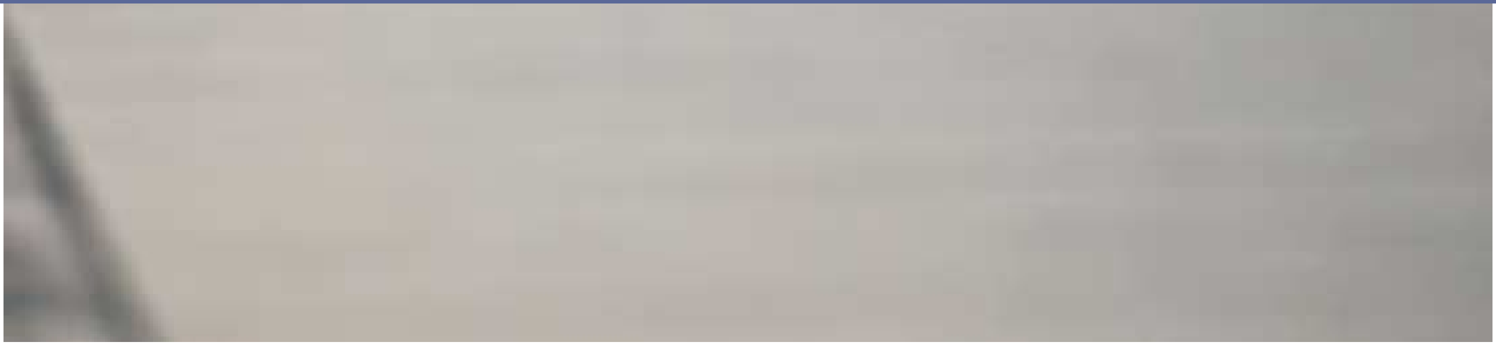
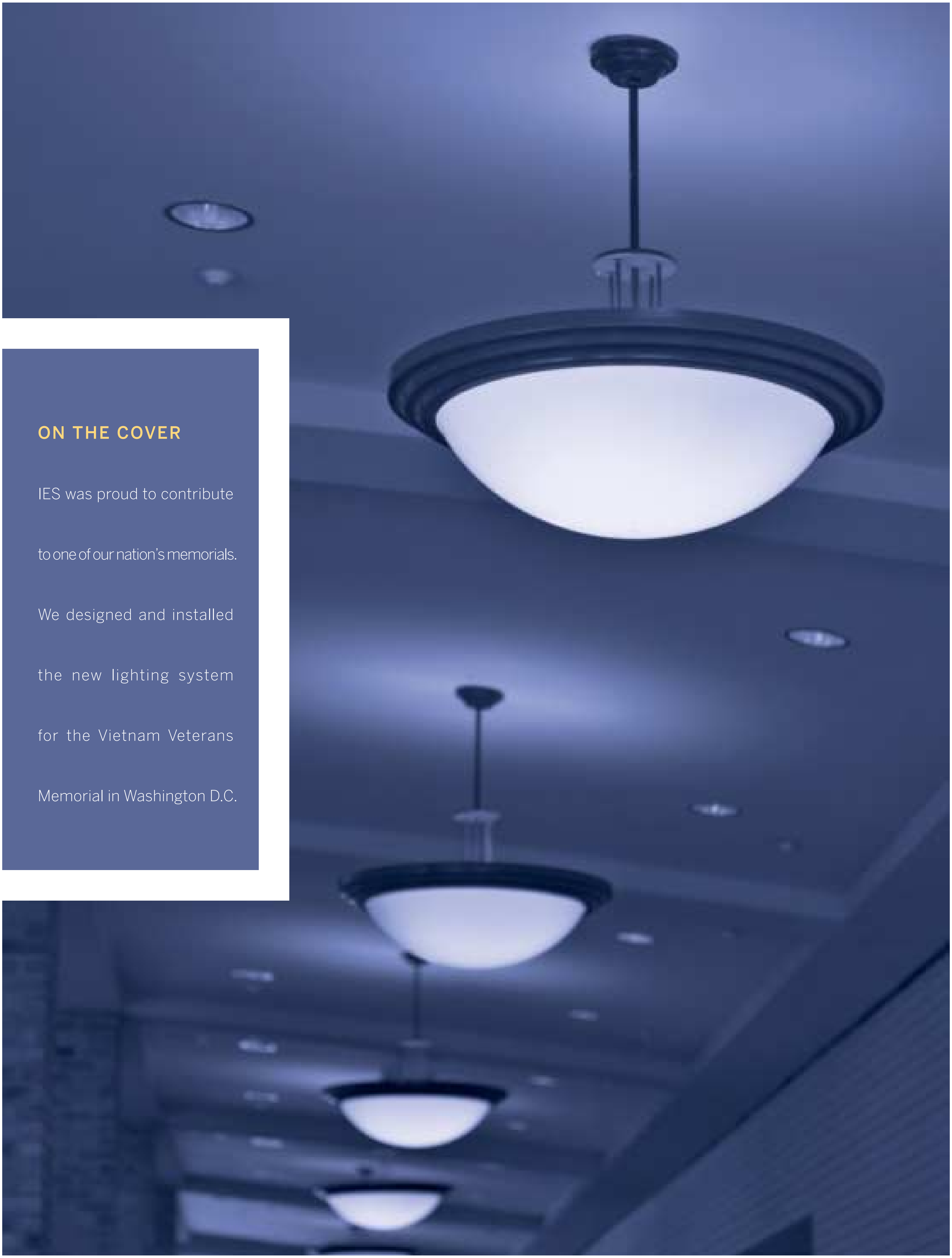


We're Making Connections

INTEGRATED ELECTRICAL SERVICES, INC. 2004 ANNUAL REPORT

ON THE COVER

IES was proud to contribute to one of our nation's memorials. We designed and installed the new lighting system for the Vietnam Veterans Memorial in Washington D.C.



Integrated Electrical Services, Inc. is the nation's leading provider of electrical solutions to the commercial, industrial, residential and service markets. The Company provides a full range of services from system design, build and installation to long-term service and maintenance on a wide array of projects including high-rise residential and office projects; retail facilities; power plants; municipal infrastructure; health care facilities; Federal Government; Department of Defense; and single-and multi-family homes. With approximately 10,400 employees and 130 locations nationwide as of December 31, 2004, the Company is prepared to meet the electrical and low-voltage contracting needs of commercial, industrial, and residential projects across the nation and can simultaneously execute multiple installations throughout the country. We have the skill-base and the experience to meet the needs of our diverse customers.

Our Company offers a host of services that extend far beyond those of a traditional electrical contractor including pre-construction services; design-and-build; program management; prefabrication; low-voltage installation (data communications, telecommunications, fire and security systems); and maintenance services. Superior capabilities in engineering, design, process control, project delivery, and preventive maintenance allow IES to tailor solutions for each client's project.

Financial Highlights

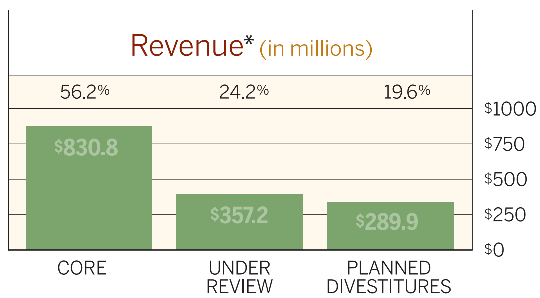
(in thousands, except per share amounts)	2002	2003	2004
Revenues	$ 1,474,461	$ 1,447,763	$ 1,424,100
Gross Profit	$ 221,430	$ 206,433	$ 173,930
Income From Operations	$ 40,877	$ 52,782	$ (84,774)
Net Income*	$ 8,276	$ 19,437	$ (124,864)
Earnings Per Diluted Share*	$ 0.21	$ 0.50	$ (3.23)
Total Assets	$ 711,530	$ 714,487	$ 580,933
Total Debt	$ 248,959	$ 248,336	$ 230,958
Stockholders' Equity	$ 252,775	$ 264,907	$ 143,168
Total Common Shares Outstanding	39,625	38,320	38,873

*Before cumulative effect of change in accounting principle in 2002.

A Letter to Our Stakeholders.

The past several months have been challenging for IES, as well as our investors and business partners. In July 2004, we began internal investigations into in-progress projects in one of our regions. In addition to the internal investigations, our Audit Committee engaged special counsel to conduct a separate investigation. As a result of these investigations, our auditors advised us that they could not complete their procedures on the June 30, 2004 Form 10-Q. We determined at that time that we would not timely file our June 30, 2004 Form 10-Q. Additionally, IES took large impairments to the carrying amount of goodwill in several of our regions partially as a result of a reduction in our stock price during fiscal 2004.

I want to thank everyone for their support and patience as we worked through these difficult times. Although 2004 was a challenge for IES, we generated $6.3 million in cash flow from operations. During the last several months, we have been working to provide IES with a fresh start in several respects.

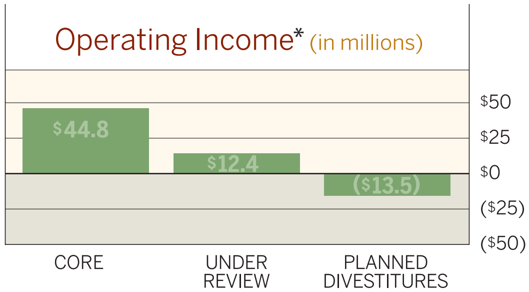


* Includes intercompany amounts

We have modified our internal controls to improve our operating and financial reporting efficiency by implementing an integrated enterprise resource planning system. Additionally, we have increased the training for all of our financial controllers and changed our reporting structure so that regional controllers report directly to our Chief Accounting Officer. These improvements to communications in conjunction with the new integrated reporting system increases the speed and accuracy of our financial statements.

We are completing a strategic review of all of our operations. We assessed our business units based on consistency of profitability; return on capital, including capital employed for bonding; construction spending and growth trends; quality of operations; and management strength. Based on that review, we have decided to divest a number of commercial/industrial subsidiaries in order to improve the overall return we generate on the capital employed in the business.

We are categorizing our business units in three broad categories: Core, Under Review and Planned Divestitures. The Core units, which include our residential units, form a solid operating group that produced 2004 revenues of $830.8 million and operating income of $44.8 million. The units Under Review are businesses that are still being evaluated, and we may elect to divest some of these when that evaluation is complete. These units produced 2004 revenues of $357.2 million and operating income of $12.4 million. The Planned Divestiture group produced $289.9 million in 2004 revenues and lost $13.5 million from operations. We have already sold four of the Planned Divestiture units for total cash consideration of $15.0 million. We believe these planned divestitures along with our recent $36 million convertible debt financing will make IES a leaner, better capitalized company.



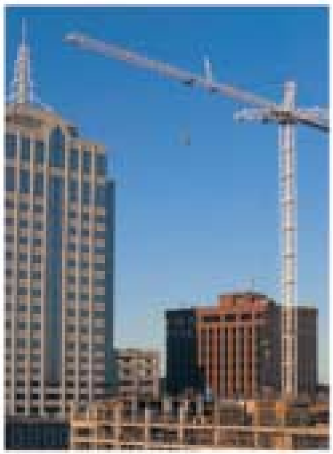
* Includes intercompany amounts

The outlook for commercial and industrial construction spending is more positive than it has been since 2001. The star performers both from a profitability and return standpoint continue to be our subsidiaries that perform residential work. That market continues to be strong and the outlook remains positive. Going forward, our emphasis will be on higher margin work to help us meet our return on capital objectives. Usually, this higher margin work results from slightly smaller projects with shorter durations.

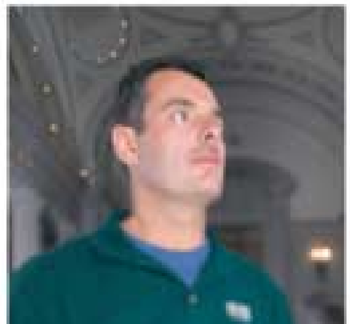
In closing, I'd like to again thank our investors, customers and employees for your support and assure you that we see the possibilities for IES and work hard every day to capitalize on those opportunities. You can continue to Expect More+ from IES.

H. Roddy Allen

H. Roddy Allen
President & CEO

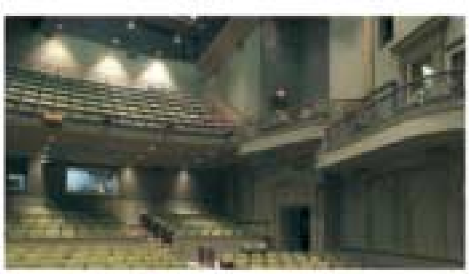






WE SEE THE POSSIBILITIES From providing the electrical and communications infrastructure for a new Bass Pro Shop where people go to prepare for family outings, to developing the integrated electrical, presentation and communication systems for Universities that educate our youth, IES touches lives every day.



UNITED STATES
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, 2004

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 or other jurisdiction of incorporation or organization)	**76-0542208** (I.R.S. Employer Identification No.)
1800 West Loop South **Suite 500** **Houston, Texas** (Address of principal executive offices)	**77027** (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	**New York Stock Exchange**

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

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

Indicate by checkmark if disclosure of delinquent filers 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. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

As of December 10, 2004, there were outstanding 38,996,107 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 approximately $117.0 million.

DOCUMENT INCORPORATED BY REFERENCE

The information called for by Part III of this Form 10-K is incorporated by reference from the Proxy Statement for the Annual Meeting of Stockholders of the Company to be held February 17, 2005

FORM 10-K
INTEGRATED ELECTRICAL SERVICES, INC.

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the Company's expectations and involve risks and uncertainties that could cause the Company's actual results to differ materially from those set forth in the statements. Such risks and uncertainties include, but are not limited to, the inherent uncertainties relating to estimating future operating results or our ability to generate sales, income, or cash flow, potential difficulty in addressing material weaknesses in the Company's accounting systems that have been identified to the Company by its independent auditors, potential limitations on our ability to access the credit line under our credit facility, litigation risks and uncertainties, fluctuations in operating results because of downturns in levels of construction, incorrect estimates used in entering into and executing contracts, difficulty in managing the operation of existing entities, the high level of competition in the construction industry, changes in interest rates, the general level of the economy, increases in the level of competition from other major electrical contractors, increases in costs of labor, steel, copper and gasoline, limitations on the availability and the increased costs of surety bonds required for certain projects, inability to reach agreement with our surety bonding company to provide sufficient bonding capacity, risk associated with failure to provide surety bonds on jobs where we have commenced work or are otherwise contractually obligated to provide surety bonds, loss of key personnel, inability to reach agreement for planned sales of assets, business disruption and transaction costs attributable to the sale of business units, costs associated with the closing of business units, unexpected liabilities associated with warranties or other liabilities attributable to the retention of the legal structure of business units where we have sold substantially all of the assets of the business unit, inability to fulfill the terms of the required paydown under the credit facility, difficulty in integrating new types of work into existing subsidiaries, errors in estimating revenues and percentage of completion on contracts, and weather and seasonality. You should understand that the foregoing important factors, in addition to those discussed elsewhere in this document, including those under the heading "Risk Factors," could affect our future results and could cause results to differ materially from those expressed in such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

PART I

Item 1. *Business*

In this annual report, the words "IES", the "Company", "we", "our", "ours", and "us" refer to Integrated Electrical Services, Inc. and, except as otherwise specified herein, to our subsidiaries. Our fiscal year ends on September 30.

We are a leading provider of electrical contracting services in the United States. We provide a broad range of services including designing, building, maintaining and servicing electrical, data communications and utilities systems for commercial, industrial and residential customers.

Our electrical contracting services include design of the electrical distribution systems within a building or complex, procurement and installation of wiring and connection to power sources, end-use equipment and fixtures as well as long-term contract maintenance. We service commercial, industrial, and residential markets and have a diverse customer base including: general contractors; property managers and developers; corporations; government agencies and municipalities; and homeowners. We provide services for a variety of projects including: high-rise residential and office buildings, power plants, manufacturing facilities, municipal infrastructure and health care facilities and residential developments. We also offer low voltage contracting services as a complement to our electrical contracting business. Our low voltage services include design and installation of external cables for corporations, universities, data centers and switching stations for data communications companies as well as the installation of fire and security alarm systems. Our utility services consist of overhead and underground installation and maintenance of electrical and other utilities transmission and distribution networks, installation and splicing of high-voltage transmission and distribution lines, substation construction and substation and right-of-way maintenance. Our maintenance services generally provide recurring revenues that are typically less affected by levels of construction activity. We focus on projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house engineers or projects that require specific market expertise such as hospitals or power generation facilities, 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.

