administrative Committee and the Trustee are fully protected in acting and relying upon any evidence described under the immediately preceding sentence.

12.02 NO RESPONSIBILITY FOR EMPLOYER ACTION. Neither the Trustee nor the Administrative Committee has any obligation or responsibility with respect to any action required by the Plan to be taken by the Employer, any Participant or eligible Employee, or for the failure of any of the above persons to act or make any payment or contribution, or to otherwise provide any benefit contemplated under this Plan. Furthermore, the Plan does not require the Trustee or the Administrative Committee to collect any contribution required under the Plan, or to determine the correctness of the amount of any Employer contribution. Neither the Trustee nor the Administrative Committee need inquire into or be responsible for any action or failure to act on the part of the others, or on the part of any other person who has any responsibility regarding the management, administration or operation of the Plan, whether by the express terms of the Plan or by a separate agreement authorized by the Plan or by the applicable provisions of ERISA. Any action required of a corporate Employer must be by its Board of Directors or its designate.

12.03 FIDUCIARIES NOT INSURERS. The Trustee, the Administrative Committee, the Plan Administrator and the Employer in no way guarantee the Trust Fund from loss or depreciation. The Employer does not guarantee the payment of any money which may be or becomes due to any person from the Trust Fund. The liability of the Administrative Committee and the Trustee to make any payment from the Trust Fund at any time and all times is limited to the then available assets of the Trust.

12.04 WAIVER OF NOTICE. Any person entitled to notice under the Plan may waive the notice, unless the Code or Treasury regulations prescribe the notice or ERISA specifically or impliedly prohibits such a waiver.

12.05 SUCCESSORS. The Plan is binding upon all persons entitled to benefits under the Plan, their respective heirs and legal representatives, upon the Employer, its successors and assigns, and upon the Trustee, the Administrative Committee, the Plan Administrator and their successors.

12.06 WORD USAGE. Words used in the masculine also apply to the feminine where applicable, and wherever the context of the Employer's Plan dictates, the plural includes the singular and the singular includes the plural.

12.07 STATE LAW. Texas law will determine all questions arising with respect to the provisions of this Agreement except to the extent superseded by Federal law.

12.08 EMPLOYMENT NOT GUARANTEED. Nothing contained in this Plan, or with respect to the establishment of the Trust, or any modification or amendment to the Plan or Trust, or in the creation of any Account, or the payment of any benefit, gives any Employee, Employee-Participant or any Beneficiary any right to continue employment, any legal or equitable right against the Employer, or Employee of the Employer, or against the Trustee, or its agents or employees, or against the Plan Administrator, except as expressly provided by the Plan, the Trust, ERISA or by a separate agreement.

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ARTICLE XIII - EXCLUSIVE BENEFIT, AMENDMENT, TERMINATION

13.01 EXCLUSIVE BENEFIT. Except as provided under Article III, the Employer has no beneficial interest in any asset of the Trust and no part of any asset in the Trust may ever revert to or be repaid to an Employer, either directly or indirectly; nor, prior to the satisfaction of all liabilities with respect to the Participants and their Beneficiaries under the Plan, may any part of the corpus or income of the Trust Fund, or any asset of the Trust, be (at any time) used for, or diverted to, purposes other than the exclusive benefit of the Participants or their Beneficiaries. However, if the Commissioner of Internal Revenue, upon the Employer's request for initial approval of this Plan, determines that the Trust created under the Plan is not a qualified trust exempt from Federal income tax, then (and only then) the Trustee, upon written notice from the Employer, will return the Employer's contributions (and increment attributable to the contributions) to the Employer. The Trustee must make the return of the Employer contribution under this Section 13.01 within one year of a final disposition of the Employer's request for initial approval of the Plan. The Employer's Plan and Trust will terminate upon the Trustee's return of the Employer's contributions.

13.02 AMENDMENT BY EMPLOYER. The Sponsor, by action of its Board of Directors or Chief Executive Officer, has the right at any time and from time to time:

- (a) To amend this Agreement in any manner it deems necessary or advisable in order to qualify (or maintain qualification of) this Plan and the Trust created under it under the provisions of Code Section 401(a).
- (b) To amend the Plan to allow the Plan to operate under a waiver of the minimum funding requirement; and
- (c) To amend this Agreement in any other manner.

Further, the Administrative Committee may also amend this Plan subject to the foregoing and provided such amendment does not materially increase the obligation of the Employer under this Plan.

No amendment may authorize or permit any of the Trust Fund (other than the part which is required to pay taxes and administration expenses) to be used for or diverted to purposes other than for the exclusive benefit of the Participants or their Beneficiaries or estates. No amendment may cause or permit any portion of the Trust Fund to revert to or become a property of the Employer. The Employer must make all amendments in writing. Each amendment must state the date to which it is either retroactively or prospectively effective.

(A) CODE SECTION 411(d)(6) PROTECTED BENEFITS. An amendment (including the adoption of this Plan as a restatement of an existing plan) may not decrease a Participant's Accrued Benefit, except to the extent permitted under Code Section 412(c)(8), and may not reduce or eliminate Code Section 411(d)(6) protected benefits determined immediately prior to the adoption date (or, if later, the effective date) of the amendment. An amendment reduces or eliminates Code Section 411(d)(6) protected benefits if the amendment has the effect of either (1) eliminating or reducing an early retirement benefit or a retirement-type subsidy (as defined in Treasury regulations), or (2) except as provided by Treasury

regulations, eliminating an optional form of benefit. The Administrative Committee must disregard an amendment to the extent application of the amendment would fail to satisfy this paragraph. If the Administrative Committee must disregard an amendment because the amendment would violate clause (1) or clause (2), the Administrative Committee must maintain a schedule of the early retirement option or other optional forms of benefit the Plan must continue for the affected Participants.

13.03 DISCONTINUANCE. The Sponsor has the right, at any time, to suspend or discontinue its contributions under the Plan, and to terminate, at any time, this Plan and the Trust created under this Agreement. The Plan will terminate upon the first to occur of the following:

(a) The date terminated by action of the Sponsor;

(b) The dissolution or merger of the Sponsor, unless the successor makes provision to continue the Plan, in which event the successor must substitute itself as the Sponsor under this Plan. Any termination of the Plan resulting from this paragraph (b) is not effective until compliance with any applicable notice requirements under ERISA.

13.04 FULL VESTING ON TERMINATION. Upon either full or partial termination of the Plan, or, if applicable, upon complete discontinuance of profit sharing plan contributions to the Plan, an affected Participant's right to his Accrued Benefit is 100% Nonforfeitable, irrespective of the Nonforfeitable percentage which otherwise would apply under Article V.

13.05 MERGER/DIRECT TRANSFER. The Trustee may not consent to, or be a party to, any merger or consolidation with another plan, or to a transfer of assets or liabilities to another plan, unless immediately after the merger, consolidation or transfer, the surviving Plan provides each Participant a benefit equal to or greater than the benefit each Participant would have received had the Plan terminated immediately before the merger or consolidation or transfer. The Trustee possesses the specific authority to enter into merger agreements or direct transfer of assets agreements with the trustees of other retirement plans described in Code Section 401(a), including an elective transfer, and to accept the direct transfer of plan assets, or to transfer plan assets, as a party to any such agreement.

With the approval of the Administrative Committee, the Trustee may accept a direct transfer of plan assets or loan on behalf of an Employee prior to the date the Employee satisfies the Plan's eligibility conditions. If the Trustee accepts such a direct transfer of plan assets, the Administrative Committee and Trustee must treat the Employee as a Participant for all purposes of the Plan except the Employee is not a Participant for purposes of matching contributions or sharing in Employer contributions under the Plan until he actually becomes a Participant in the Plan.

In the event of a merger to this Plan of the assets of a prior plan maintained by an entity whose stock or assets were acquired by the Sponsor or Related Employer of the Sponsor, then any benefits required to be protected pursuant to Code Section 411(d)(6) shall be set forth in Appendix B to this Plan and shall be applicable only to Employees of the Related Employer who had benefits merged into this Plan.

(A) ELECTIVE TRANSFERS. The Trustee, after August 9, 1988, may not consent to, or be a party to a merger, consolidation or transfer of assets with a defined benefit plan, except with respect to an elective transfer, or unless the transferred benefits are in the form of paid-up individual annuity contracts guaranteeing the payment of the transferred benefits in accordance with the terms of the transferor plan and in a manner consistent with the Code and with ERISA. The Trustee will hold, administer and distribute the transferred assets as a part of the Trust Fund and the Trustee must maintain a separate Employer contribution Account for the benefit of the Employee on whose behalf the Trustee accepted the transfer in order to reflect the value of the transferred assets. Unless a transfer of assets to this Plan is an elective transfer, the Plan will preserve all Code Section 411(d)(6) protected benefits with respect to those transferred assets, in the manner described in Section 13.02. A transfer is an elective transfer if: (1) the transfer satisfies the first paragraph of this Section 13.05; (2) the transfer is voluntary, under a fully informed election by the Participant; (3) the Participant has an alternative that retains his Code Section 411(d)(6) protected benefits (including an option to leave his benefit in the transferor plan, if that plan is not terminating); (4) the transfer satisfies the applicable spousal consent requirements of the Code; (5) the transferor plan satisfies the joint and survivor notice requirements of the Code, if the Participant's transferred benefit is subject to those requirements; (6) the Participant has a right to immediate distribution from the transferor plan, in lieu of the elective transfer; (7) the transferred benefit is at least the greater of the single sum distribution provided by the transferor plan for which the Participant is eligible or the present value of the Participant's accrued benefit under the transferor plan payable at the plan's normal retirement age; (8) the Participant has a 100% Nonforfeitable interest in the transferred benefit; and (9) the transfer otherwise satisfies applicable Treasury regulations. An elective transfer may occur between qualified plans of any type.

(B) DISTRIBUTION RESTRICTIONS UNDER CODE SECTION 401(k). If the Plan receives a direct transfer (by merger or otherwise) of elective contributions (or amounts treated as elective contributions) under a Plan with a Code Section 401(k) arrangement, the distribution restrictions of Code Section Section 401(k)(2) and (10) continue to apply to those transferred elective contributions.

13.06 TERMINATION. Upon termination of the Plan, the distribution provisions of Article VI remain operative, with the following exceptions:

(1) if the present value of the Participant's Nonforfeitable Accrued Benefit does not exceed \$5,000, the Administrative Committee will direct the Trustee to distribute the Participant's Nonforfeitable Accrued Benefit to him in lump sum as soon as administratively practicable after the Plan terminates; and

(2) if the present value of the Participant's Nonforfeitable Accrued Benefit exceeds \$5,000, the Participant or the Beneficiary, in addition to the distribution events permitted under Article VI, may elect to have the Trustee commence distribution of this Nonforfeitable Accrued Benefit as soon as administratively practicable after the Plan terminates.

To liquidate the Trust, the Administrative Committee will purchase a deferred annuity contract for each Participant which protects the Participant's distribution rights under the Plan, if the Participant's Nonforfeitable Accrued Benefit exceeds \$5,000 and the Participant does not elect an

immediate distribution pursuant to Paragraph (2).