Since our incorporation in 1997, we have expanded to approximately 134 locations currently serving the continental 48 states through acquisition and internal growth. From 1997 to 2004, revenues for our businesses increased at a compounded annual growth rate of approximately 24%. Included in that growth was approximately five percent organic or "same store sales" growth. This includes a decline in our revenue base between 2002 and 2004 of approximately seven percent due to market conditions and strategic divestitures. In 2003 and 2004, we continued to focus internally on integrating to our information systems and established a regionally based management structure to enhance operating controls at all levels of our organization, as well as integrating a consolidated procurement program and structure to manage customers and vendors on a national basis.

Industry Overview

Using the most recently available data from F. W. Dodge and historical data from EC&M Magazine, we estimate the electrical contracting industry will generate annual revenues in excess of $90 billion in 2004. Data from EC&M Magazine indicates that the electrical contracting industry is highly fragmented, with more than 70,000 companies, most of which are small, owner-operated businesses. This data also indicates that there are only 14 U.S. electrical contractors with revenues in excess of $200 million. F. W. Dodge data indicates total construction industry revenues have grown at an average compound rate of approximately seven percent from 1997 through 2003, with all years showing growth over the previous year. F.W. Dodge forecasts total construction revenues for 2004 through 2009 to continue to grow at a more conservative pace of approximately four percent annually.

During the last decade, electrical contractors have experienced a growing demand for their services as a result of more stringent electrical codes, increased use of electrical power, increased demand for bandwidth, demand for bundled services, and construction of smart houses with integrated audio, video, computer, temperature control and security systems. Additionally, residential construction spending continues to achieve record levels. This overall construction market, while up in 2004 over the past two years, has been depressed since 2001 due to decreased commercial and industrial construction spending.

Competitive Strengths

Our competitive strengths include the following:

- *Geographic diversity*—We have approximately 134 locations, currently serving the continental 48 states and have worked on more than 2,000 contracts over $250,000 and more than 6,000 contracts overall in 2004. IES' national presence mitigates much of the region specific economic slowdowns. Our presence in states such as Virginia and Texas has been particularly beneficial through this most recent construction decline, because these areas were less impacted than some of the other areas of the U.S. Since 1997, much of our revenues have been derived from the Sunbelt states which have had higher growth rates than overall U.S. construction. Our geographic diversity also enables us to better serve national customers with multiple locations.
- *Customer diversity*—Our diverse customer base includes general contractors, property developers and managers, facility owners and managers of large retail establishments, manufacturing and processing facilities, utilities, government agencies and homeowners. No single customer accounted for more than 10% of our revenues for the year ended September 30, 2004. We believe that customer diversity provides us with many advantages including reducing our dependence on any single customer.

  Our company services a wide variety of customers, which tends to cushion us somewhat from sector declines. The impact on our company of a slowdown in a particular industry is typically muted when compared to our smaller, more geographically or sector concentrated competitors. Additionally, our expertise in a variety of industries allows us to be flexible and to share our expertise across regions.

  The composition of our backlog shifts from time to time. During 2004, our backlog of work in progress for commercial and industrial work declined by approximately 13 percent in the areas of hotels and condominiums, health care facilities, utility work, highway, waste water and military; while areas of backlog growth expanded by 9 percent and included retail, institutions, office buildings, heavy industry and manufacturing. Over the past two years the duration of our backlog has decreased because we have fewer larger projects in our backlog. Therefore, our backlog turns quicker because the average project size and length of that project is declining.
- *Expertise*—We have developed areas of expertise in high-rise buildings including hotels, condominiums and office buildings, retail centers, hospitals, switching centers and utility substations and single-family and multi-family residential homes. We believe that our technical expertise provides us with (1) access to higher margin design-and-build projects; (2) access to growth markets including wireless telecommunications, highway lighting and traffic control, video and security and fire systems; and (3) the ability to deliver quality service with greater reliability than that of many of our competitors.
- *Ability to Service National Projects*—Our nationwide presence and name recognition helps us compete for larger, national contracts with customers that operate throughout the U.S. Additionally, we believe our size and national service offering uniquely positions us as the only single source open shop electrical contracting service provider able to execute projects on a national basis. We are able to take on very large and complex projects, often with a national scope, that would strain the capabilities and resources of most of our competitors. This type of work represents a growing market and we have made significant progress in pursuing these sizable accounts.
- *Access to resources*—Access to resources is a key to success, especially in this difficult environment. We, like many of our competitors, have experienced increased costs and limited availability of bonding required for specific projects. Losses experienced by the surety industry in the past two years have caused surety providers to limit capacity and increase prices for all participants, including us, even

though we have incurred no surety losses on any project in our seven year history. As a result we attempt to pursue those contracts that are most economically attractive and for where the bonding costs can be justified by the expected return. As of September 30, 2004, the expected cost to complete projects covered by surety bonds was approximately $200.0 million. Additionally, we have access to borrowings under our credit facility of which $44.1 million was available for borrowings at December 13, 2004 and added liquidity from a recent convertible debt offering.

- *Proprietary systems and processes*—We have proprietary systems and processes that help us bid on projects, manage projects once they have been awarded and maintain and track customer information. In addition, we developed and perfected techniques and processes for installation on a variety of different projects, including a prefabrication processes we implemented throughout the organization. Through the consolidation of over 85 entities, we have taken the best practices within our company and leveraged those systems and processes across the entire organization for "best in class" practices.
- *Utilization of prefabrication processes*—Our size and 100% merit shop environment has allowed us to quickly implement best prefabrication practices across our company. We prefabricate and preassemble or prepackage significant portions of electrical installations off-site and ship materials to the installation sites in specific sequences to optimize materials management, improve efficiency and minimize our employees' time on job sites. This is safer, more efficient and more cost effective for both us and our customers.
- *Experienced management*—Our management teams have extensive experience and well-known reputations in the markets they serve. In addition, we have developed a strong team of executive officers, led by Herbert (Roddy) Allen, with extensive operating experience. We believe management and our employees currently own approximately 20% of our outstanding common stock.

Strategy

During the last three years we have been implementing a three-phase strategy.

Phase one, "Back to Basics", emphasized basic business fundamentals of increasing backlog, controlling costs and generating positive cash flow.

- Our backlog of work in progress has decreased to approximately $662 million as of September 30, 2004 from approximately $708 million, as of September 30, 2003. At the end of fiscal 2003, we had several very large projects included in backlog. During 2004, those projects either were completed or were nearing completion at year end which lowered our total backlog at September 30, 2004.
- To control costs, we have taken and will continue to take steps to operate more efficiently and reduce expenses. These steps will, if successful, increase our profitability and allow us to remain competitive within the industry. We believe that by focusing on cost reduction, we are better positioned for competitive success in any business environment.
- We have been and continue to focus on cash flows from operations. This includes utilizing effective tax planning strategies to reduce cash taxes paid and processes focused on collecting receivables and billing retainage.

Phase two, "One Company. One Plan.", focused on processes and systems necessary to integrate various decentralized business units.

- This strategy included a realigned management structure supported by additional financial reporting and planning processes through the implementation of an information system that is now 90% complete. We also undertook to bring commonality to our employee programs such as healthcare, incentive compensation and project management training. We implemented safety programs across the organization improving our recordable accidents to less than half the industry average. We now track procurement spending with national vendors centrally and have negotiated procurement savings. Additionally, we are focused on developing stronger national customer relationships.

Phase three, “Continued Growth”, was designed to expand our businesses internally and via selective acquisitions.

- This phase will be achieved primarily through internal growth in select markets by increasing service offerings and market share. While we did purchase one company in February 2003, we do not intend to grow through external growth. We have put our growth strategy on hold to focus on the core profitability and capital efficiency of the company.

Since 2002, when the strategy was developed and implemented we accomplished a number of our objectives while reducing debt and repurchasing shares of common stock.

During the summer of 2004 we announced that we would not be able to timely issue our financial results for the third fiscal quarter. Since that time we have diligently worked to remedy the matters that gave rise to those events. While we determined that the matters were not widespread, the process and surrounding events have caused us to modify our strategy to take a closer look at the overall operating and capital efficiency of our units to insure an optimal return on the capital invested in the company.

During October 2004, we began a process to strategically review the performance of each of our 49 business units over the last three years. This process involves analyzing the financial performance of each unit with particular emphasis on the relative consistency of its results, returns on invested capital (unit level working capital and fixed assets), the required invested capital at each unit including capital costs associated with surety bonding, construction spending and growth trends in each geographic market, management strength and other factors.

Based on that analysis, we determined that certain businesses did not meet our criteria and have decided to sell these units in order to improve the overall profitability and capital efficiency of the company. These units produced revenues and operating losses during 2004 of approximately $289.2 million and $13.1 million, respectively. Through December 10, 2004, we have completed three sales and received approximately $11.5 million in cash. During fiscal 2004, these units produced combined revenues of $57.6 million and operating income of $1.1 million.

The Markets We Serve

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

- airports;
- community centers;
- high-rise apartments and condominiums;
- hospitals and health care centers;
- hotels;
- manufacturing and processing facilities;
- military installations;
- office buildings;
- refineries, petrochemical and power plants;
- retail stores and centers;
- schools; and
- theaters, stadiums and arenas.

Our commercial and industrial customers include:

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

Demand for our commercial and industrial services is driven by construction and renovation activity levels, as well as more stringent local and national electrical codes. From fiscal 1997 through 2004, our pro forma combined revenues from commercial and industrial work has grown at a compound annual rate of approximately 3.2% per year, including a decline of 6.6% in the period from 2001 to 2004 during which commercial and industrial spending declined due to soft market conditions. According to F. W. Dodge, the non-residential construction industry has grown at a compound annual rate of approximately 4.1% per year, including a decline of 8.4% from 2001 to 2004. Commercial and industrial work represented approximately 81%, 81% and 78% of our revenues for the years ended September 30, 2002, 2003 and 2004, respectively. Pro forma combined revenues include revenues generated by our subsidiaries prior to acquisition by us. For additional segment information for each of the three years ended September 30, 2004, see Note 9 to the Consolidated Financial Statements.

New commercial and industrial work begins with either a design request or engineer's plans from the owner or general contractor. Initial meetings with the parties allow us to prepare preliminary, detailed design specifications, engineering drawings and cost estimates. Projects we design and build generally provide us with higher margins. "Design and build" gives full or partial responsibility for the design specifications of the installation. Design and build is an alternative to the traditional "plan and spec" model, where the contractor builds to the exact specifications of the architect and engineer. We prefer to perform design and build work, because it allows us to use past experience to install a more cost effective project for the customer with higher profitability to us. Once a project is awarded, it is conducted in scheduled phases and progress billings are rendered to our customer for payment, less a retention of 5% to 10% of the construction cost of the project. We generally provide the materials to be installed as a part of these contracts, which vary significantly in size from a few hundred dollars to several million dollars and vary in duration from less than a day to more than a year. Actual fieldwork is coordinated during this time, including:

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

Our size enables us to effectively prefabricate significant portions of certain projects at an alternative site and drop ship materials in specific sequences. Prefabrication allows us to optimize materials management and minimize the amount of time specialized employees spend on the job site, as well as minimizing the overall time it takes to complete a project because working in a controlled assembly environment is more efficient than preparing all materials on site.

Our service and maintenance revenues are derived from service calls and routine maintenance contracts, which tend to be recurring and less sensitive to economic fluctuations. Service and maintenance is supplied on a long-term and per-call basis. Long-term service and maintenance is provided through contracts that require the customer to pay an annual or semiannual fee for periodic diagnostic services at a specific discount from standard prices for repair and replacement services. Per-call service and maintenance is initiated when a customer requests emergency repair service. Service technicians are scheduled for the call or routed to the customer's residence or business by the dispatcher. We will then follow up with the customer to schedule periodic maintenance work. Most service work is warranted for thirty days. Service personnel work out of our service vehicles, which carry an inventory of equipment, tools, parts and supplies needed to complete the typical variety of jobs. The technician assigned to a service call:

- travels to the residence or business;
- interviews the customer;
- diagnoses the problem;
- prepares and discusses a price quotation; and
- performs the work and often collects payment from the customer immediately.

We design and install communications and utility infrastructure systems and low voltage systems for the commercial and industrial market as a complement to our primary electrical contracting services. We believe the demand for our communications services is driven by the following factors: the pace of technological change; the overall growth in voice and data traffic; and the increasing use of personal computers and modems, with particular emphasis on the market for broadband internet access. Demand for our utilities services is driven by industry deregulation, limited maintenance or capital expenditures on existing systems and increased loads and supply and delivery requirements. Demand for our low voltage systems is driven by the construction industry growth rate and our ability to cross-sell among our customers.

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

We are currently one of the largest providers of electrical contracting services to the U.S. residential construction market. Our residential business has experienced significant growth. Our pro forma combined revenues from residential electrical contracting have grown at a compound annual rate of approximately 13.5% from fiscal 1997 through 2004 compared to an industry average of approximately 10.4% according to F. W. Dodge. Residential electrical contracting represented approximately 19%, 19% and 22% of our revenues for the years ended September 30, 2002, 2003 and 2004, respectively.

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

The residential business is generally more profitable and less capital intensive than our commercial and industrial business and has a much lower surety bonding need. For additional segment information for each of the three years ended September 30, 2004, see Note 9 to the Consolidated Financial Statements. Our results of operations from residential construction are seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter.

Customers

Major Customers. We have a diverse customer base. We intend to continue our emphasis on developing and maintaining relationships with our customers by providing superior, high-quality service. During the years ended September 30, 2002, 2003, and 2004, no single customer accounted for more than 10% of our revenues.

Company Operations

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

We actively recruit and screen applicants for our technical positions and have established programs in some locations to recruit apprentice technicians directly from high schools and vocational technical schools. Prior to hiring new employees, we assess their technical competence level, confirm background references and conduct drug testing.

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

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

Control and Information Systems. We are committed to performing those controls and procedures that improve our efficiency and the monitoring of our operations. We are approximately 90% complete in deploying a standard Enterprise Resource Planning ("ERP") software to all of our operating companies. We believe ERP applications are paramount to a growing business with our diverse geographic platform. Additionally, we have implemented a financial reporting and planning application to complement the ERP application that provides a uniform structure and analytical tools for the reporting process. This application was utilized for our 2003, 2004 and 2005 planning processes. We now expect to have the implementation completed by the end of calendar year 2005. Implementation of this ERP system and the complementary financial reporting application allows us to obtain more timely results of operating performance and perform more detailed analyses. In addition to our ERP system, other controls and procedures we have in place include:

- pre-determined approval levels for bidding jobs. Each subsidiary may approve certain jobs based on each subsidiary's gross revenues, the level of experienced estimating personnel on staff, the type of work to be bid (i.e. niche vs. non-niche work to take advantage of our centers of excellence), and manpower availability. If a job exceeds these parameters additional approvals must be obtained.

- an automated uniform monthly reporting process with data controls.
- a series of quarterly reviews conducted by our senior management team. These meeting locations are rotated quarterly between the corporate office in Houston, Texas and various locations. The content of such meetings includes discussing safety performance, previous operating results, forecasts for the future, opportunities and concerns.
- a formalized planning process that involves analyzing industry trends at a county level for each subsidiary. This planning also formalizes the capital allocation process.
- monthly job review meetings involving finance and operations.

Competition

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

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

Regulations

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

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

We believe we have all licenses required to conduct our operations and are in substantial compliance with applicable regulatory requirements. Our failure to comply with applicable regulations could result in substantial fines or revocation of our operating licenses or an inability to perform government work.

Many state and local regulations governing electricians require permits and licenses to be held by individuals. In some cases, a required permit or license held by a single individual may be sufficient to authorize specified activities for all our electricians who work in the state or county that issued the permit or license. It is our policy to ensure that, where possible, any permits or licenses that may be material to our operations in a particular geographic area are held by multiple IES employees within that area.

Risk Management and Insurance

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

Employees

At September 30, 2004, we had approximately 11,600 employees. We are not a party to any collective bargaining agreements with our employees. We believe that our relationship with our employees is satisfactory.