The Trust will continue until the Trustee in accordance with the direction of the Administrative Committee has distributed all of the benefits under the Plan. On each valuation date, the Administrative Committee will credit any part of a Participant's Accrued Benefit retained in the Trust with its proportionate share of the Trust's income, expenses, gains and losses, both realized and unrealized. Upon termination of the Plan, the amount, if any, in a suspense account under Article III will revert to the Employer, subject to the conditions of the Treasury regulations permitting such a reversion. A resolution or amendment to freeze all future benefit accrual but otherwise to continue maintenance of this Plan, is not a termination for purposes of this Section 13.06.

DISTRIBUTION RESTRICTIONS UNDER CODE 401(k). The portion of the Participant's Nonforfeitable Accrued Benefit attributable to elective contributions under a Code Section 401(k) arrangement (or to amounts treated under the Code 401(k) arrangement as elective contributions) is not distributable on account of Plan termination, as described in Section 13.06, unless: (a) the Participant otherwise entitled under the Plan to a distribution of that portion of his Nonforfeitable Accrued Benefit; or (b) the Plan termination occurs without the establishment of a successor plan. A successor plan under clause (b) is a defined contribution plan (other than an ESOP maintained by the Employer (or by a related employer) at the time of the termination of the Plan or within the period ending twelve months after the final disposition of assets. A distribution made after March 31, 1988, pursuant to clause (b), must be of a lump sum distribution to the Participant of his Nonforfeitable Accrued Benefit.

ARTICLE XIV - PROVISIONS RELATING TO CODE SECTION 401(k) AND TO CODE SECTION 401(m)

14.01 401(k) ARRANGEMENT. The Employer makes the deferral contributions described in Section 3.01 pursuant to a 401(k) arrangement. An Employee who is eligible to participate in the Plan may file a salary reduction agreement with the Administrative Committee. The salary reduction agreement may not be effective earlier than the following date which occurs last: (i) the Employee's Plan Entry Date (or, in the case of a reemployed Employee, his reparticipation date under Article II); (ii) the execution date of the Employee's salary reduction agreement; (iii) the date the Employer adopts the Code Section 401(k) arrangement by executing the Plan; or (iv) the effective date of the Code Section 401(k) arrangement. The salary reduction agreement will apply only to Compensation which becomes currently available to the Employee after the effective date of the salary reduction agreement. The Employer will apply a reduction election to all Compensation (and to increases in such Compensation) unless the Employee specifies in his salary reduction agreement to limit the election to certain Compensation.

An Employee's salary reduction contributions for the Plan Year, subject to the elective deferral limitation of Section 14.03, may not be less than 1% nor exceed 15% (in whole percentage) of his Compensation for the applicable period. An Employee may modify his salary reduction agreement, either to reduce or to increase the amount of deferral contributions, as of any Entry Date. The Employee will make this modification by filing a new salary reduction agreement with the Administrative Committee within 30 days of such Entry Date or other time period the Administrative Committee deems appropriate. An Employee may revoke a salary reduction agreement as of any Entry Date. An Employee who revokes his salary reduction agreement may file a new salary reduction agreement effective as of any Entry Date. An employee who does not elect to make a salary reduction agreement upon his initial Entry Date may make a salary reduction election on any subsequent Entry Date. Any Employee's salary reductions agreement shall remain in effect from year to year until modified or revoked by the Participant.

14.02 DEFINITIONS. For purposes of this Article XIV:

(a) "Highly Compensated Employee" means an Eligible Employee who satisfies the definition in Section 1.07 of the Plan.

(b) "Nonhighly Compensated Employee" means an Eligible Employee who is not a Highly Compensated Employee and who is not a family member treated as a Highly Compensated Employee.

(c) "Eligible Employee" means, for purposes of the ADP test described in Section 14.04, an Employee who is eligible to participate in the Code Section 401(k) arrangement, irrespective of whether the Employer actually makes deferral contributions on behalf of the Employee. For purposes of the ACP test described in Section 14.05, an "Eligible Employee" means a Participant who is eligible to receive an allocation of matching contributions (or would be eligible if he made the type of contributions necessary to receive an allocation of matching contributions) and a Participant who is eligible to make employee contributions, irrespective of whether he actually makes employee contributions. An Employee continues to be an Eligible Employee during a period the Plan suspends the Employee's right to make elective deferrals or nondeductible contributions following a hardship distribution.

(d) "Highly Compensated Group" means the group of Eligible Employees who are Highly Compensated Employees for the Plan Year.

(e) "Nonhighly Compensated Group" means the group of Eligible Employees who are Nonhighly Compensated Employees for the Plan Year.

(f) "Compensation" means, except as specifically provided under this Article XIV, Compensation as defined for nondiscrimination purposes in Section 1.10 of the Plan. To compute an Employee's ADP or ACP, the Administrative Committee may limit Compensation taken into account to Compensation received only for the portion of the Plan Year in which the Employee was an Eligible Employee and only for the portion of the Plan Year in which the Plan or the Code Section 401(k) arrangement was in effect.

(g) "Deferral contributions" means the sum of the deferral contributions the Employer contributes to the Trust on behalf of an Eligible Employee, pursuant to Section 3.01.

(h) "Elective deferrals" are the deferral contributions the Employer contributes to the Trust at the election of an Eligible Employee. If the Code Section 401(k) arrangement includes a cash or deferred feature, any portion of a cash or deferred contribution contributed to the Trust because of the Employee's failure to make a cash election is an elective deferral, but any portion of a cash or deferred contribution over which the Employee does not have a cash election is not an elective deferral. Elective deferrals do not include amounts which have become currently available to the Employee prior to the election nor amounts designated as employee contributions at the time of deferral or contribution.

(i) "Matching contributions" are contributions made by the Employer on account of elective deferrals under a Code Section 401(k) arrangement or on account of employee contributions. Matching contributions also include Participant forfeitures allocated on account of such elective deferrals or employee contributions.

(j) "Nonelective contributions" are contributions made by the Employer which are not subject to a deferral election by an Employee and which are not matching contributions.

(k) "Qualified matching contributions" are matching contributions which are 100% Nonforfeitable at all times and which are subject to the distribution restrictions described in paragraph (m). Matching contributions are not 100% Nonforfeitable at all times if the Employee has a 100% Nonforfeitable interest because of his Years of Service taken into account under a vesting schedule.

(l) "Qualified nonelective contributions" are nonelective contributions which are 100% Nonforfeitable at all times and which are subject to the distribution restrictions described in paragraph (m). Nonelective contributions are not 100% Nonforfeitable at all times if the Employee has a 100% Nonforfeitable interest because of his Years of Service taken into account under a vesting schedule. Any nonelective contributions allocated to a Participant's Qualified Nonelective Contributions Account under the Plan automatically satisfy the definition of qualified nonelective contributions.

(m) "Distribution restrictions" means the Employee may not receive a distribution of the specified contributions (nor earnings on those contributions) except in the event of (1) the Participant's death, disability, termination of employment, attainment of age 59, (2) financial hardship satisfying the requirements of Code Section 401(k) and the applicable Treasury regulations, (3) plan termination, without establishment of a successor defined contribution plan (other than an ESOP), (4) a sale of substantially all of the assets (within the meaning of Code Section 409(d)(2)) used in a trade or business, but only to an employee who continues employment with the corporation acquiring those assets, or (5) a sale by a corporation of its interest in a subsidiary (within the meaning of Code Section 409(d)(3)), but only to an employee who continues employment with the subsidiary. For Plan Years beginning after December 31, 1988, a distribution on account of financial hardship, as described in clause (2), may not include earnings on elective deferrals credited as of a date later than December 31, 1988, and may not include qualified matching contributions and qualified nonelective contributions, nor any earnings on such contributions, credited after December 31, 1988. A plan does not violate the distribution restrictions if, instead of the December 31, 1988, date in the preceding sentence, the plan specifies a date not later than the end of the last Plan Year ending before July 1, 1989. A distribution described in clauses (3), (4) or (5), if made after March 31, 1988, must be a lump sum distribution, as required under Code Section 401(k)(10).

(n) "Employee contributions" are contributions made by a Participant on an after-tax basis, whether voluntary or mandatory, and designated, at the time of contribution, as an employee (or nondeductible) contribution. Elective deferrals and deferral contributions are not employee contributions.

14.03 ANNUAL ELECTIVE DEFERRAL LIMITATION.

(A) ANNUAL ELECTIVE DEFERRAL LIMITATION. An Employee's elective deferrals for a calendar year may not exceed the IRC 402(g) limitation. If the Employer determines the Employee's elective deferrals to the Plan for a calendar year would exceed the 402(g) limitation, the Employer will not make any additional elective deferrals with respect to that Employee for the remainder of that calendar year, paying in cash to the Employee any amounts which would result in the Employee's elective deferrals for the calendar year exceeding the 402(g) limitation. If the Administrative Committee determines an Employee's elective deferrals already contributed to the Plan for a calendar year exceed the 402(g) limitation, the Administrative Committee will distribute the amount in excess of the 402(g) limitation (the "excess deferral"), as adjusted for allocable income, no later than April 15 of the following calendar year. If the Administrative Committee distributes the excess deferral by the appropriate April 15, it may make the distribution irrespective of any other provision under this Plan or under the Code. The Administrative Committee will reduce the amount of excess deferrals for a calendar year distributable to the Employee by the amount of excess contributions (as determined in Section 14.04), if any, previously distributed to the Employee for the Plan Year beginning in that calendar year.

If an Employee participates in another plan under which he makes elective deferrals pursuant to a Code Section 401(k) arrangement, elective deferrals under a Simplified Employee Pension, or salary reduction contributions to a tax-sheltered annuity, irrespective of whether the Employer maintains the other plan, he may provide the Administrative Committee a written claim for excess deferrals made for a calendar year. The Employee must submit the claim no later than the March 1 following the close of the particular calendar year and the claim must specify the amount of the Employee's elective deferrals under this Plan which are excess deferrals. If the Administrative Committee receives a timely claim, it will distribute the excess deferral (as adjusted for allocable income) the Employee has assigned to this Plan, in accordance with the distribution procedure described in the immediately preceding paragraph.

(B) ALLOCABLE INCOME. For purposes of making a distribution of excess deferrals, allocable income means net income or net loss allocable to the excess deferrals for the calendar year in which the Employee made the excess deferral, determined in a manner which is uniform, nondiscriminatory and reasonably reflective of the manner used by the Plan to allocate income to Participant's accounts.

14.04 ACTUAL DEFERRAL PERCENTAGE ("ADP") TEST. For each Plan Year, the Administrative Committee must determine whether the Plan's Code Section 401(k) arrangement satisfies either of the following ADP tests:

(i) The average ADP for the Highly Compensated Group does not exceed 1.25 times the average ADP of the Nonhighly Compensated Group; or

(ii) The average ADP for the Highly Compensated Group does not exceed the average ADP for the Nonhighly Compensated Group by more than two percentage points (or the lesser percentage permitted by the multiple use limitation in Section 14.06) and the average ADP for the Highly Compensated Group is not more than twice the average ADP for the Nonhighly Compensated Group.