Executive Officers

Herbert "Roddy" Allen, 64, has been Chief Executive Officer and President of the Company since October 2002 and interim Chief Financial Officer from April, 2004 to May, 2004 and since October, 2004. From May 2002 to October 2002, Mr. Allen was Chief Operating Officer of the Company. From January 2000 to May 2002, Mr. Allen was Senior Vice President—Eastern Operations and served as a Regional Operating Officer of the Company from June 1998 to January 2000. Prior to September 2000, Mr. Allen served as the President of H.R. Allen, Inc., one of the Company's subsidiaries.

Miles Dickinson, 52, has been Senior Vice President—since September 2004. From April 2001 to September 2004, Mr. Dickinson was a Regional Operating Officer of the Company and from prior to May 1999 until the present has been President of Delco Electric, one of the Company's subsidiaries.

Robert Stalvey, 54, has been Senior Vice President—since September 2004. From October 2000 to September 2004 Mr. Stalvey was Senior Vice President, Operations Services and from July 1999, Vice President, Special Projects.

Margery Harris, 44, has been the Senior Vice President of Human Resources of the Company since October 2000. From 1995 to 2000, Ms. Harris was employed by Santa Fe Snyder Corporation, a large global independent exploration and production company, serving most recently as Vice President of Human Resources. Prior to that Ms. Harris was a lead consultant with Hewitt Associates, a premier total compensation consulting firm.

Curt L. Warnock, 49, has been Vice President, Law of the Company since October 2002. From July 2001 to October 2002, Mr. Warnock served as Assistant General Counsel of the Company. Prior to July 2001, Mr. Warnock spent sixteen years with Burlington Resources Inc., a large independent NYSE oil and gas company, serving in various positions. Prior to that, Mr. Warnock served as Senior Attorney to Pogo Producing Company, a NYSE oil and gas company; before that, he was in private practice. Mr. Warnock is licensed in Texas and federal courts and before the Fifth Circuit and before the United States Supreme Court.

David A. Miller, 34, has been Vice President and Chief Accounting Officer of the Company since October 2002. Between January 1998 and October 2002, Mr. Miller held the positions of Financial Reporting Manager, Assistant Controller, Controller and Chief Accounting Officer with the Company. Prior to January 1998, Mr. Miller held various positions in public accounting and private industry. Mr. Miller is a Certified Public Accountant.

Available Information

We file our interim and annual financial reports, as well as other reports required by the Securities Exchange Act of 1934 with the United States Securities and Exchange Commission (the "SEC"). Our annual report on

Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports are free of charge through our website at *www.ies-co.com* as soon as it is reasonably practicable after we file them with, or furnish them to, the SEC.

We have adopted a Code of Ethics for Financial Executives, a Code of Business Conduct and Ethics for directors, officers and employees (the legal Compliance and Corporate Policy Manual) and established Corporate Governance Guidelines and adopted charters outlining the duties of the Company's Audit, Compensation and Nominating/Governance Committees, copies of which may be found on our website at *www.ies-co.com*. Paper copies of these documents are also available free of charge upon written request to us. We have designated an "audit committee financial expert" as that term is defined by the SEC. Further information about this designee may be found in the Proxy Statement for the Annual Meeting of Stockholders of the Company.

RISK FACTORS

- **Downturns in construction could adversely affect our business because more than half of our business is dependent on levels of new construction activity.**

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

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

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

- **The highly competitive nature of our industry could affect our profitability by reducing our profit margins.**

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

- **There is currently a shortage of qualified electricians. Since the majority of our work is performed by electricians, this shortage may negatively impact our business, including our ability to grow.**

There is currently a shortage of qualified electricians in the United States. In order to conduct our business, it is necessary to employ electricians and have those electricians qualified in the states where they do business. While overall economic growth has diminished, our ability to increase productivity and profitability may be limited by our ability to employ, train and retain skilled electricians required to meet our needs. Accordingly there can be no assurance, among other things, that:

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

- **Due to seasonality and differing regional economic conditions, our results may fluctuate from period to period.**

Our business is 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 regional economic conditions. Accordingly, our performance in any particular quarter may not be indicative of the results that can be expected for any other quarter or for the entire year.

- **The estimates we use in placing bids could be materially incorrect. The use of incorrect estimates could result in losses on a fixed price contract. These losses could be material to our business.**

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

- **We may experience difficulties in managing internal growth.**

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

On August 13, 2004, the Company announced that it would not timely file its quarterly report on Form 10-Q for the quarterly period ended June 30, 2004. Following this announcement, the Company's stock price declined 40 percent to $3.93 on August 16, 2004. An investigation of the factors surrounding certain material weaknesses in internal control resulted in the Company restating its earnings for the six months ended March 31, 2004, and the years ended September 30, 2002 and 2003. While management has implemented changes to its internal controls procedures as a result of its findings, the identification in the future of additional weaknesses in the Company's internal controls could result in a material adverse effect on our business, financial condition and results of operations. See "Controls and Procedures" in Item 9A for a discussion of managements' evaluation of the Company's disclosure controls and procedures and its internal control over financial reporting.

- **We may experience difficulties in managing our working capital.**

Our billings under fixed price contracts are generally based upon achieving certain benchmarks and will be accepted by the customer once we demonstrate those benchmarks have been met. If we are unable to demonstrate compliance with billing requests, or if we fail to issue a project billing, our likelihood of collection could be delayed or impaired, which could have a materially adverse effect on our operations if this occurred over several large projects.

- **To service our indebtedness and to fund working capital, we will require a significant amount of cash. Our ability to generate cash depends on many factors.**

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This is subject to our operational performance, as well as general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our credit facility will mature in January 2006 with a possible extension through January 2007, our senior subordinated notes are due in February 2009 and our senior convertible notes are due in 2014.

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

- **We have a substantial amount of debt. Our current debt level could limit our ability to fund future working capital needs and increase our exposure during adverse economic conditions.**

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

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

- **A significant portion of our business depends on our ability to provide surety bonds. Our inability to obtain surety bonds could adversely affect our operating results and reduce future revenues.**

Surety market conditions are currently difficult as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in connection with certain large corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. Further, under standard terms in the surety market, sureties issue bonds on a project by project basis, and can decline to issue bonds at any time. Historically, approximately 35% of our fixed price contract business have required bonds. While we have enjoyed a longstanding relationship with our surety, current market conditions as well as changes in our surety's assessment of our operating and financial risk could cause our surety to decline to issue bonds for our work. If that were to occur, our alternatives include doing more business that does not require bonds, posting other forms of collateral for project performance such as letters of credit or cash, and seeking bonding capacity from other sureties. There can be no assurance that we could easily achieve these alternatives. Accordingly, if we were to experience an interruption in the availability of bonding capacity, our operating results could be adversely impacted by a reduction of revenue.

The current conditions in the surety bonding industry are adversely affecting our ability to obtain surety bonding on terms consistent with past practices. Losses experienced by the surety industry in recent years have caused surety providers to limit capacity and increase costs for all participants, including us. Many companies that previously wrote surety bonds no longer do so. At this time, we do not have a commitment from our surety company that it will continue to write bonds for our projects. There are certain situations where, if we are unable to obtain a surety bond, we could be subject to claims or damages. Those situations include projects (i) where bonds are required on the job and we have already begun work and (ii) jobs where the terms of the contract allow the customer to later require a bond even if the bond was not required when work began. If we are unable to obtain a bond in connection with such a project, we could be subject to a damage claim by the customer for the costs of replacing us with another contractor. Customers, however, are often reluctant to replace an existing contractor and may be willing to waive the bonding requirement or, through negotiation, agree to different payment terms.

In certain cases surety bond companies are willing to provide surety bonds only if cash or letters of credit are provided as collateral. This additional cost, when combined with the costs to perform the work and the practice in the industry of the customer retaining a percentage of the contract amount until the job is complete, can make projects that are subject to this type of collateral requirement not economically viable.

- **We have adopted tax positions that a taxing authority may view differently. If a taxing authority differs with our tax positions, our results may be adversely affected.**

Our effective tax rate and cash paid for taxes are impacted by numerous tax positions that we have adopted. Taxing authorities may not always agree with the positions we have taken. We believe that we have adequate reserves in the event that a taxing authority differs with positions we have taken, however, there can be no assurance that our results of operations will not be adversely affected.

- **Our reported operating results could be adversely affected as a result of goodwill impairment write-offs.**

When we acquire a business, we record an asset called "goodwill" if the amount we pay for the business, including liabilities assumed, is in excess of the fair value of the assets of the business we acquire. We adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all of our goodwill amortization ceased effective October 1, 2001. Additionally, SFAS No. 142 requires that goodwill attributable to each of four reporting units be tested at least annually (absent any impairment indicators). The testing includes comparing the fair value of each reporting unit with its carrying value. Fair value is determined using discounted cash flows, market multiples and market capitalization. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units. On an ongoing basis (absent any impairment indicators), we expect to perform impairment tests at least annually during the first fiscal quarter of each year. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses. We cannot assure that we will not have future impairment adjustments to our recorded goodwill.

- **Our operations are subject to numerous physical hazards associated with the construction of electrical systems. If an accident occurs, it could result in an adverse effect on our business.**

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

- **The loss of a group of key personnel, either at the corporate or operating level, could adversely affect our business.**

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

- **The loss of productivity, either at the corporate office or operating level, could adversely affect our business.**

Our business is primarily driven by labor. The ability to perform contracts at acceptable margins depends on our ability to deliver substantial labor productivity. We cannot guarantee that productivity will continue at acceptable levels at our corporate office and our operating subsidiaries for a particular period of time. The loss of productivity could adversely affect the margins on existing contracts or the ability to obtain new contracts.

- **Litigation and claims**

In the construction business there are always claims and litigation. Latent defect litigation is a normal course for residential home builders in some parts of the country. There is also the inherent claims and litigation risk of the number of people that work on construction sites and the fleet of vehicles on the road everyday. Those claims and litigation risks are managed through safety programs, insurance programs, litigation management at the corporate office and the local level and a network of attorneys and law firms throughout the country. Nevertheless, claims are sometimes made and lawsuits filed and some for amounts in excess of their value or amounts for which they are eventually resolved. Claims and litigation normally follow a predictable course of time to resolution. Because of the large number of claims of a company with so many contracts and employees, there can be periods of time where a disproportionate amount of the claims and litigation may come to the point of resolution through the court system, arbitration, mediation, or settlement all in the same quarter or year. If these matters resolve near the same time then the cumulative effect can be higher than the ordinary level in any one reporting period.

Independent of the normal litigation risks, as a result IES' inability to timely file its third quarter Form 10-Q and the subsequent events, a class action lawsuit has been filed as well as a shareholder derivative action. Those matters are discussed in more detail in Item 3 of this document.

- **Selling of subsidiaries**

We have determined to sell all or substantially all of the assets of certain wholly owned subsidiaries. Those sales are being made to facilitate the business needs and purposes of the organization as a whole. Since we were a consolidator of electrical contracting businesses, often the best candidate to purchase those assets is a previous owner of those assets. That previous owner may sometimes still be associated with the subsidiary as an officer of that subsidiary. To facilitate the desired timing, the sales are being made with more than ordinary reliance on the representations of the purchaser, who is often the person most familiar with the business unit being sold. There is the potential in retaining the company structure that if the purchaser is unwilling or unable to perform the transferred liabilities, we may be forced to fulfill obligations that were assumed by others. We would then seek reimbursement from the parties that assumed those liabilities.

- **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 introduced many new requirements regarding corporate governance and financial reporting. Among many other requirements is the requirement under Section 404 of the Act, beginning with our Form 10-K for the year ended September 30, 2005, for management to report on its internal controls over financial reporting and for our independent public accountants to attest to this report. During late fiscal 2003 and fiscal 2004, we began actions to ensure our ability to comply with these requirements, including, but not limited to, the engagement of outside experts to assist in the evaluation of our controls and documentation of existing controls. Additionally, we expect to devote significant time and incur costs during fiscal 2005 to ensure compliance. There can be no assurance that we will be successful in complying with Section 404 or other sections of the Act. Failure to do so could adversely impact our ability to obtain financing, lead to the loss of customers, or cause us to incur penalties and additional expenditures to meet the requirements.

On August 13, 2004, the Company announced that it would be unable to timely file its quarterly report on Form 10-Q for the quarterly period ended June 30, 2004. Following this announcement, the Company's stock price declined 40 percent to $3.93 on August 16, 2004. An investigation of the factors surrounding certain material weaknesses in internal control resulted in the Company restating its earnings for the six months ended March 31, 2004, and the years ended September 30, 2002 and 2003. While management has implemented changes to its internal controls procedures as a result of its findings, the identification in the future of additional weaknesses in the Company's internal controls could result in a material adverse effect on our business, financial condition and results of operations. See "Controls and Procedures" in Item 9A for a discussion of managements' evaluation of the Company's disclosure controls and procedures and its internal control over financial reporting.

Item 2. ***Properties***

We operate a fleet of approximately 3,900 owned and leased service trucks, vans and support vehicles. We believe these vehicles generally are adequate for our current operations.

At September 30, 2004, we maintained branch offices, warehouses, sales facilities and administrative offices at approximately 134 locations. Substantially all of our facilities are leased. We lease our corporate office located in Houston, Texas.

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

Item 3. ***Legal Proceedings***

On August 20, 2004, August 23, 2004, September 10, 2004, September 15, 2004, and October 4, 2004, Corinne Orem, Elaine English, Park Partners, L.P., Jack Zimny, and James Elmore, respectively, each filed a putative class action complaint against IES, and certain of our officers and directors, in the United States District Court for the Southern District of Texas, alleging that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and seeking a class determination for purchasers of IES stock between November 10, 2003 and August 13, 2004. The plaintiffs seek unspecified amounts of compensatory damages, interest and costs, including legal fees. On November 19, 2004, these cases were consolidated. A motion to appoint a lead plaintiff is pending before the court, and once an appointment is made plaintiff will have sixty days to file a consolidated amended complaint. Defendants will have sixty days from the filing of this consolidated amended complaint to respond.

On September 3, 2004, Chris Radek filed a shareholder derivative action in the District Court of Harris County, Texas naming Herbert R. Allen, Richard L. China, William W. Reynolds, Britt Rice, David A. Miller, Ronald P. Badie, Donald P. Hodel, Alan R. Sielbeck, C. Byron Snyder, Donald C. Trauscht, and James D. Woods as individual defendants and IES as nominal defendant. In this derivative action, the plaintiff makes substantially similar claims as made in the putative class action complaints, and adds common law claims against the individual defendants. The plaintiff in the shareholder derivative action seeks unspecified amounts of damages, interest and costs, including legal fees. By agreement, the defendants will not respond to this action until the plaintiff files an amended petition.

The Company intends to vigorously contest these actions. However, because they are at an early stage, it is premature at this time to predict liability or to estimate the damages, or the range of damages, if any, that we might incur in connection with these actions. An adverse outcome in these actions could have a material adverse effect on our business, consolidated financial condition, results of operations or cash flows.

As previously reported pursuant to the Company's Current Report on Form 8-K dated October 4, 2004, on September 30, 2004, a verdict was rendered by a jury in a case pending in the 133rd District Court of Harris County, Texas involving a dispute arising from an failed attempted sale of the assets of a wholly owned subsidiary of the Company and an employment claim by a former officer of that subsidiary. The jury verdict, if judgment had been entered on that verdict, could have been for approximately $30,000,000. The parties settled the lawsuit post-verdict for a cash payment of $8,000,000. This settlement was entered on December 2, 2004 and the matter was resolved.

We are involved in various other legal proceedings that have arisen in the ordinary course of business. While it is not possible to predict the outcome of any of these proceedings with certainty and it is possible that the results of legal proceedings may materially adversely affect us, in our opinion, these proceedings are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability which would have a material adverse effect on our financial position, liquidity or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

Item 5. *Market for Registrant's Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities*

The Company's common stock trades on the NYSE under the symbol "IES." The following table presents the quarterly high and low closing sales prices for the Company's Common Stock on the NYSE since October 2002:

	High	Low
FISCAL YEAR ENDED SEPTEMBER 30, 2003		
First Quarter	4.28	3.10
Second Quarter	4.50	3.50
Third Quarter	7.60	4.23
Fourth Quarter	7.76	5.76
FISCAL YEAR ENDED SEPTEMBER 30, 2004		
First Quarter	9.75	6.70
Second Quarter	11.90	9.20
Third Quarter	11.66	7.40
Fourth Quarter	8.61	3.77

As of December 10, 2004, the market price of the Company's Common Stock was $3.76 per share and there were approximately 1,374 holders of record.

We do not anticipate paying cash dividends on or repurchasing our common stock in the foreseeable future. We expect that we will utilize all available earnings generated by our operations, proceeds from sales of operations, proceeds from our November 2004 convertible debt offering and borrowings under our credit facility for the development and operation of our business, as well as to retire some of our outstanding debt. Any future determination as to the payment of dividends will be made at the discretion of our Board of Directors and will depend upon the Company's operating results, financial condition, capital requirements, general business conditions and such other factors as the Board of Directors deems relevant. Our debt instruments restrict us from paying cash dividends on the common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Issuer Purchases of Equity Securities(1)

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
	(Amounts in thousands, except per share amounts)			
July 1, 2004 – July 31, 2004	—	$—	—	$8,353
August 1, 2004 – August 31, 2004	—	—	—	8,353
September 1, 2004 – September 30, 2004	—	—	—	8,353
Total	—	$—	—	$8,353

(1) On November 10, 2003, the Company announced that its Board of Directors authorized the repurchase of up to $13 Million of the Company's Common Stock. The share repurchase plan does not have an expiration date. The terms of the Company's credit facility, as amended, restricts its ability to repurchase its common stock under this program.

Item 6. *Selected Financial Data*

The following selected consolidated historical financial information for IES should be read in conjunction with the audited historical consolidated financial statements of Integrated Electrical Services, Inc. and subsidiaries and the notes thereto included in Item 8, "Financial Statements and Supplementary Data."

	Year Ended September 30,				
	2000	2001	2002 (restated)	2003 (restated)	2004
	(In thousands, except share information and ratios)				
Statement of Operations Data:					
Revenues	$1,672,288	$1,693,213	$1,474,461	$1,447,763	$1,424,100
Cost of services	1,372,537	1,385,589	1,253,031	1,241,330	1,250,170
Gross profit	299,751	307,624	221,430	206,433	173,930
Selling, general and administrative expenses	221,519	214,073	174,997	153,651	158,906
Restructuring charges	—	—	5,556	—	—
Goodwill amortization and impairment	13,211	12,983	—	—	99,798
Income (loss) from operations	65,021	80,568	40,877	52,782	(84,774)
Interest and other expense, net	(22,222)	(26,187)	(27,405)	(25,768)	(29,006)
Income (loss) before income taxes and cumulative effect of change in accounting principle	42,799	54,381	13,472	27,014	(113,780)
Provision (benefit) for income taxes	21,643	25,671	5,196	7,577	11,084
Cumulative effect of change in accounting principle, net of tax	—	—	283,284	—	—
Net income (loss)	$ 21,156	$ 28,710	$ (275,008)	$ 19,437	$ (124,864)
Diluted earnings (loss) per share before cumulative effect of change in accounting principle:	$ 0.52	$ 0.70	$ 0.21	$ 0.50	$ (3.23)
Diluted earnings (loss) per share	$ 0.52	$ 0.70	$ (6.90)	$ 0.50	$ (3.23)
Ratio of earnings to fixed charges(1)	2.7	2.8	1.4	1.9	(3.3)

	As of September 30,				
	2000	2001	2002 (restated)	2003 (restated)	2004
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 770	$ 3,475	$ 32,779	$ 40,201	$ 22,232
Working capital	91,643	236,629	234,194	255,760	189,242
Total assets	1,019,990	1,033,503	711,530	714,487	580,933
Total debt	245,065	288,551	248,959	248,336	230,958
Total stockholders' equity	507,749	528,644	252,775	264,907	143,168

(1) The ratio of earnings to fixed charges is calculated by dividing the fixed charges into net income (loss) before taxes plus fixed charges. Fixed charges consist of interest expense, amortization of offering discounts on debt, amortization of debt issuance costs and the estimated interest component of rent expense. The amount of the deficiency of the ratio of earnings to fixed charges for the year ended September 30, 2004, is $113,780.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

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

General

Our electrical contracting business is operated in two segments: (1) commercial and industrial and (2) residential. See Note 10 of "Notes to Consolidated Financial Statements" for a description of these reportable segments.

In response to the SEC's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we have identified the accounting principles which we believe are most critical to our reported financial status by considering accounting policies that involve the most complex or subjective decisions or assessments. We identified our most critical accounting policies to be those related to revenue recognition, the assessment of goodwill impairment, our allowance for doubtful accounts receivable, the recording of our self-insurance liabilities and our estimation of the valuation allowance for deferred tax assets. These accounting policies, as well as others, are described in the Note 2 of "Notes to Consolidated Financial Statements."

We enter into contracts principally on the basis of competitive bids. We frequently negotiate the final terms and prices of those contracts with the customer. Although the terms of our contracts vary considerably, most are made on either a fixed price or unit price basis in which we agree to do the work for a fixed amount for the entire project (fixed price) or for units of work performed (unit price). We also perform services on a cost-plus or time and materials basis. We are generally able to achieve higher margins on fixed price and unit price than on cost-plus contracts. We currently generate, and expect to continue to generate, more than half of our revenues under fixed price contracts. Our most significant cost drivers are the cost of labor, the cost of materials and the cost of casualty and health insurance. These costs may vary from the costs we originally estimated. Variations from estimated contract costs along with other risks inherent in performing fixed price and unit price contracts may result in actual revenue and gross profits or interim projected revenue and gross profits for a project differing from those we originally estimated and could result in losses on projects. Depending on the size of a particular project, variations from estimated project costs could have a significant impact on our operating results for any fiscal quarter or year. We believe our exposure to losses on fixed price contracts is limited in aggregate by the high volume and relatively short duration of the fixed price contracts we undertake. Additionally, we derive a significant amount of our revenues from new construction and from the southern part of the United States. Downturns in new construction activity in the southern part of the United States could negatively affect our results.

We complete most projects within one year. We frequently provide service and maintenance work under open-ended, unit price master service agreements which are renewable annually. We recognize revenue on service and time and material work when services are performed. Work performed under a construction contract generally provides that the customers accept completion of progress to date and compensate us for services rendered measured in terms of units installed, hours expended or some other measure of progress. Revenues from construction contracts are recognized on the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Percentage-of-completion for construction contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. We generally consider contracts to be substantially complete upon departure from the work site and acceptance by the customer. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Changes in job performance, job conditions, estimated contract costs and profitability and final contract settlements may result in revisions to costs and income and the effects of these revisions are recognized in the period in which the revisions are determined. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined.

We evaluate goodwill for potential impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Included in this evaluation are certain assumptions and estimates to determine the fair values of reporting units such as estimates of future cash flows, discount rates, as well as assumptions and estimates related to the valuation of other identified intangible assets. Changes in these assumptions and estimates or significant changes to the market value of our common stock could materially impact our results of operations or financial position.

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

We are insured for workers' compensation, automobile liability, general liability, employment practices and employee-related health care claims, subject to large deductibles. Our general liability program provides coverage for bodily injury and property damage that is neither expected nor intended. Losses up to the deductible amounts are accrued based upon our estimates of the liability for claims incurred and an estimate of claims incurred but not reported. The accruals are derived from actuarial studies, known facts, historical trends and industry averages utilizing the assistance of an actuary to determine the best estimate of the ultimate expected loss. We believe such accruals to be adequate. However, insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. Therefore, if actual experience differs from than the assumptions used in the actuarial valuation, adjustments to the reserve may be required and would be recorded in the period that the experience becomes known.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation at least annually at the end of each fiscal year. The estimation of required valuation allowances includes estimates of future taxable income. In assessing the realizability of deferred tax assets at September 30, 2004, we considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income differs from our estimates, our results could be affected.

During the last three years we have been implementing a three-phase strategy.

Phase one, "Back to Basics", emphasized basic business fundamentals of increasing backlog, controlling costs and generating positive cash flow. Phase two, "One Company. One Plan.", focused on processes and systems necessary to integrate various decentralized business units. Phase three, "Continued Growth", was designed to expand the businesses internally and via selective acquisitions. Since 2002, when the strategy was developed and implemented we accomplished a number of our objectives while reducing debt and repurchasing shares of common stock.

During the summer of 2004 we announced that we would not timely issue our financial results for the third fiscal quarter. Since that time we have diligently worked to remedy the matters that gave rise to those events. While we have determined that the matters were not widespread, the process and surrounding events caused us to modify our strategy to take a closer look at the overall operating and capital efficiency of our units to insure an optimal return on the capital invested in the company.

During October 2004 we began a process to strategically review the performance of each of our 49 business units over the last three years. We analyzed the financial performance of each unit with particular emphasis on the relative consistency of its results, returns on invested capital (unit level working capital and fixed assets), the required invested capital at each unit including capital costs associated with surety bonding, construction spending and growth trends in each geographic market, management strength and other factors.

We determined that certain businesses did not meet our criteria and have decided to sell or close these units in order to improve overall profitability and capital efficiency of the company. These units produced revenues and operating losses during 2004 of approximately $289.2 million and $13.1 million, respectively.

Results of Operations

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

	Year Ended September 30,					
	2002		2003		2004	
	(restated)		(restated) (In thousands)			
Revenues	$1,474,461	100%	$1,447,763	100%	$1,424,100	100%
Cost of services (including depreciation)	1,253,031	85	1,241,330	86	1,250,170	88
Gross profit	221,430	15	206,433	14	173,930	12
Selling, general and administrative expenses	174,997	12	153,651	10	158,906	11
Restructuring charges	5,556	—	—	—	—	—
Goodwill impairment	—	—	—	—	99,798	7
Income (loss) from operations	40,877	3	52,782	4	(84,774)	(6)
Interest and other expense, net	(27,405)	(2)	(25,768)	(2)	(29,006)	(2)
Income (loss) before income taxes and cumulative effect of change in accounting principle	13,472	1	27,014	2	(113,780)	(8)
Provision for income taxes	5,196	—	7,577	1	11,084	1
Cumulative effect of change in accounting principle, net of tax	283,284	19	—	—	—	—
Net income (loss)	$ (275,008)	(18)%	$ 19,437	1%	$ (124,864)	(9)%

Year ended September 30, 2004 compared to year ended September 30, 2003

Revenues

Revenues Year ended September 30,	Percentage of Total Revenues 2003	2004	Percentage Growth / Decline 2004
Commercial and Industrial	81%	78%	(5)%
Residential	19%	22%	11%
Total Company	100%	100%	(2)%

Revenues decreased $23.7 million, or 2%, from $1,447.8 million for the year ended September 30, 2003 to $1,424.1 million for the year ended September 30, 2004. The decrease in total revenues is the result of a $57.5 decrease in commercial and industrial revenues offset by an increase of $33.8 million in residential revenues. The decline in commercial and industrial revenues is primarily attributable to declines in the commercial and industrial construction market in Texas and for our traveling companies offset by increases in commercial and industrial revenues from our markets on the East Coast. The increase in residential revenues is attributable to the strong housing environment resulting from low interest rates and good execution by our residential management where we have seen increases at all of our subsidiaries focused primarily on residential electrical contracting.

Gross Margin

Year ended September 30,	Segment Gross Margins as a Percentage of Segment Revenues 2003	2004
Commercial and Industrial	13%	10%
Residential	21%	19%
Total Company	14%	12%

Gross profit decreased $32.5 million, or 16% from $206.4 million for the year ended September 30, 2003 to $173.9 million for the year ended September 30, 2004. The decline in commercial and industrial gross profit from $148.4 million for the year ended September 30, 2003, to $114.0 million for the year ended September 30, 2004, was due to gross profit on a lower revenue base earned year over year of approximately $7.5 million, a decline in gross profit margin at one subsidiary of $6.0 million, increased costs associated with the procurement of copper wire, steel products and fuel, as well as overall declines in margins as a result of increased competition in markets we serve. The increase in residential gross profit from $58.0 million for the year ended September 30, 2003, to $59.8 million for the year ended September 30, 2004, was due to gross profit on a higher revenue base earned year over year of approximately $7.1 million, offset by increased costs associated with the procurement of copper wire, steel products and fuel.

Overall gross margin as a percentage of revenues decreased approximately 18% from 14% for the year ended September 30, 2003 to 12% for the year ended September 30, 2004. Had we earned last year's gross margin of 14%, gross profit for the year ended September 30, 2004 would have been $199.4 million, an increase of $25.5 million. The decline in gross margin during the year ended September 30, 2004 was primarily due to increased competition for available commercial and industrial work, the decline in gross profit margin at one subsidiary of $6.0 million and increased costs associated with the procurement of copper wire, steel products and fuel.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $6.2 million, or 4%, from $153.7 million for the year ended September 30, 2003 to $158.9 million for the year ended September 30, 2004. This increase is due primarily to an $8.0 million charge to settle a lawsuit taken during the fourth quarter ended September 30, 2004. This increase is also due to increased legal fees of $3.7 million, increased bad debt expense of $1.2 million due to receivable write-offs and $1.1 million in severance expenses recorded during the year ended September 30, 2004 as compared to the year ended September 30, 2003. These increased selling general and administrative expenses were offset by approximately $7.8 million of reduced employment related expenses including employee paid medical insurance, bonuses and commissions and other variable expenses. As a result of these charges, selling, general and administrative expenses as a percent of revenue increased from 10% for the year ended September 30, 2003 to 11% for the year ended September 30, 2004.

Goodwill Impairment Charge

During the year ended September 30, 2004, we recorded a charge of $99.8 million related to impairments to the carrying value of goodwill. This charge was entirely associated with the commercial and industrial segment of our operations. See "Liquidity and Capital Resources" below for further information.

Income From Operations

Income from operations decreased $137.6 million, or 260%, from $52.8 million for the year ended September 30, 2003 to a $84.8 million operating loss for the year ended September 30, 2004. As a percentage of revenues, income from operations decreased from 4% for the year ended September 30, 2003, to a 6% operating loss for the year ended September 30, 2004. This decrease in income from operations was primarily attributed to the $99.8 million of goodwill impairment to the carrying value of goodwill, the accrual of $8.0 million for the settlement of a lawsuit included in selling, general and administrative and the $32.5 million decline in gross profits earned during the year ended September 30, 2004 as compared to the year ended September 30, 2003. Excluding the impact of the goodwill impairment charge recorded during the year ended September 30, 2004, income from operations as a percent of revenues decreased from 4% for the year ended September 30, 2003 to 1% for the year ended September 30, 2004.

Interest and Other Expense, net

Interest and other expense, net increased $3.2 million, or 13%, from $25.8 million in 2003 to $29.0 million in 2004. This increase is primarily due to $5.2 million in costs incurred during the year ended September 30, 2004 associated with the early extinguishment of $75.0 million of high-yield subordinated debt. This increase was offset by a $3.3 million decrease in interest expense during the year ended September 30, 2004 due to a lower amount of average debt outstanding during the year ended September 30, 2004 compared to the year ended September 30, 2003, and a shift to lower cost senior secured debt from subordinated debt during the year ended September 30, 2004.

Provision for Income Taxes

Our effective tax rate decreased from 28% for the year ended September 30, 2003 to negative 10% for the year ended September 30, 2004. The decease is attributable to a pretax net loss, permanent differences required to be added back for income tax purposes, the impairment of non-deductible goodwill, additional valuation allowance against certain federal and state deferred tax assets and a change in contingent tax liabilities.

In assessing the realizability of deferred tax assets at September 30, 2004, we considered whether it was more likely than not that some portion or all of the deferred tax assets will not be realized. Our realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. However, SFAS 109, "Accounting for Income Taxes" places considerably more weight on historical results and less weight on future projections when there is negative evidence such as cumulative pretax losses in recent years. We incurred a cumulative pretax loss of $73.3 for September 30, 2002, 2003 and 2004 including goodwill impairment of $99.8 million in the year ended September 30, 2004 and excluding $283.3 million resulting from the adoption of SFAS 142 in the year ended September 30, 2002. In the absence of specific favorable evidence of sufficient weight to offset the negative evidence of the cumulative pretax loss, we have provided $29.3 million of valuation allowances for certain federal and state deferred tax assets.