(A) CALCULATION OF ADP. The average ADP for a group is the average of the separate ADPs calculated for each Eligible Employee who is a member of that group. An Eligible Employee's ADP for a Plan Year is the ratio of the Eligible Employee's deferral contributions for the Plan Year to the Employee's Compensation for the Plan Year. A Nonhighly Compensated Employee's ADP does not include elective deferrals made to this Plan or to any other Plan maintained by the Employer, to the extent such elective deferrals exceed the 402(g) limitation described in Section 14.03. In determining whether the Plan's Code Section 401(k) arrangement satisfies either ADP test, the Administrative Committee will use the average ADP of the Nonhighly Compensated Group for the Plan Year preceding the Plan Year of the calculation, unless the Employer elects to use the current Plan Year's average ADP of the Nonhighly Compensated Group. An Employer may not change an election to use current average ADP except as the Treasury otherwise may provide.

(B) SPECIAL AGGREGATION RULE FOR HIGHLY COMPENSATED EMPLOYEES. To determine the ADP of any Highly Compensated Employee, the deferral contributions taken into account must include any elective deferrals made by the Highly Compensated Employee under any other Code Section 401(k) arrangement maintained by the Employer, unless the elective deferrals are to an ESOP. If the plans containing the Code Section 401(k) arrangements have different plan years, the Administrative Committee will determine the combined deferral contributions on the basis of the plan years ending in the same calendar year.

(C) AGGREGATION OF CERTAIN CODE SECTION 401(k) ARRANGEMENTS. If the Employer treats two plans as a unit for coverage or nondiscrimination purposes, the Employer must combine the Code Section 401(k) arrangements under such plans to determine whether either plan satisfies the ADP test. This aggregation rule applies to the ADP determination for all Eligible Employees, irrespective of whether an Eligible Employee is a Highly Compensated Employee or a Nonhighly Compensated Employee. For Plan Years beginning after December 31, 1989, an aggregation of Code Section 401(k) arrangements under this paragraph does not apply to plans which have different plan years and, for Plan Years beginning after December 31, 1988, the Administrative Committee may not aggregate an ESOP (or the ESOP portion of a plan) with a non-ESOP plan (or non-ESOP portion of a plan).

(D) CHARACTERIZATION OF EXCESS CONTRIBUTIONS. If, pursuant to this Section 14.04, the Administrative Committee has elected to include qualified matching contributions in the average ADP, the Administrative Committee will treat excess contributions as attributable proportionately to deferral contributions and to qualified matching contributions allocated on the basis of those deferral contributions. If the total amount of a Highly Compensated Employee's excess contributions for the Plan Year exceeds his deferral contributions or qualified matching contributions for the Plan Year, the Administrative Committee will treat the remaining portion of his excess contributions as attributable to qualified nonelective contributions. The Administrative Committee will reduce the amount of excess contributions for a Plan Year distributable to a Highly Compensated Employee by the amount of excess deferrals (as determined in Section 14.03), if any, previously distributed to that Employee for the Employee's taxable year ending in that Plan Year.

(E) DISTRIBUTION OF EXCESS CONTRIBUTIONS. If the Administrative Committee determines the Plan fails to satisfy the ADP test for a Plan Year, the Trustee, as directed by the Administrative Committee, must distribute the excess contributions, as adjusted for allocable income, during the next Plan Year. However, the Employer will incur an excise tax equal to 10% of the amount of excess contributions for a Plan Year not distributed to the appropriate Highly Compensated Employees during the first 2 1/2 months of that next Plan Year. The excess contributions are the amount of deferral contributions made by the Highly Compensated Employees which causes the Plan to fail to satisfy the ADP test. The Administrative Committee will determine the amount of the excess contributions by starting with the Highly Compensated Employee(s) who has the greatest ADP, reducing his ADP (but not below the next highest ADP), then, if necessary, reducing the ADP of the Highly Compensated Employee(s) at the next highest ADP, including the ADP of the Highly Compensated Employee(s) whose ADP the Administrative Committee already has reduced (but not below the next highest ADP), and continuing in this manner until the average ADP for the Highly Compensated Group satisfies the ADP test.

After the Administrative Committee has determined the excess contribution amount, the trustee, as directed by the Administrative Committee, then will distribute to each Highly Compensated Employee his respective share(s) of the excess contributions. The Administrative Committee will determine the respective share(s) of excess contributions by starting with the Highly Compensated Employee(s) who has the highest elective contributions, reducing his elective contributions (but not below the next highest level of elective contributions), then, if necessary, reducing the elective contributions of the Highly Compensated Employee(s) at the next highest level of elective contributions including the elective contributions of the Highly Compensated Employee(s) whose elective contributions the Administrative Committee already has reduced (but not below the next highest level of elective contributions), and continuing in this manner until the Trustee has distributed all excess contributions.

(F) ALLOCABLE INCOME. To determine the amount of the corrective distribution required under this Section 14.04, the Administrative Committee must calculate the allocable income for the Plan Year in which the excess contributions arose. "Allocable income" means net income or net loss. To calculate allocable income for the Plan Year, the Administrative Committee will use a uniform and nondiscriminatory method which reasonably reflects the manner used by the Plan to allocate income to Participants' Accounts.