Year ended September 30, 2003 compared to year ended September 30, 2002

Revenues

Revenues	Percentage of Total Revenues		Percentage Growth / Decline
Year ended September 30,	2002	2003	2003
Commercial and Industrial	81%	81%	(2)%
Residential	19%	19%	(2)%
Total Company	100%	100%	(2)%

Revenues decreased $26.7 million, or 2%, from $1,474.5 million for the year ended September 30, 2002 to $1,447.8 million for the year ended September 30, 2003. The decrease in total revenues is the result of $41.6 million in lost revenues on divested or closed companies that were included in revenues for the year ended September 30, 2002, but not during the year ended September 30, 2003. These lost revenues were partially offset by $32.2 million of revenues from an acquisition during the year ended September 30, 2003. The decline in commercial and industrial revenues is attributable to $29.4 million decline in communications work due to market contractions, particularly in California, Colorado, Washington, D.C. and Virginia. The decrease in residential revenues is attributable to a $36.9 million decline in multi-family residential construction projects, primarily in Colorado and Maryland, offset by a $31.0 million increase in single-family construction spending. We believe record low interest rates during the last 12-18 months is driving demand for new homes, leading to record levels of single-family residential construction spending. As families move into their new single-family homes, the demand for multi-family housing has dropped.

Gross Margin

	Segment Gross Margins as a Percentage of Segment Revenues	
Year ended September 30,	**2002**	**2003**
Commercial and Industrial	13%	13%
Residential	22%	21%
Total Company	15%	14%

Gross profit decreased $15.0 million, or 7% from $221.4 million for the year ended September 30, 2002 to $206.4 million for the year ended September 30, 2003. The decline in commercial and industrial gross profit was due to lower revenues earned year over year as discussed and due to a shift in the type of commercial and industrial work performed during the year ended September 30, 2003. The related service and maintenance work for commercial and industrial customers, which tends to earn higher gross margins than fixed price contracts, declined $6.0 million in gross profit during the year. This decline was moderated by a $87.1 million increase in larger project work awarded during the year, particularly industrial contracts in excess of $1 million. These larger projects produce gross profits but tend to earn lower gross margins as a percentage of revenue due to the competitive bidding procedures in place to be awarded this type of work. The shift of project work from small projects such as the service and maintenance work to larger projects in excess of $1 million impacted gross profits by approximately $9.2 million.

Overall gross margin as a percentage of revenues decreased approximately 1% from 15% for the year ended September 30, 2002 to 14% for the year ended September 30, 2003. Had we earned the fiscal 2002 gross margin of 15%, gross profit for the year ended September 30, 2003 would have been $217.2 million, an increase of $10.1 million. The decline in gross margin during the year ended September 30, 2003 was due to the shift in type of commercial and industrial work performed and due to the increased competition for available residential work. We believe low interest rates during the last 12-18 months is driving demand for new homes, leading to record levels of single-family residential construction spending. This increased demand for residential construction has increased pricing pressure for available work, particularly affecting our operating units that perform limited amounts of residential work in addition to their commercial and industrial contract expertise.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $21.3 million, or 12%, from $175.0 million for the year ended September 30, 2002 to $153.7 million for the year ended September 30, 2003. This decline is due to the organizational restructuring that occurred during the year ended September 30, 2002. In the last 12 months, we have combined administrative offices and functions, leading to a decline in operating locations from approximately 150 locations to approximately 134 locations. We also divested or closed non-performing companies, which decreased our selling, general and administrative cost structure by approximately $7.9 million. Finally, we streamlined our administrative cost structure, yielding savings of $14.3 million in salaries and benefits. As a result of these changes, selling, general and administrative expenses as a percent of revenue decreased 2% from 12% for the year ended September 30, 2002 to 10% for the year ended September 30, 2003.

Restructuring Charges

In October 2001 we began implementation of a workforce reduction program. The purpose of this program was to cut costs by reducing the number of administrative staff both in the field and at the home office. The total number of terminated employees was approximately 450. As a result of the program implementation, we recorded pre-tax restructuring charges of $5.6 million associated with 45 employees during the year ended September 30, 2002 and presented these charges as a separate component of our results of operations for the period then ended. No restructuring charges were incurred for the year ended September 30, 2003. The charges were based on the costs of the workforce reduction program and include severance and other special termination benefits. We believe the reduction of these personnel resulted in annual savings of approximately $4.1 million in salaries and benefits. At September 30, 2002, approximately $2.0 million of these charges that related to five individuals had not been paid and were included in accounts payable and accrued expenses. At September 30, 2003, approximately $1.3 million of these charges that relate to three individuals have not been paid and are included in accounts payable and accrued expenses. The remaining payments accrued under this restructuring were made during the year ended September 30, 2004.

Income From Operations

Income from operations increased $11.9 million, or 29%, from $40.9 million for the year ended September 30, 2002 to $52.8 million for the year ended September 30, 2003. As a percentage of revenues, income from operations increased from 3% for the year ended September 30, 2002 to 4% for the year ended September 30, 2003. This increase in income from operations was primarily attributed to $5.6 million in restructuring charges recorded during the year ended September 30, 2002, and a $20.5 million decrease selling, general and administrative expenses year over year, offset by a $15.0 million decline in gross profits earned during the year ended September 30, 2003.

Interest and Other Expense, net

Interest and other expense, net decreased $1.6 million, or 6%, from $27.4 million in 2002 to $25.8 million in 2003. The decrease was primarily the result of a $1.0 million decrease in interest expense during the year ended September 30, 2003 due to a lower amount of average debt outstanding during the year ended September 30, 2003 compared to the year ended September 30, 2002. During the year ended September 30, 2003, other expense, net included a $0.4 million gain from the sale of certain subsidiaries and a $0.8 million loss recorded on our investment in Energy Photovoltaics, Inc. This was a decrease from other expense, net, for the year ended September 30, 2002, which included a $1.0 million gain resulting from the retirement of $27.1 million of our 9⅜% senior subordinated notes due February 1, 2009 in the last quarter of the year ended September 30, 2002, a $1.5 million net gain resulting from the sale of certain subsidiaries and offset by a $1.7 million loss recorded on our investment in Energy Photovoltaics, Inc. and losses on sales of assets of $0.9 million.

Provision for Income Taxes

Our effective tax rate decreased from 39% for the year ended September 30, 2002 to 28% for the year ended September 30, 2003. This decrease is attributable to the release of $2.8 million of tax valuation allowances that were included in income during the year ended September 30, 2003. We released these valuation allowances because we believe that we will now realize a portion of the deferred tax assets for which they were established. Without the impact of these valuation allowance releases, our effective tax rate was 38.5% for the year ended September 30, 2003.

Cost Drivers

As a service business, our cost structure is highly variable. Our primary costs include labor, materials and insurance. Approximately 48% of our costs are derived from labor and related expenses. For the years ended September 30, 2002, 2003 and 2004, our labor-related expenses totaled $568.0 million, $553.5 million and $604.8 million, respectively. As of September 30, 2004, we had approximately 11,600 employees. Approximately 9,635 employees were field electricians, the number of which fluctuates depending upon the number and size of the projects undertaken by us at any particular time. Approximately 1,974 employees were project managers, job superintendents and administrative and management personnel, including executive officers, estimators or engineers, office staff and clerical personnel. We provide a health, welfare and benefit plan for all employees subject to eligibility requirements. We have a 401(k) plan pursuant to which eligible employees may make contributions through a payroll deduction. We make matching cash contributions of 25% of each employee's contribution up to 6% of that employee's salary. We also have an employee stock purchase plan that provides eligible employees the opportunity to contribute up to 100% of their cash compensation, up to $21,250 annually, toward the annual purchase of our common stock at a discounted price; 1,124 employees participated in this plan during the year ended September 30, 2004.

Approximately 49% of our costs incurred are for materials installed on projects. This component of our expense structure is variable based on the demand for our services. We generally incur costs for materials once we begin work on a project. We generally order materials when needed, ship them directly to the jobsite, and install them within 30 days. Materials consist of commodity-based items such as conduit, wire and fuses as well as specialty items such as fixtures, switchgear and control panels. For the years ended September 30, 2002, 2003 and 2004, our materials expenses (net of earned rebates) totaled $531.5 million, $542.0 million and $612.3 million, respectively.

We are insured for workers' compensation, employer's liability, auto liability, general liability and health insurance, subject to large deductibles. Losses up to the deductible amounts are accrued based upon actuarial studies and our estimates of the ultimate liability for claims incurred and an estimate of claims incurred but not reported. The accruals are based upon known facts and historical trends and management believes such accruals to be adequate. Expenses for claims administration, claims funding and reserves funding totaled $49.3 million, $40.8 million and $37.1 million for the years ended September 30, 2002, 2003, and 2004, respectively.

Working Capital

	SEPTEMBER 30, 2003	SEPTEMBER 30, 2004
	(In thousands, except for ratios) (restated)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 40,201	$ 22,232
Accounts receivable:		
Trade, net of allowance of $5,425 and $4,519 respectively	245,618	247,324
Retainage	68,789	71,920
Related party	67	67
Costs and estimated earnings in excess of billings on uncompleted contracts	46,999	41,816
Inventories	20,473	22,657
Prepaid expenses and other current assets	14,427	13,307
Total current assets	$436,574	$419,323
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 256	$ 43,007
Accounts payable and accrued expenses	138,143	149,485
Billings in excess of costs and estimated earnings on uncompleted contracts	42,415	37,589
Total current liabilities	$180,814	$230,081
Working capital	$255,760	$189,242

Total current assets decreased $17.3 million, or 4%, from $436.6 million as of September 30, 2003 to $419.3 million as of September 30, 2004. This decrease is primarily the result of a $18.0 million decrease in cash and cash equivalents that was impacted by $50.0 million in term loan borrowings offset by cash used to retire $75.0 million of senior subordinated debt included in cash used in financing activities. Additionally, $6.3 million of cash was used in investing activities. See "Liquidity and Capital Resources" below for further information. The decline in working capital also reflects a $5.2 million reduction in costs and estimated earnings in excess of billings on uncompleted contracts. The increase in prepaid expenses and other current assets is due to a $7.5 million deposit that was outstanding at September 30, 2004, to collateralize our surety program.

Total current liabilities increased $49.3 million, or 27%, from $180.8 million for the year ended September 30, 2003 to $230.1 million for the year ended September 30, 2004. This increase is primarily the result of $43.0 million of our term loan under our credit facility becoming due before September 30, 2005, a $11.3 million increase in accounts payable and accrued liabilities that includes the $8.0 million accrual for litigation settlement, offset by a decrease in billings in excess of costs and estimated earnings on uncompleted contracts of $4.9 million. We expect proceeds from asset sales to retire the term loan amounts due in fiscal 2005.

Liquidity and Capital Resources

As of September 30, 2004, we had cash and cash equivalents of $22.2 million, working capital of $189.3 million, $57.9 million in borrowings under our credit facility, $173.2 million of outstanding senior subordinated notes, $25.8 million of letters of credit outstanding and available borrowing capacity under our credit facility of $41.3 million.

During the year ended September 30, 2004, we generated $4.7 million of net cash from operating activities. This net cash from operating activities was comprised of a net loss of $124.9 million, increased by $112.9 million of non-cash charges, including a goodwill impairment charge in the fourth quarter ended September 30, 2004 of $99.8 million, and increased by $18.0 million in working capital changes. Non-cash charges included depreciation and amortization expense, bad debt expense, changes in deferred income taxes, gains on sales of property and equipment, and impairment of goodwill. Working capital changes consisted of a net cash decrease of $4.9 million in billings in excess of costs and estimated earnings on uncompleted projects offset by a net cash increase of $4.8 million in cost and estimated earnings in excess of billings on uncompleted contracts. These working capital changes were offset by a $2.2 million increase in inventory and a $14.6 million increase in payables and accrued expenses offset by an $8.6 million increase in receivables as a result of the timing of collections, with the balance of the change due to other working capital changes. Net cash used in investing activities was $6.3 million, including $6.5 million used for capital expenditures and $0.8 million used for investments, offset by $1.0 million provided from the sale of property and equipment. Net cash used by financing activities was $16.3 million, resulting primarily from $17.4 in net repayments of debt, and $4.3 million for the acquisition of treasury stock, including 5.6 million for debt issue costs.

During the year ended September 30, 2003, we completed a 2 million share repurchase program. We used approximately $10.2 million in cash generated from operations to repurchase shares during the year ended September 30, 2003.

On November 5, 2003, we commenced a $13 million share repurchase program. We used approximately $4.6 million in cash generated from operations to repurchase 549,200 shares during the year ended September 30, 2004 under this program. The terms of our credit facility, as amended, restrict our ability to repurchase shares under this program.

On February 27, 2004, we amended and restated our $125.0 million revolving credit facility to a $125.0 million revolving credit facility and a $50.0 million term loan led by Bank One, NA. We used the proceeds from the term loan and available cash to redeem $75.0 million principal amount of our long term bonds. Since February 27, 2004, and through December 10, 2004, we have amended the credit facility four times. The amendments provided, among other things, for covenants or waivers that permit us to file our Form 10-Q for the quarter ended June 30, 2004 on or before December 15, 2004, permitted us to issue senior convertible notes, specified mandatory debt reduction amounts by quarter, adjusted and redefined financial covenants on a monthly basis beginning December 31, 2004, increased pricing, established the borrowing base at 70 percent of qualifying receivables and permit us to release certain collateral related to bonded jobs to companies providing surety bonding. These amendments required the payments of fees upon their execution. These fees are capitalized as deferred financing costs and amortized over the life of the facility. The credit facility, as amended, matures on January 13, 2006. We have the ability to extend the facility until January 12, 2007 upon the payment of a fee if certain financial conditions are met. The term loan of the credit facility is due by September 30, 2005. At September 30, 2004, the term loan had outstanding borrowings of $42.9 million. Amounts borrowed under the credit facility, as amended, bear interest at an annual rate of the banks prime rate plus two percent. Fees of one percent per annum are assessed on the outstanding credit facility commitment as of the beginning of each quarter beginning January 1, 2005. Our direct and indirect subsidiaries guarantee the repayment of all amounts due under the facility and the facility is secured by a first perfected security interest in all the assets of the company and those subsidiaries, including all of the outstanding capital shares of the capital stock of those subsidiaries. Among other restrictions, the financial covenants include minimum EBITDA requirements for core and all operations, a maximum senior secured debt to EBITDA ratio and a minimum interest coverage ratio.

We have outstanding two different issues of senior subordinated notes with similar terms. The notes bear interest at 9⅜% and will mature on February 1, 2009. We pay interest on the notes on February 1 and August 1 of each year. The notes are unsecured senior subordinated obligations and are subordinated to all of our existing and future senior indebtedness. The notes are guaranteed on a senior subordinated basis by all of our subsidiaries. Under the terms of the notes, we are required to comply with various affirmative and negative covenants including (1) restrictions on additional indebtedness, and (2) restrictions on liens, guarantees and dividends. During the year ended September 30, 2002, we retired approximately $27.1 million of these senior subordinated notes. In connection with these transactions, we recorded a gain of $1.0 million. This gain is recorded in interest and other expense, net during the year ended September 30, 2002 in accordance with SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which we adopted July 1, 2002. During the year ended September 30, 2004, we redeemed $75.0 million principal amount of our senior subordinated notes, paying a call premium of 4.688%, or $3.5 million. This premium along with a write off of previously capitalized deferred financing costs of $1.6 million was recorded as a loss in other income and expense in accordance with SFAS No. 145. At September 30, 2004, we had $172.9 million in outstanding senior subordinated notes.

In August 2001, we entered into an interest rate swap contract that had a notional amount of $100.0 million and was established to manage the interest rate risk of the senior subordinated note obligations. We terminated this contract in February 2002. At termination, we received cash equal to the fair value of this derivative of $1.5 million, which is being amortized over the remaining life of the bonds.

In February 2002 we entered into a new interest rate swap contract that had a notional amount of $100.0 million and was established to manage the interest rate risk of the senior subordinated note obligations. We terminated this contract in August 2002. At termination, we received cash equal to the fair value of this derivative of $2.5 million, which is being amortized over the remaining life of the bonds. At September 30, 2002, 2003 and 2004, we had no outstanding interest rate swap contracts.

Effective October 1, 2001, we adopted SFAS No. 142, “Goodwill and Other Intangible Assets,” which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective October 1, 2001. Goodwill amortization for the years ended September 30, 2002 and 2003 would have otherwise been $12.9 million (before the impairment charge). Goodwill attributable to each of our reporting units was tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using discounted cash flows, market multiples and market capitalization. These impairment tests are required to be performed at adoption of SFAS No. 142 and at least annually thereafter. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests annually during the first fiscal quarter.