(G) CORRECTION OF ANNUAL ADDITIONS LIMITATION. If, as a result of a reasonable error in determining the amount of elective deferrals an Employee may make without violating the limitations of Part 2 of Article III, an Excess Amount results, the Administrative Committee will return the Excess Amount (as adjusted for allocable income) attributable to the elective deferrals. The Administrative Committee will make this distribution before taking any corrective steps pursuant to Section 3.07. The Administrative Committee will disregard any elective deferrals returned under this Section 14.04(G) for purposes of Sections 14.03, 14.04 and 14.05.

14.05 NONDISCRIMINATION RULES FOR EMPLOYER MATCHING CONTRIBUTIONS/PARTICIPANT NONDEDUCTIBLE CONTRIBUTIONS. For Plan Years beginning after December 31, 1986, the Administrative Committee must determine whether the annual Employer matching contributions (other than qualified matching contributions used in the ADP test), if any, and the Employee contributions, if any, satisfy either of the following average contribution percentage ("ACP") tests:

(i) The ACP for the Highly Compensated Group does not exceed 1.25 times the ACP of the Nonhighly Compensated Group; or

(ii) The ACP for the Highly Compensated Group does not exceed the ACP for the Nonhighly Compensated Group by more than two percentage points (or the lesser percentage permitted by the multiple use limitation in Section 14.06) and the ACP for the Highly Compensated Group is not more than twice the ACP for the Nonhighly Compensated Group.

(A) CALCULATION OF ACP. The average contribution percentage for a group is the average of the separate contribution percentages calculated for each Eligible Employee who is a member of that group. An Eligible Employee's contribution percentage for a Plan Year is the ratio of the Eligible Employee's aggregate contributions for the Plan Year to the Employee's Compensation for the Plan Year. "Aggregate contributions" are matching contributions (other than qualified matching contributions used in the ADP test) and employee contributions. For aggregated family members treated as a single Highly Compensated Employee, the contribution percentage of the family unit is the contribution percentage determined by combining the aggregate contributions and Compensation of all aggregated family members.

The Administrative Committee, in a manner consistent with Treasury regulations, may determine the contribution percentages of the Eligible Employees by taking into account qualified nonelective contributions (other than qualified nonelective contributions used in the ADP test) or elective deferrals, or both, made to this Plan or to any other qualified Plan maintained by the Employer. The Administrative Committee may not include qualified nonelective contributions in the ACP test unless the allocation of nonelective contributions is nondiscriminatory when the Administrative Committee takes into account all nonelective contributions (including the qualified nonelective contributions) and also when the Administrative Committee takes into account only the nonelective contributions not used in either the ADP test or the ACP test. The Administrative Committee may not include elective deferrals in the ACP test, unless the Plan which includes the elective deferrals satisfies the ADP test both with and without the elective deferrals included in this ACP test. For Plan Years beginning after December 31, 1989, the Administrative Committee may not include in the ACP test any qualified nonelective contributions or elective deferrals under another qualified plan unless that plan has the same plan year as this Plan. The Administrative Committee must maintain records to demonstrate compliance with the ACP test, including the extent to which the Plan used qualified nonelective contributions or elective deferrals to satisfy the test.

(B) SPECIAL AGGREGATION RULE FOR HIGHLY COMPENSATED EMPLOYEES. To determine the contribution percentage of any Highly Compensated Employee, the aggregate contributions taken into account must include any matching contributions (other than qualified matching contributions used in the ADP test) and any employee contributions made on his behalf to any other plan maintained by the Employer, unless the other plan is an ESOP. If the plans have different plan years, the Administrative Committee will determine the combined aggregate contributions on the basis of the plan years ending in the same calendar year.

(C) AGGREGATION OF CERTAIN PLANS. If the Employer treats two plans as a unit for coverage or nondiscrimination purposes, the Employer must combine the plans to determine whether either plan satisfies the ACP test. This aggregation rule applies to the contribution percentage determination for all Eligible Employees, irrespective of whether an Eligible Employee is a Highly Compensated Employee or a Nonhighly Compensated Employee. For Plan Years beginning after December 31, 1989, an aggregation of plans under this paragraph does not apply to plans which have different plan years and, for Plan Years beginning after December 31, 1988, the Administrative Committee may not aggregate an ESOP (or the ESOP portion of a plan) with a non-ESOP plan (or non-ESOP portion of a plan).

(D) DISTRIBUTION OF EXCESS AGGREGATE CONTRIBUTIONS. The Administrative Committee will determine excess aggregate contributions after determining excess deferrals under Section 14.03 and excess contributions under Section 14.04. If the Administrative Committee determines the Plan fails to satisfy the ACP test for a Plan Year, it must distribute the excess aggregate contributions, as adjusted for allocable income, during the next Plan Year. However, the Employer will incur an excise tax equal to 10% of the amount of excess aggregate contributions for a Plan Year not distributed to the appropriate Highly Compensated Employees during the first 27 months of that next Plan Year. The excess aggregate contributions are the amount of aggregate contributions allocated on behalf of the Highly Compensated Employees which causes the Plan to fail to satisfy the ACP test. The Administrative Committee will distribute to each Highly Compensated Employee his respective share of the excess aggregate contributions. The Administrative Committee will determine the respective shares of excess aggregate contributions by starting with the Highly Compensated Employee(s) who has the greatest contribution percentage, reducing his contribution percentage (but not below the next highest contribution percentage), then, if necessary, reducing the contribution percentage of the Highly Compensated Employee(s) at the next highest contribution percentage level (including the contribution percentage of the Highly Compensated Employee(s) whose contribution percentage the Administrative Committee already has reduced), and continuing in this manner until the ACP for the Highly Compensated Group satisfies the ACP test. If the Highly Compensated Employee is part of an aggregated family group, the Administrative Committee, in accordance with the applicable Treasury regulations, will determine each aggregated family member's allocable share of the excess aggregate contributions assigned to the family unit.

(E) ALLOCABLE INCOME. To determine the amount of the corrective distribution required under this Section 14.05, the Administrative Committee must calculate the allocable income for the Plan Year in which the excess aggregate contributions arose. "Allocable income" means net income or net loss. The Administrative Committee will determine allocable income in the same manner as described in Section 14.04(F) for excess contributions.

(F) CHARACTERIZATION OF EXCESS AGGREGATE CONTRIBUTIONS. The Administrative Committee will treat a Highly Compensated Employee's allocable share of excess aggregate contributions in the following priority: (1) first as attributable to his employee contributions which are voluntary contributions, if any; (2) then as matching contributions allocable with respect to excess contributions determined under the ADP test; (3) then on a pro rata basis to matching contributions and to the deferral contributions relating to those matching contributions which the Administrative Committee has included in the ACP test; (4) then on a pro rata basis to Employee contributions which are mandatory contributions, if any, and to the matching contributions allocated on the basis of those mandatory contributions; and (5) last to qualified nonelective contributions used in the ACP test. To the extent the Highly Compensated Employee's excess aggregate contributions are attributable to matching contributions, and he is not 100% vested in his Accrued Benefit attributable to matching contributions, the Administrative Committee will distribute only the vested portion and forfeit the nonvested portion. The vested portion of the Highly Compensated Employee's excess aggregate contributions attributable to Employer matching contributions is the total amount of such excess aggregate contributions (as adjusted for allocable income) multiplied by his vested percentage (determined as of the last day of the Plan Year for which the Employer made the matching

contribution). The Plan will allocate forfeited excess aggregate contributions to reduce Employer matching contributions for the Plan Year in which the forfeiture occurs.

14.06 MULTIPLE USE LIMITATION. For Plan Years beginning after December 31, 1988, if at least one Highly Compensated Employee is includible in the ADP test and in the ACP test, the sum of the Highly Compensated Group's ADP and ACP may not exceed the multiple use limitation.

The multiple use limitation is the sum of (i) and (ii):

(i) 125% of the greater of: (a) the ADP of the Nonhighly Compensated Group under the Code Section 401(k) arrangement; or (b) the ACP of the Nonhighly Compensated Group for the Plan Year beginning with or within the Plan Year of the Code Section 401(k) arrangement.

(ii) 2% plus the lesser of (i)(a) or (i)(b), but no more than twice the lesser of (i)(a) or (i)(b).

The Administrative Committee, in lieu of determining the multiple use limitation as the sum of (i) and (ii), may elect to determine the multiple use limitation as the sum of (iii) and (iv):

(iii) 125% of the lesser of: (a) the ADP of the Nonhighly Compensated Group under the Code Section 401(k) arrangement; or (b) the ACP of the Nonhighly Compensated Group for the Plan Year beginning with or within the Plan Year of the Code Section 401(k) arrangement.

(iv) 2% plus the greater of (iii)(a) or (iii)(b), but no more than twice the greater of (iii)(a) or (iii)(b).

The Administrative Committee will determine whether the Plan satisfies the multiple use limitation after applying the ADP test under Section 14.04 and the ACP test under Section 14.05 and after making any corrective distributions required by those Sections. If, after applying this Section 14.06, the Administrative Committee determines the Plan has failed to satisfy the multiple use limitation, the Administrative Committee will correct the failure by treating the excess amount as excess contributions under Section 14.04 or as excess aggregate contributions under Section 14.05, as it determines in its sole discretion. This Section 14.06 does not apply unless, prior to application of the multiple use limitation, the ADP and the ACP of the Highly Compensated Group each exceeds 125% of the respective percentages for the Nonhighly Compensated Group.

14.07 FORFEITURE OF MATCHING CONTRIBUTION. A Participant will forfeit any matching contribution attributable to an excess contribution or to an excess aggregate contribution unless distributed pursuant to Sections 14.04 or 14.05 of the Plan.

ARTICLE XV - EXTENSION OF PLAN TO RELATED EMPLOYERS

15.01 ADOPTION BY RELATED EMPLOYERS. By executing an Adoption Agreement, any Related Employer may adopt the Plan with the approval of the Administrative Committee or Sponsor and qualify its Employees to become Participants thereunder by taking proper corporate action to adopt the Plan and making such contributions to the Trust Fund as the Sponsor or the board of directors of the Related Employer may require. The Sponsor shall maintain an Appendix A attached to this Plan which details the dates of participation for each such Related Employer.

In addition, the Administrative Committee or Sponsor may approve the merger of any qualified defined contribution plan of a Related Employer into the Plan upon such terms and conditions as it may establish.

15.02 TERMINATION OF PARTICIPATION. The Plan will terminate with respect to any Related Employer that has adopted the Plan pursuant to this Section if the Related Employer ceases to be a Related Employer, revokes its adoption of the Plan by appropriate corporate action, permanently discontinues its contributions for its Employees, is judicially declared bankrupt, makes a general assignment for the benefit of creditors, or is dissolved.

15.03 AUTHORITY. The Sponsor or Administrative Committee shall have the sole right to amend the Plan and shall act as the agent for each Related Employer that adopts the Plan for all purposes of administration thereof.