Based on our impairment tests performed upon adoption of SFAS No. 142, we recognized a charge of $283.3 million ($7.11 per share) in the first quarter of 2002 to reduce the carrying value of goodwill of our reporting units to its implied fair value. This impairment is a result of adopting a fair value approach, under SFAS No. 142, to testing impairment of goodwill as compared to the previous method utilized in which evaluations of goodwill impairment were made using the estimated future undiscounted cash flows compared to the assets carrying amount.

The impairment was the result of lower forecasted future operating income at the point of adoption than we anticipated to result from decreased spending in the construction industry in all of our markets. The impairment related to our operating regions follows (amounts in millions):

Southeast	$ 89.2
Northeast	35.2
Gulf Plains	47.4
Central	80.8
West	21.0
Residential	2.6
Divested after adoption	7.1
Total	$283.3

Under SFAS No. 142, the impairment adjustment recognized at adoption of the new rules was reflected as a cumulative effect of change in accounting principle in the statement of operations for the year ended September 30, 2002. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses.

On August 13, 2004, we announced that we would not timely file our results for the three months ended June 30, 2004 on Form 10-Q. We also announced that there was also a possibility that factors surrounding certain material weaknesses in internal control may require a restatement of prior periods. Following this announcement, our stock price declined 40 percent to $3.93 on August 16, 2004. We believe that this decline in stock price plus the jury verdict and uncertainties surrounding our ability to obtain surety bonds was reflective of a change in our operations that indicated that a possible impairment of the carrying amount of goodwill existed at September 30, 2004. Therefore, we performed a test for impairment and consequently recorded a charge of $99.8 million. This charge is included in arriving at income (loss) from operations for the year ended September 30, 2004. The impairment detailed by our operating regions follows (amounts in millions):

Southeast	$28.8
Northeast	16.3
Gulf Plains	2.1
Central	51.0
West	1.6
Total	$99.8

On February 27, 2003 we acquired substantially all of the operating assets of Riviera Electric LLC ("Riviera") out of a bankruptcy auction of a prior competitor. Riviera provides electrical contracting services in the state of Colorado. The purchase price consisted of approximately $2.7 million of cash, net of cash acquired. The cash used to purchase this acquisition was funded by operations.

In December 2000, we made an investment in Energy Photovoltaics, Inc. (EPV), based in Lawrenceville, New Jersey. EPV is a privately held developer and provider of proprietary thin film processes and equipment for manufacturing photovoltaic modules to provide solar energy. We account for our 21 percent interest in EPV in accordance with the equity method of accounting and accordingly recorded our share of EPV's losses of $1.7 million, $0.8 million and $0.9 million for the years ended September 30, 2002, 2003 and 2004, respectively. At September 30, 2004, we had a carrying value of our investment in EPV $0.3 million and a $1.8 million debt investment in EPV. We performed a discounted cash flow analysis at September 30, 2004 and determined that no impairment to this investment existed. This investment involves certain risks involving demand for photovoltaic services. If EPV is unable to deliver on its business plan, we could deem this investment impaired and would record a charge to other expense in the period such impairment, if any, is determined.

All of our operating income and cash flows are generated by our 100% owned subsidiaries, which are the subsidiary guarantors of our outstanding 9⅜% senior subordinated notes due 2009 (the "Senior Subordinated Notes"). We are structured as a holding company and substantially all of our assets and operations are held by our subsidiaries. There are currently no significant restrictions on our ability to obtain funds from our subsidiaries by dividend or loan. The parent holding company's independent assets, revenues, income before taxes and operating cash flows are less than 3% of the consolidated total. The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of us; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the Senior Subordinated Notes; and (iii) the aggregate assets, liabilities, earnings and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of us on a consolidated basis. As a result, the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

Off-Balance Sheet Arrangements

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

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

Some of our customers require us to post letters of credit as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. Depending on the circumstances surrounding a reimbursement to our creditor, we may have a charge to earnings in that period. To date we have not had a situation where a customer has had reasonable cause to effect payment under a letter of credit. At September 30, 2004, $1.9 million of our outstanding letters of credit were to collateralize our customers.

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral. This is common in the insurance industry. To date we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At September 30, 2004, $18.9 million of our outstanding letters of credit were to collateralize our insurance program.

Many of our customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. In the event that we fail to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under our bond. Our relationship with our sureties is such that we will indemnify the sureties for any expenses they incur in connection with any of the bonds they issues on our behalf. To date, we have not incurred significant costs to indemnify our sureties for expenses they incurred on our behalf. As of September 30, 2004, our cost to complete projects covered by surety bonds was approximately $200.0 million and we utilized a combination of cash and letters of credit totaling $12.5 million to collateralize our bonding program.

Other Commitments

In April 2000, we committed to invest up to $5.0 million in EnerTech Capital Partners II L.P. (EnerTech). EnerTech is a private equity firm specializing in investment opportunities emerging from the deregulation and resulting convergence of the energy, utility and telecommunications industries. Through September 30, 2004, we had invested $3.5 million under our commitment to EnerTech. The carrying value of this Enertech investment at September 30, 2003 and 2004 was $2.5 million and $3.0 million, respectively. This investment is accounted for on the cost basis of accounting and accordingly, we do not record unrealized losses for the EnerTech investment that it believes are temporary in nature. As of September 30, 2004, the unrealized losses related to the Company's share of the Enertech fund amounted to approximately $0.8 million, which we believe are temporary in nature. If facts arise that lead us to determine that such unrealized losses are not temporary, we would write down our investment in EnerTech through a charge to other expense during the period of such determination.

Our future contractual obligations include (in thousands)(1):

	2005	2006	2007	2008	2009	Thereafter	Total
Debt obligations	$42,929	$ —	$15,000	$ —	$172,885	$—	$230,814
Capital lease obligations	$ 66	$ 78	$ —	$ —	$ —	$—	$ 144
Operating lease obligations	$14,261	$9,703	$ 6,326	$3,795	$ 2,911	$—	$ 36,996

(1) The tabular amounts exclude the interest obligations that will be created if the debt and capital lease obligations are outstanding for the periods presented.

Our other commercial commitments expire as follows (in thousands):

	2005	2006	2007	2008	2009	Thereafter	Total
Standby letters of credit	$25,808	$—	$—	$—	$—	$ —	$25,808
Other commercial commitments	$ —	$—	$—	$—	$—	$1,500(2)	$ 1,500

(2) Balance of investment commitment in EnerTech.

Outlook

Economic conditions across the country are challenging although construction industry spending is expected to increase by two percent in 2005 according to F.W. Dodge. We continue to focus on collecting receivables and reducing days sales outstanding. We will continue to take steps to reduce our costs. We have made significant reductions in administrative overhead at the home office and in the field. We have elected to sell or close certain operations that are heavily dependent on bonding or are otherwise underperforming. These operations generated total revenues in fiscal 2004 of $289.2 million and operating losses of $13.1 million. If we are successful in our efforts to sell these operations, their revenue and income (loss) contributions will no longer be included in our results of operations and the sales proceeds will be used primarily to reduce our indebtedness. As we continue to divest of operations and cut costs our outlook will change. Therefore, we are not providing guidance at this time.

We expect to generate cash flow from operations, sales of businesses, borrowing under our convertible debt indenture and our credit facility. Our cash flows from operations tend to track with the seasonality of our business and historically have improved in the latter part of our fiscal year. We anticipate that these combined cash flows will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. We expect capital expenditures of approximately $5.0 million for the fiscal year ended September 30, 2005. Our ability to generate cash flow is dependent on many factors, including demand for our products and services, the availability of projects at margins acceptable to us, the ultimate collectibility of our receivables, the ability to consummate transactions to dispose of businesses and our ability to borrow on our credit facility. See “Disclosure Regarding Forward-Looking Statements.”

Seasonality and Cyclical Fluctuations

Our results of operations from residential construction are seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter. The commercial and industrial aspect of our business is less subject to seasonal trends, as this work generally is performed inside structures protected from the weather. Our service and maintenance business is generally not affected by seasonality. In addition, the construction industry has historically been highly cyclical. Our volume of business may be adversely affected by declines in construction projects resulting from adverse regional or national economic conditions. Quarterly results may also be materially affected by the timing of new construction projects, 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 2002 and 2003, inflation did not have a significant effect on our results in those fiscal years or on any of the acquired businesses during similar periods. During fiscal 2004, however, we experienced significant increases in the commodity prices of copper products, steel products and fuel. Over the long-term, we expect to be able to pass these increased costs to our customers.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("Interpretation 46"). The objective of Interpretation 46 is to improve the financial reporting by companies involved with variable interest entities. Until Interpretation 46, one company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interest. Interpretation 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period ending after December 15, 2003. Certain of disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We have minority interests in two firms, EnerTech Capital Partners II, L.P. and Energy Photovoltaics, Inc., and a joint venture that may fall under this interpretation. The adoption of this statement did not have a material impact on our results of operations or financial position.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150"). SFAS 150 requires that mandatorily redeemable financial instruments issued in the form of shares be classified as liabilities, and specifies certain measurement and disclosure requirements for such instruments. The provisions of SFAS 150 were effective at the beginning of the first interim period beginning after June 15, 2003. We adopted the requirements of SFAS 150 as of July 1, 2003. The adoption did not have a material impact on our results of operations or financial position.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Management is actively involved in monitoring exposure to market risk and continues to develop and utilize appropriate risk management techniques. Our exposure to significant market risks include outstanding borrowings under our floating rate credit facility and fluctuations in commodity prices for copper products, steel products and fuel. Outstanding borrowings under our credit facility were $57.9 million as of September 30, 2004, although the outstanding amount varies throughout the fiscal year as working capital needs change. Management does not use derivative financial instruments for trading purposes or to speculate on changes in interest rates or commodity prices.

As a result, our exposure to changes in interest rates results from our short-term and long-term debt with both fixed and floating interest rates. The following table presents principal or notional amounts (stated in thousands) and related interest rates by year of maturity for our debt obligations and their indicated fair market value at September 30, 2004:

	2005	2006	2007	2008	2009	Thereafter	Total
Liabilities—Debt:							
Variable Rate (Credit Facility)	$42,929	$ —	$15,000	$ —	$ —	$ —	$ 57,929
Average Interest Rate	4.39%	4.39%	4.39%	—	—	—	4.39%
Fixed Rate (Senior Subordinated Notes)	$ —	$ —	$ —	$ —	$172,885	$ —	$172,885
Interest Rate	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%	9.375%
Fair Value of Debt:							
Variable Rate							$ 57,929
Fixed Rate							$160,783

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Integrated Electrical Services, Inc.

We have audited the accompanying consolidated balance sheets of Integrated Electrical Services, Inc. and subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated Electrical Services, Inc. and subsidiaries at September 30, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2004 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the accompanying consolidated financial statements, the Company has restated its 2002 and 2003 financial statements.

ERNST & YOUNG LLP

Houston, Texas
December 8, 2004,
except for Notes 1, 7 and 16,
as to which the date is
December 13, 2004

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

	SEPTEMBER 30, 2003 (restated)	SEPTEMBER 30, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 40,201	$ 22,232
Accounts receivable:		
Trade, net of allowance of $5,425 and $4,519, respectively	245,618	247,324
Retainage	68,789	71,920
Related party	67	67
Costs and estimated earnings in excess of billings on uncompleted contracts	46,999	41,816
Inventories	20,473	22,657
Prepaid expenses and other current assets	14,427	13,307
Total current assets	436,574	419,323
PROPERTY AND EQUIPMENT, net	52,697	44,861
GOODWILL, net	197,884	98,086
OTHER NONCURRENT ASSETS, net	27,332	18,663
Total assets	$ 714,487	$ 580,933
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 256	$ 43,007
Accounts payable and accrued expenses	138,143	149,485
Billings in excess of costs and estimated earnings on uncompleted contracts	42,415	37,589
Total current liabilities	180,814	230,081
LONG-TERM DEBT, net of current maturities	195	15,066
SENIOR SUBORDINATED NOTES, net	247,927	173,208
OTHER NONCURRENT LIABILITIES	20,644	19,410
Total liabilities	449,580	437,765
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $.01 par value, 100,000,000 shares authorized, 38,439,984 shares issued	385	385
Restricted voting common stock, $.01 par value, 2,605,709 shares issued, authorized and outstanding	26	26
Treasury stock, at cost, 2,725,793 and 2,172,313 shares, respectively	(16,361)	(13,790)
Unearned restricted stock	—	(1,113)
Additional paid-in capital	427,709	429,376
Retained deficit	(146,852)	(271,716)
Total stockholders' equity	264,907	143,168
Total liabilities and stockholders' equity	$ 714,487	$ 580,933

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

INTEGRATED ELECTRICAL SERVICES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	YEAR ENDED SEPTEMBER 30,		
	2002 (restated)	2003 (restated)	2004
REVENUES	$ 1,474,461	$ 1,447,763	$ 1,424,100
COST OF SERVICES	1,253,031	1,241,330	1,250,170
Gross profit	221,430	206,433	173,930
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	174,997	153,651	158,906
RESTRUCTURING CHARGES	5,556	—	—
GOODWILL IMPAIRMENT CHARGE	—	—	99,798
Income (loss) from operations	40,877	52,782	(84,774)
OTHER INCOME (EXPENSE):			
Interest expense	(26,702)	(25,744)	(23,187)
Other, net	(703)	(24)	(5,819)
Interest and other expense, net	(27,405)	(25,768)	(29,006)
INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	13,472	27,014	(113,780)
PROVISION FOR INCOME TAXES	5,196	7,577	11,084
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX	283,284	—	—
NET INCOME (LOSS)	$ (275,008)	$ 19,437	$ (124,864)
BASIC EARNINGS (LOSS) PER SHARE:			
Basic earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.21	$ 0.50	$ (3.23)
Cumulative effect of change in accounting principle	$ (7.11)	$ —	$ —
Basic earnings (loss) per share	$ (6.90)	$ 0.50	$ (3.23)
DILUTED EARNINGS (LOSS) PER SHARE:			
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.21	$ 0.50	$ (3.23)
Cumulative effect of change in accounting principle	$ (7.11)	$ —	$ —
Diluted earnings (loss) per share	$ (6.90)	$ 0.50	$ (3.23)
SHARES USED IN THE COMPUTATION OF EARNINGS (LOSS) PER SHARE:			
Basic	39,847,591	39,062,776	38,610,326
Diluted	39,847,591	39,225,312	38,610,326

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)

	Common Stock		Restricted Voting Common Stock		Treasury Stock		Unearned Restricted Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE, September 30, 2001	38,331,672	$383	2,605,709	$ 26	(1,245,879)	$ (9,181)	$ —	$428,697	$ 108,719	$ 528,644
Issuance of stock	7,306	—	—	—	213,150	1,321	—	(349)	—	972
Purchase of treasury stock	—	—	—	—	(209,600)	(984)	—	—	—	(984)
Receipt of treasury stock	—	—	—	—	(241,224)	(1,392)	—	—	—	(1,392)
Issuance of stock under employee stock purchase plan	—	—	—	—	55,742	411	—	(411)	—	—
Exercise of stock options	101,006	2	—	—	6,743	51	—	490	—	543
Net loss (restated)	—	—	—	—	—	—	—	—	(275,008)	(275,008)
BALANCE, September 30, 2002 (restated)	38,439,984	$385	2,605,709	$ 26	(1,421,068)	$ (9,774)	$ —	$428,427	$(166,289)	$ 252,775
Issuance of stock	—	—	—	—	14,750	90	—	(13)	—	77
Purchase of treasury stock	—	—	—	—	(1,890,400)	(10,207)	—	—	—	(10,207)
Receipt of treasury stock	—	—	—	—	(70,330)	(270)	—	—	—	(270)
Issuance of stock under employee stock purchase plan	—	—	—	—	248,982	1,549	—	(728)	—	821
Exercise of stock options	—	—	—	—	392,273	2,251	—	23	—	2,274
Net income (restated)	—	—	—	—	—	—	—	—	19,437	19,437
BALANCE, September 30, 2003 (restated)	38,439,984	$385	2,605,709	$ 26	(2,725,793)	$(16,361)	$ —	$427,709	$(146,852)	$ 264,907
Issuance of stock	—	—	—	—	12,931	81	—	32	—	113
Issuance of restricted stock	—	—	—	—		—	(1,992)	1,992	—	—
Purchase of treasury stock	—	—	—	—	(549,200)	(4,340)	—	—	—	(4,340)
Issuance of stock under employee stock purchase plan	—	—	—	—	247,081	1,592	—	(614)	—	978
Exercise of stock options	—	—	—	—	842,668	5,238	—	339	—	5,577
Non-cash compensation	—	—	—	—	—	—	879	(82)	—	797
Net (loss)	—	—	—	—	—	—	—	—	(124,864)	(124,864)
BALANCE, September 30, 2004	38,439,984	$385	2,605,709	$ 26	(2,172,313)	$(13,790)	$(1,113)	$429,376	$(271,716)	$ 143,168