ARTICLE XVI MERGED RELATED EMPLOYER PLANS

16.01 APPLICABILITY OF PROVISIONS TO RELATED EMPLOYER PLANS. In the event of a merger of a Related Employer's qualified plan into this Plan, the provisions of this Plan which are intended to comply with changes in the law made by the Uniformed Services Employment and Reemployment Rights Act of 1994, Uruguay Round Agreements Act of 1994 (GATT), Small Business Job Protection Act of 1996, Taxpayer Relief Act of 1997 or any other applicable law, shall be deemed for all purposes to be in effect under such Related Employer's merged plan as of the applicable effective date(s) as set forth in such laws.

16.1

IN WITNESS WHEREOF, the Sponsor and the following Participating Employers have executed this Plan and Trust this _____ day of _____, 1998, effective for all purposes as provided above.

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Senior Vice President

ACE ELECTRIC, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

ALADDIN WARD ELECTRIC & AIR, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Secretary

AMBER ELECTRIC, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

BEXAR ELECTRIC COMPANY, LTD. / CALHOUN ELECTRIC COMPANY, LTD.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

CYPRESS ELECTRICAL CONTRACTORS, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Secretary

DANIEL ELECTRICAL CONTRACTORS, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

FLORIDA INDUSTRIAL ELECTRIC, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

HATFIELD REYNOLDS ELECTRICAL COMPANY

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

HAYMAKER ELECTRIC, LTD.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

HOUSTON-STAFFORD ELECTRIC, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

HOWARD BROTHERS ELECTRIC CO., INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Secretary

H.R. ALLEN, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

J.W. GRAY ELECTRIC CO., INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

HAYNES ELECTRICAL SUPPLY, INC d/b/a
KEY ELECTRICAL SUPPLY, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

MARK HENDERSON, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

MENNINGA ELECTRIC, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

MILLS ELECTRICAL CONTRACTORS, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

MUTH ELECTRIC, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

PAULIN ELECTRIC COMPANY, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

POLLOCK SUMMIT ELECTRIC, LP

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

RODGERS ELECTRIC COMPANY, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

THOMAS POPP & COMPANY

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

THURMAN & O'CONNELL CORP.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

WRIGHT ELECTRICAL CONTRACTING, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

MID-STATES ELECTRIC COMPANY, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

ARC ELECTRIC, INCORPORATED

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

BRINK ELECTRIC CONSTRUCTION CO., INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

DAVIS ELECTRICAL CONSTRUCTORS, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

ELECTRO-TECH, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

GOSS ELECTRIC COMPANY, INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

RAINES ELECTRIC CO., INC.

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

T & H ELECTRICAL CORPORATION

By: /s/ JOHN F. WOMBWELL

Name: John F. Wombwell

Title: Vice President and Assistant Secretary

APPENDIX A
SCHEDULE OF PARTICIPATING EMPLOYERS

Name of Participating Employer	Date of Participation
Ace Electric, Inc.	January 1, 1999
Aladdin Ward Electric & Air, Inc.	January 1, 1999
Amber Electric, Inc.	January 1, 1999
Bexar Electric Company, Ltd. / Calhoun Electric Company, Ltd.	January 1, 1999
Cypress Electrical Contractors, Inc.	January 1, 1999
Daniel Electrical Contractors, Inc.	January 1, 1999
Florida Industrial Electric, Inc.	January 1, 1999
Hatfield Reynolds Electrical Company	January 1, 1999
Haymaker Electric, Ltd.	January 1, 1999
Houston-Stafford Electric, Inc.	January 1, 1999
Howard Brothers Electric Co., Inc.	January 1, 1999
H.R. Allen, Inc.	January 1, 1999
J.W. Gray Electric Co., Inc.	January 1, 1999
Key Electrical Supply, Inc.	January 1, 1999
Mark Henderson, Inc.	January 1, 1999
Menninga Electric, Inc.	January 1, 1999
Mills Electrical Contractors, Inc.	January 1, 1999
Muth Electric, Inc.	January 1, 1999
Paulin Electric Company, Inc.	January 1, 1999

Pollock Summit Electric, LP	January 1, 1999
Rodgers Electric Company, Inc.	January 1, 1999
Thomas Popp & Company	January 1, 1999
Thurman & O'Connell Corp.	January 1, 1999
Wright Electrical Contracting, Inc.	January 1, 1999
Mid-States Electric Company, Inc.	January 1, 1999
ARC Electric, Incorporated	January 1, 1999
Brink Electric Construction Co., Inc.	January 1, 1999
Davis Electrical Constructors, Inc.	January 1, 1999
Electro-Tech, Inc.	January 1, 1999
Goss Electric Company, Inc.	January 1, 1999
Raines Electric Co., Inc.	January 1, 1999
T & H Electrical Corporation	January 1, 1999

APPENDIX B
SCHEDULE OF IRC SECTION 411(d)(6) PURSUANT TO SECTION 13.05 OF THE
PLAN

APPENDIX C
INVESTMENT FUNDS

The following Funds are available as investments under the Plan:

1. American Industries Trust Company Short Term Income Fund
2. Fidelity Advisor Government Investment Fund Class T
3. Fidelity Advisor Government Equity Income Fund Class T
4. American Industries Composite Employee Benefit Trust Equity 500 Index Fund
5. The American Growth Fund Fund of America
6. MFS Capital Opportunities Fund
7. Janus Worldwide Fund
8. Integrated Electrical Services, Inc. Common Stock
9. Strategically Managed & Allocated Retirement Trusts Funds Moderately Conservative, Moderately Aggressive and Aggressive

In the event a Participant fails to direct the Trustee as to how to invest any or all of his Account under the Plan, the Trustee shall invest that portion of the Participant's Account in the American Industries Trust Company Short Term Income Fund.

The investments of this Appendix C may be updated from time to time by the Administrative Committee.