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

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

	Year Ended September 30,		
	2002 (restated)	2003 (restated)	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$(275,008)	$ 19,437	$(124,864)
Adjustments to reconcile net income (loss) to net cash Provided by operating activities-			
Cumulative effect of change in accounting principle	283,284	—	—
Bad debt expense	4,324	2,277	3,614
Deferred income taxes	5,196	7,577	8,959
Depreciation and amortization	18,633	16,315	13,635
Loss on sale of property and equipment	1,547	38	680
Impairments to investment	1,667	805	863
Non-cash compensation charge	1,422	—	797
Impairment of goodwill	—	—	99,798
Gain on divestitures	(2,145)	(381)	—
Changes in operating assets and liabilities, net of acquisitions and dispositions of businesses			
(Increase) decrease in:			
Accounts receivable	30,943	(2,667)	(8,451)
Inventories	(2,770)	3,011	(2,184)
Costs and estimated earnings in excess of billings on uncompleted contracts	14,524	(288)	5,183
Prepaid expenses and other current assets	(9,824)	1,200	887
Other noncurrent assets	3,199	(2,221)	2,105
Increase (decrease) in:			
Accounts payable and accrued expenses	(37,739)	2,606	11,964
Billings in excess of costs and estimated earnings on uncompleted contracts	4,678	(13,550)	(4,826)
Other current liabilities	172	—	(622)
Other noncurrent liabilities	11,264	5,144	(1,234)
Net cash provided by operating activities	53,367	39,303	6,304
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	895	2,339	307
Purchases of property and equipment	(11,895)	(8,727)	(6,505)
Purchase of businesses, net of cash acquired	—	(2,723)	—
Sale of businesses	7,549	2,153	—
Investments in securities	(300)	(900)	(800)
Additions to note receivable from affiliate	(583)	—	—
Net cash used in investing activities	(4,334)	(7,858)	(6,998)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings	74,613	77	80,040
Repayments of debt	(97,941)	(16,309)	(97,418)
Proceeds from sale of interest rate swaps	4,040	—	—
Purchase of treasury stock	(984)	(10,207)	(4,340)
Payments for debt issuance costs	—	(679)	(2,219)
Proceeds from issuance of stock	—	—	113
Proceeds from issuance of stock under employee stock purchase plan	—	821	972
Proceeds from exercise of stock options	543	2,274	5,577
Net cash used in financing activities	(19,729)	(24,023)	(17,275)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,304	7,422	(17,969)
CASH AND CASH EQUIVALENTS, beginning of period	3,475	32,779	40,201
CASH AND CASH EQUIVALENTS, end of period	$ 32,779	$ 40,201	$ 22,232
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for			
Interest	$ 23,117	$ 24,003	$ 23,379
Income taxes	5,091	599	931

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:

Description of the Business

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

Recent Developments

During the fourth quarter of fiscal 2004, the Company was informed of certain issues at one of its subsidiaries, and as a result, IES conducted an evaluation of the financial results of this subsidiary. Additionally, the Company's Audit Committee engaged special counsel to conduct an investigation of those matters. Efforts were also extended to determine if similar issues existed at other subsidiaries. The special investigation has been concluded, and the Company believes that the issues regarding its financial results were not widespread. The issues at the subsidiary related to (1) a series of large contracts accounted for on a percentage of completion basis in which actual costs projected to be incurred exceeded the original projected costs, but appropriate adjustments were not timely reflected, (2) general and administrative costs recorded to a particular contract that did not relate to that contract and (3) the recognition of revenue related to the recording of incorrect margin on a particular long-term contract. The Company did identify one additional issue at another subsidiary related to the timing of revenue recognition attributable to a large project that was not detected as part of the Company's normal closing process.

As a result of the above matters and the timing of their resolution, the independent auditors could not complete their procedures in accordance with AU 722, "Interim Financial Information," on the Company's third quarter results. They advised IES that until the audit of its fiscal year 2004 financial statements was completed, they would be unable to complete their procedures in accordance with AU 722 on third quarter results and consequently, the Company did not timely file its quarterly report on Form 10-Q. The reasons for the delay include concerns over material weaknesses identified by the independent auditors and concerns that the size of the adjustments taken for the items identified above, coupled with the potential for similar issues at other subsidiaries as well as any other adjustments that may have been identified in the course of the audit, could result in a requirement to restate prior periods.

The Company's failure to timely file its June 30, 2004 Form 10-Q resulted in defaults under the indenture relating to the Company's subordinated debt and senior secured credit facility. The Company has since cured all defaults under both its subordinated debt and its senior secured credit facility. The Company's failure to timely file its Form 10-Q, coupled with current conditions in the surety bonding industry have affected IES' ability to obtain surety bonding consistent with historical terms. After the Company did not timely file its Form 10-Q, several putative class action lawsuits were filed against IES and certain of its officers and one shareholder derivative action was filed against its directors and certain employees. Concurrent with the filing of the Company's Form 10-K, the Company has filed its June 30, 2004 Form 10-Q.

To position IES for continued success, the Company began executing several plans. Those plans include generating cash flows and obtaining additional sources of capital, settling the jury verdict returned against the Company, selling businesses that meet certain criteria, obtaining support and flexibility from the senior secured bank group and securing sufficient bonding for the remaining entities.

To date, IES has made progress in executing its plans. On November 24, 2004, IES announced that it had closed and received funding from a private placement of $36.0 million 6.5% senior convertible notes due 2014. The investors in those notes have the option to purchase another $14.0 million in notes to occur on the 90th day after the closing date or the fifth business day after IES' next annual meeting of stockholders, whichever is later.

On December 6, 2004, IES announced that it had settled a jury verdict of approximately $30.0 million for $8.0 million. On December 10, 2004, IES announced that on a cumulative basis since November 29, 2004, it had completed three sales of businesses and received approximately $11.5 million in cash which was used to pay down debt. On December 13, 2004, IES announced that it had completed its fourth amendment to its credit facility. This amendment provides the Company with sufficient flexibility and liquidity through January 2006, with the possibility of an extension through January 2007 if certain conditions are met. Lastly, the Company has been in discussions with its current surety and other potentials sureties. The Company believes that the flexibility provided by the fourth amendment to release collateral to sureties and the filing of its Form 10-Q for the quarter ended June 30, 2004, may lead to improved surety terms going forward.

The Company intends to continue executing on planned sales of businesses of which net proceeds will be used to primarily pay down bank debt. The sales of businesses are projected to generate enough net proceeds to fully repay the Company's outstanding bank debt during fiscal 2005. The Company is forecasting cash flows from operations and borrowing capacity which is sufficient to sustain operations and maintain bank covenants through the end of fiscal 2005, even without selling all the businesses currently considered for sale. There can be no guarantees, however, that the Company can execute fully on its plans. If the Company is not successful in fully executing its plans, it could have a significant negative impact on the operations and cash flows of the Company.

Business Risks

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

Current conditions in the surety bonding industry are adversely affecting the Company's subsidiaries' ability to obtain surety bonding consistent with historical terms. Losses experienced by the surety industry in the past two years have caused surety providers to limit capacity and increase costs for all participants, including the Company's subsidiaries. Many surety companies have ceased writing surety bonds. At this time, there is no commitment from the surety to write bonds. There are situations if surety bonds are not provided that claims or damages may result. Those situations are where surety bonds are required for jobs that have been awarded, where contracts are signed, where work has begun or where bonds may be able to be required in the future by the customer pursuant to terms of the contracts. If the Company's subsidiary is in one of those situations and not able to obtain a surety bond then the result can be a damage claim by the customer for the costs of replacing the subsidiary with the another contractor. Customers are often reluctant to replace an existing contractor and may be willing to waive the contractual right or through negotiation be willing to continue the work on different payment terms.

Surety bond companies may also provide surety bonds at a cost including (i) payment of a premium plus (ii) posting cash or letters of credit as collateral. The cost of cash collateral or letters of credit in addition to the selling, general and administrative costs and the industry practice of the customer retaining a percentage of the contract (5%-10%) amount as retention until the end of the job, could make certain bonded projects uneconomic to perform.

In the construction business there are frequently claims and litigation. Latent defect litigation is a normal course for residential home builders in some parts of the country. There is also the inherent claims and litigation risk of the number of people that work on construction sites and the fleet of vehicles on the road everyday. Those claims and litigation risks are managed through safety programs, insurance programs, litigation management at the corporate office and the local level and a network of attorneys and lawfirms throughout the country. Nevertheless, claims are sometimes made and lawsuits filed and sometimes for amounts in excess of their value or amounts for which they are eventually resolved. Claims and litigation normally follow a predictable course of time to resolution. Given the size of the company with many contracts and employees, there can be periods of time where a disproportionate amount of the claims and litigation may be concluded all in the same quarter, or year. If these matters resolve near the same time then the cumulative effect can be higher than the ordinary level in any one reporting period.

Independent of the normal litigation risks, as a result of the Company's inability to timely file its third quarter 2004 Form 10-Q and the subsequent events, a class action lawsuit has been filed as well as a shareholder derivative action.

The Company has determined to sell all or substantially all of the assets of certain wholly owned subsidiaries. Those sales are being made to facilitate the business needs and purposes of the organization as a whole. Since the Company was a consolidator of electrical contracting businesses, often the best candidate to purchase those assets is a previous owner of those assets. That previous owner may still be associated with the subsidiary as an officer of that subsidiary. To facilitate the desired timing, the sales are being made with more than ordinary reliance on the representations of the purchaser is in those cases often the person most familiar with the company. There is the potential from selling assets net of liabilities but retaining the entities from which they were sold if the purchaser is unwilling or unable to perform the transferred liabilities, that the Company may be forced to fulfill obligations that were assigned or sold to others. The Company would then seek reimbursement from the purchasers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are valued by the Company at the lower of cost or market generally using the first-in, first-out (FIFO) method. Where shipping and handling costs are borne by the Company, these charges are included in inventory and charged to cost of services upon use in production or the providing of services.

Securities and Equity Investment

At September 30, 2003 and 2004, the Company had a 21% equity interest in Energy Photovoltaics, Inc. (EPV) of $1.1 million and $0.3 million, respectively, which was included in other noncurrent assets. The Company accounts for this investment under the equity method of accounting and accordingly recorded its share of EPV's losses of $1.7 million, $0.8 million and $0.9 million in the year ended September 30, 2002, 2003 and 2004, respectively (See note 3). Additionally, the Company has notes receivable totaling approximately $1.8 million with EPV at September 30, 2003 and September 30, 2004. The Company performed a discounted cash flow analysis at September 30, 2004 and determined that no impairment to this investment existed. This investment involves certain risks involving demand for photovoltaic services. If EPV is unable to deliver its business plan, we could deem this investment impaired and would record a charge to other expense in the period such impairment, if any, is determined.

Through September 30, 2004, the Company had invested $3.5 million under its commitment to EnerTech Capital Partners II L.P. (EnerTech) (See note 14 for further commitments). The carrying value of this Enertech investment at September 30, 2003 and 2004 was $2.5 million and $3.0 million, respectively. This investment is accounted for on the cost method of accounting and accordingly, the Company does not record unrealized losses for the EnerTech investment that it believes are temporary in nature. The Company uses available information and may perform discounted cash flow analyses to determine impairment of its investments, if any. The following table represents the carrying value and unrealized loss balance reconciliation to fair value for the Enertech investment as of September 30, 2003 and 2004:

	September 30, 2003	September 30, 2004
Carrying value	$2,500	$2,977
Unrealized loss	(983)	(820)
Fair value	$1,517	$2,157

Enertech's investment portfolio from time to time results in unrealized losses reflecting a possible, other-than-temporary, impairment of the Company's investment. The Company determined that the potential impairment of the Enertech investment is not other-than-temporary based on the weight of certain qualitative information. Enertech has generated unrealized gains during two successive quarters of the current fiscal year. Additionally, one of Enertech's major portfolio investments has filed a Form S-1 with the Securities and Exchange Commission which increased the value of the portfolio significantly. The Company intends and has the current ability to hold its investment in Enertech through the time anticipated to recover the amount of the impairment and does not have a history of turning over these investments and having to recognize unrealized losses. The Company believes, based on the recent improvement in investment portfolio performance, that the impairment is not severe and its duration will not be prolonged. The Company considers these factors to indicate that the aforementioned impairment is not other-than-temporary in nature.

Property and Equipment

Additions of property and equipment are recorded 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 $16.9 million, $14.6 million and $13.4 million for the years ended September 30, 2002, 2003 and 2004, 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 capitalized cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations in the caption Other, net.

Goodwill

Effective October 1, 2001, the Company adopted SFAS No. 142, “Goodwill and Other Intangible Assets,” which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective October 1, 2001. Goodwill amortization for the years ended September 30, 2002 and 2003 would have otherwise been $12.9 million (before the impairment charge). Goodwill attributable to each reporting unit was tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using discounted cash flows and market multiples. These impairment tests are required to be performed at adoption of SFAS No. 142 and at least annually thereafter. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each of the reportable units. On an ongoing basis (absent any impairment indicators), the Company expects to perform impairment tests annually during the first fiscal quarter.

Based on impairment tests performed upon adoption of SFAS No. 142, the Company recognized a charge of $283.3 million ($7.11 per share) in the first quarter of 2002 to reduce the carrying value of goodwill of the reporting units to its implied fair value. This impairment is a result of adopting a fair value approach, under SFAS No. 142, to testing impairment of goodwill as compared to the previous method utilized in which evaluations of goodwill impairment were made using the estimated future undiscounted cash flows compared to the asset’s carrying amount.

The impairment was the result of lower forecasted future operating income at the point of adoption than anticipated to result from decreased spending in the construction industry in all of the Company’s markets. The impairment related to the Company’s operating regions follows (amounts in millions):

Southeast	$ 89.2
Northeast	35.2
Gulf Plains	47.4
Central	80.8
West	21.0
Residential	2.6
Divested after adoption	7.1
Total	$283.3

Under SFAS No. 142, the impairment adjustment recognized at adoption of the new rules was reflected as a cumulative effect of change in accounting principle in the statement of operations for the year ended September 30, 2002. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses.

On August 13, 2004, the Company announced that it would not timely file results for the three months ended June 30, 2004 on Form 10-Q. There was also a possibility that factors surrounding certain material weaknesses in internal control may require a restatement of prior periods. Following this announcement, the Company's stock price declined 40 percent to $3.93 on August 16, 2004. The Company believes that this decline in stock price plus the jury verdict and uncertainties surrounding our ability to obtain surety bonds was reflective of a change in our operations that indicated that a possible impairment of the carrying amount of goodwill existed at September 30, 2004. Therefore, the Company performed a test for impairment and consequently recorded a charge of $99.8 million. This charge is included in arriving at income (loss) from operations for the year ended September 30, 2004. The impairment detailed by our operating regions follows (amounts in millions):

Southeast	$28.8
Northeast	16.3
Gulf Plains	2.1
Central	51.0
West	1.6
Total	$99.8

As of September 30, 2002, 2003 and 2004, accumulated amortization was approximately $320.7 million, $320.7 million and $425.0 million, respectively. The carrying amount of goodwill attributable to each reportable segment with goodwill balances and changes therein follows:

	September 30, 2002	Divestitures	September 30, 2003	Impairment Adjustment	September 30, 2004
Commercial and Industrial	$140,695	$336	$140,359	$99,798	$40,561
Residential	57,525	—	57,525	—	57,525
	$198,220	$336	$197,884	$99,798	$98,086

Debt Issuance Costs

Debt issuance costs related to the Company's credit facility and the senior subordinated notes are included in other noncurrent assets and are amortized to interest expense over the scheduled maturity of the debt. As of September 30, 2003 and 2004, accumulated amortization of debt issuance costs was approximately $5.3 million and $6.7 million, respectively. During the year ended September 30, 2004, the Company capitalized approximately $1.7 million of issuance costs incurred in connection with amending its credit facility.

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Such contracts generally provide that the customers accept completion of progress to date and compensate the Company for services rendered measured in terms of units installed, hours expended or some other measure of progress. Revenues from construction contracts are recognized on the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP)

81-1 “Accounting for Performance of Construction-Type and Certain Production-Type Contracts.” The Company recognizes revenue on signed contracts and change orders. The Company recognizes revenue on unsigned, verbally approved, change orders where collection is deemed probable. Percentage-of-completion for construction contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. The Company generally considers contracts to be substantially complete upon departure from the work site and acceptance by the customer. Contract costs include all direct material, labor and insurance costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Changes in job performance, job conditions, estimated contract costs and profitability and final contract settlements may result in revisions to costs and income and the effects of these revisions are recognized in the period in which the revisions are determined. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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

The current asset “Costs and estimated earnings in excess of billings on uncompleted contracts” represents revenues recognized in excess of amounts billed which management believes will be billed and collected within the subsequent year. The current liability “Billings in excess of costs and estimated earnings on uncompleted contracts” represents billings in excess of revenues recognized.

Accounts Receivable and Provision for Doubtful Accounts

The Company records accounts receivable for all amounts billed and not collected. Generally, the Company does not charge interest on outstanding accounts receivable, however, from time to time the Company may believe it necessary to charge interest on a case by case basis. Additionally, the Company provides an allowance for doubtful accounts for specific accounts receivable where collection is considered doubtful as well as for unknown collection issues based on historical trends. Accounts receivable not collectible are written off as deemed necessary in the period such determination is made.

Income Taxes

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

The Company regularly evaluates valuation allowances established for deferred tax assets for which future realization is uncertain. The Company performs this evaluation at least quarterly at the end of each fiscal year. The estimation of required valuation allowances includes estimates of future taxable income. In assessing the realizability of deferred tax assets at September 30, 2004, the Company considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income is different from the estimates, the Company's results could be affected.

Self-Insurance

The Company retains the risk for workers' compensation, employer's liability, automobile liability, general liability and employee group health claims, resulting from uninsured deductibles per accident or occurrence which are subject to annual aggregate limits. The Company's general liability program provides coverage for bodily injury and property damage neither expected nor intended. Losses up to the deductible amounts are accrued based upon the Company's known claims incurred and an estimate of claims incurred but not reported. For the year ended September 30, 2004, management has compiled its historical data pertaining to the self-insurance experiences and has utilized the services of an actuary to assist in the determination of the ultimate loss associated with the Company's self-insurance programs for workers' compensation, auto and general liability. Management believes that the actuarial valuation provides the best estimate of the ultimate losses to be expected under these programs and has recorded the present value of the actuarial determined ultimate losses under its workers' compensation, auto and general liability programs of $13.0 million and $13.9 million at September 30, 2003 and 2004, respectively. The present value is based on the expected cash flow to be paid out under the workers' compensation, automobile and general liability programs discounted for those claims not expected to be paid within twelve months. The undiscounted ultimate losses related to the workers' compensation, automobile and general liability programs are $14.3 million and $15.3 million at September 30, 2003 and 2004, respectively. The utilization of the actuarial valuation resulted in an increase in reserves for self-insurance losses during the year ended September 30, 2002. The Company recorded a charge associated with this change in estimate of approximately $6.1 million during the fourth quarter of the year ended September 30, 2002. Total expense for these programs was approximately $49.4 million, $40.8 million and $35.7 million for the years ended September 30, 2002, 2003 and 2004, respectively. The present value of all self-insurance reserves for the health, property and casualty programs recorded at September 30, 2003 and 2004 is $18.2 million and $15.8 million, respectively. The undiscounted ultimate losses of all self-insurance reserves at September 30, 2003 and 2004 was $19.4 million and $18.7 million, respectively. Based on historical payment patterns, the Company expects payments of undiscounted ultimate losses to be made as follows (amounts in thousands):

Year Ended September 30,	
2005	$ 8,993
2006	3,722
2007	2,517
2008	1,405
2009	724
Thereafter	1,363
Total	$18,724

The Company had letters of credit of $18.9 million outstanding at September 30, 2004 to collateralize its self-insurance obligations.

Realization of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company evaluates the recoverability of property and equipment or other assets, if facts and circumstances indicate that any of those assets might be impaired. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property has occurred. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value.

Risk Concentration

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash deposits and trade accounts receivable. The Company grants credit, generally without collateral, to its customers, which are generally contractors and homebuilders throughout the United States. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors throughout the United States within the construction and homebuilding market. However, the Company generally is entitled to payment for work performed and has certain lien rights in that work. Further, management believes that its contract acceptance, billing and collection policies are adequate to manage potential credit risk. The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

The Company had no single customer accounting for more than 10% of its revenues for the years ended September 30, 2002, 2003 and 2004.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, receivables from related parties, retainage receivables, notes receivable, accounts payable, a line of credit, notes and bonds payable and long-term debt. The Company's senior subordinated notes had a carrying value, excluding unamortized discount, at September 30, 2003 and 2004 of $247.9 million and $172.9 million, respectively. The fair value of the Company's senior subordinated notes at September 30, 2003 and 2004 was $255.3 million and $160.8 million, respectively. The Company utilizes quoted market prices to determine the fair value of its debt. Other than the senior subordinated notes, the Company believes that the carrying value of financial instruments on the accompanying consolidated balance sheets approximates their fair value.

Subsidiary Guarantees

All of the Company's operating income and cash flows are generated by its 100% owned subsidiaries, which are the subsidiary guarantors of the Company's outstanding 9⅜% senior subordinated notes due 2009 (the "Senior Subordinated Notes"). The Company is structured as a holding company and substantially all of its assets and operations are held by its subsidiaries. There are currently no significant restrictions on the Company's ability to obtain funds from its subsidiaries by dividend or loan. The parent holding company's independent assets, revenues, income before taxes and operating cash flows are less than 3% of the consolidated total. The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of the Company; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the Senior Subordinated Notes; and (iii) the aggregate assets, liabilities, earnings and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis. As a result, the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

Earnings per Share

The following table reconciles the components of the basic and diluted earnings (loss) per share for the three years ended September 30, 2002, 2003 and 2004 (in thousands, except share information):

	Year Ended September 30,		
	2002 (restated)	2003 (restated)	2004
Numerator:			
Net income (loss)	$ (275,008)	$ 19,437	$ (124,864)
Denominator:			
Weighted average common shares outstanding—basic	39,847,591	39,062,776	38,610,326
Effect of dilutive stock options	—	162,536	—
Weighted average common and common equivalent shares outstanding—diluted	39,847,591	39,225,312	38,610,326
Earnings (loss) per share:			
Basic	$ (6.90)	$ 0.50	$ (3.23)
Diluted	$ (6.90)	$ 0.50	$ (3.23)

For the years ended September 30, 2002, 2003 and 2004, stock options of 5.6 million, 4.2 million and 2.0 million, respectively, were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the Company's common stock.

Stock Based Compensation

The Company accounts for its stock-based compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25—"Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. Under APB 25, if the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company's stock options have all been granted with exercise prices at fair value, therefore no compensation expense has been recognized under APB 25. During the years ended September 30, 2002 and 2004, the Company recorded compensation expense of $1.4 million and $0.8 million in connection with a restricted stock award (See note 11), respectively.

The following table illustrates the effect on net income and earnings per share assuming the compensation costs for IES' stock option and purchase plans had been determined using the fair value method at the grant dates amortized on a pro rata basis over the vesting period as required under SFAS No. 123—"Accounting for Stock-Based Compensation" for the years ended September 30, 2002, 2003 and 2004 (in thousands, except for per share data):

	Year ended September 30,		
	2002 (restated)	2003 (restated)	2004
Net income (loss), as reported	$(275,008)	$19,437	$(124,864)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	875	—	460
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	7,296	2,004	1,130
Pro forma net income (loss) for SFAS No. 123	$(281,430)	$17,433	$(125,533)
Earnings (loss) per share:			
Basic—as reported	$ (6.90)	$ 0.50	$ (3.23)
Basic—pro forma for SFAS No. 123	$ (7.06)	$ 0.45	$ (3.25)
Earnings (loss) per share:			
Diluted—as reported	$ (6.90)	$ 0.50	$ (3.23)
Diluted—pro forma for SFAS No. 123	$ (7.06)	$ 0.44	$ (3.25)

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:

	2002	2003	2004
Expected dividend yield	0.00%	0.00%	0.00%
Expected stock price volatility	81.56%	51.94%	68.38%
Weighted average risk free interest rate	3.96%	3.21%	3.71%
Expected life of options	6 years	6 years	6 years

The pro forma disclosures for the year ended September 30, 2002 and 2003 have been adjusted to reflect the impact of cancellations and forfeitures of stock options issued prior to September 30, 2004. 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.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities," ("Interpretation 46"). The objective of Interpretation 46 is to improve the financial reporting by companies involved with variable interest entities. Until Interpretation 46, one company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interest. Interpretation 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period ending after March 15, 2004. Certain disclosure requirements applied to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has investments in two firms, EnerTech Capital Partners II, L.P. (EnerTech) and Energy Photovoltaics, Inc. (EPV) that were considered in light of this interpretation. The Company determined that EPV was an exception to the provisions of Interpretation 46, and that the Company is not the primary beneficiary of EnerTech and as such, the adoption of Interpretation 46 did not have an impact on the Company's results of operations or its financial position.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150"). SFAS 150 requires that mandatorily redeemable financial instruments issued in the form of shares be classified as liabilities, and specifies certain measurement and disclosure requirements for such instruments. The provisions of SFAS 150 were effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the requirements of SFAS 150 as of July 1, 2003. The adoption did not have a material impact on the Company's results of operations or financial position.

3. RESTATEMENT OF FINANCIAL STATEMENTS

Effective for the fiscal year ended September 30, 2004, the Company has determined that the timing of the recognition of revenue and costs on certain of its long-term construction contracts accounted for under the percentage-of-completion method of accounting and that the accounting for one of its investments warranted revision to the reported results for the six months ended March 31, 2004 and the years ended September 30, 2002 and 2003.

The revisions to the recognition of revenues and costs on certain construction contracts relate to errors at three of the Company's subsidiaries in properly recording revenues associated with change orders, costs charged to certain contracts and the estimates of costs to complete on certain contracts. Additionally, the Company determined that its investment in EPV that was previously accounted for under the cost method of accounting for investments beginning in the year ended September 30, 2002, should have continued to be accounted for under the equity method of accounting for investments. The equity method of accounting for investments requires investors to record their proportionate share of the investees profits and losses into their financial statements. The cost method of accounting for investments does not require this treatment. The total effects of all revisions to reported results for the six months ended March 31, 2004 and the years ended September 30, 2003 and 2002 are summarized in the tables that follow.

	Six Months Ended March 31, 2004 (Unaudited)			
	As Reported	Contract Adjustments	Investment Adjustments	As Restated
Statement of Operations Data:				
Revenues	$703,692	$(3,491)	$ —	$700,201
Cost of services	605,196	1,057	—	606,253
Gross profit	98,496	(4,548)	—	93,948
Selling, general and administrative expenses	71,359	—	—	71,359
Income (loss) from operations	27,137	(4,548)	—	22,589
Interest and other expense, net	18,027	—	432	18,459
Income (loss) before income taxes and cumulative effect of change in accounting principle	9,110	(4,548)	(432)	4,130
Benefit for income taxes	(2,664)	(1,796)	(171)	(4,631)
Net income (loss)	$ 11,774	$(2,752)	$ (261)	$ 8,761
Basic earnings (loss) per share	$ 0.31	$ (0.07)	$ (0.01)	$ 0.23
Diluted earnings (loss) per share	$ 0.30	$ (0.07)	$ (0.01)	$ 0.22

	March 31, 2004			
Consolidated Balance Sheet (Unaudited)	As Reported	Contract Adjustments	Investment Adjustments	As Restated
Assets:				
Cash and cash equivalents	$ 19,043	$ —	$ —	$ 19,043
Accounts receivable (net)	296,353	—	—	296,353
Cost and estimated earnings in excess of Billings on uncompleted contracts	52,601	(3,379)	—	49,222
Inventories	23,817	—	—	23,817
Prepaid expenses and other current Assets	26,526	—	—	26,526
Property and equipment, net	48,734	—	—	48,734
Goodwill, net	197,884	—	—	197,884
Other noncurrent assets, net	31,530	1,846	(1,848)	31,528
Total assets	$696,488	$(1,533)	$(1,848)	$693,107
Liabilities:				
Current maturities of long-term debt	$ 7,286	$ —	$ —	$ 7,286
Accounts payable and accrued expenses	121,748	1,057	—	122,805
Billings in excess of cost and estimated Earnings on uncompleted contracts	37,095	1,871	—	38,966
Long-term debt, net of current maturities	42,967	—	—	42,967
Senior subordinated notes	173,244	—	—	173,244
Other noncurrent liabilities	33,081	(647)	—	32,434
Total liabilities	$415,421	$ 2,281	$ —	$417,702
Stockholders' equity	281,067	(3,814)	(1,848)	275,405
Total liabilities and stockholders' equity	$696,488	$(1,533)	$(1,848)	$693,107

	Year Ended September 30, 2003			
	As Reported	Contract Adjustments	Investment Adjustments	As Restated
Statement of Operations Data:				
Revenues	$1,448,553	$ (790)	$ —	$1,447,763
Cost of services	1,241,330	—	—	1,241,330
Gross profit	207,223	(790)	—	206,433
Selling, general and administrative expenses	153,651	—	—	153,651
Income (loss) from operations	53,572	(790)	—	52,782
Interest and other expense, net	(24,963)	—	(805)	(25,768)
Income (loss) before income taxes and cumulative effect of change in accounting principle	28,609	(790)	(805)	27,014
Provision (benefit) for income taxes	8,179	(314)	(288)	7,577
Net income (loss)	$ 20,430	$ (476)	$ (517)	$ 19,437
Basic earnings (loss) per share	$ 0.52	$ (0.01)	$ (0.01)	$ 0.50
Diluted earnings (loss) per share	$ 0.52	$ (0.01)	$ (0.01)	$ 0.50

	September 30, 2003			
Consolidated Balance Sheet	As Reported	Contract Adjustments	Investment Adjustments	As Restated
Assets:				
Cash and cash equivalents	$ 40,201	$ —	$ —	$ 40,201
Accounts receivable (net)	314,474	—	—	314,474
Cost and estimated earnings in excess of Billings on uncompleted contracts	48,256	(1,257)	—	46,999
Inventories	20,473	—	—	20,473
Prepaid expenses and other current Assets	14,427	—	—	14,427
Property and equipment, net	52,697	—	—	52,697
Goodwill, net	197,884	—	—	197,884
Other noncurrent assets, net	28,870	50	(1,588)	27,332
Total assets	$ 717,282	$(1,207)	$(1,588)	$ 714,487
Liabilities:				
Current maturities of long-term debt	$ 256	$ —	$ —	$ 256
Accounts payable and accrued expenses.	138,143	—	—	138,143
Billings in excess of cost and estimated Earnings on uncompleted contracts	41,913	502	—	42,415
Long-term debt, net of current maturities	195	—	—	195
Senior subordinated notes	247,927	—	—	247,927
Other noncurrent liabilities	21,291	(647)	—	20,644
Total liabilities	$ 449,725	$ (145)	$ —	$ 449,580
Stockholders' equity	267,557	(1,062)	(1,588)	264,907
Total liabilities and stockholders' equity	$ 717,282	$(1,207)	$(1,588)	$ 714,487

	Year Ended September 30, 2002			
	As Reported	Contract Adjustments	Investment Adjustments	As Restated
Statement of Operations Data:				
Revenues	$1,475,430	$ (969)	$ —	$1,474,461
Cost of services	1,253,844	(813)	—	1,253,031
Gross profit	221,586	(156)	—	221,430
Selling, general and administrative expenses	174,184	813	—	174,997
Restructuring charges	5,556	—	—	5,556
Income (loss) from operations	41,846	(969)	—	40,877
Interest and other expense, net	(25,738)	—	(1,667)	(27,405)
Income (loss) before income taxes and cumulative effect of change in accounting principle	$ 16,108	$ (969)	$(1,667)	$ 13,472
Provision (benefit) for income taxes	6,175	(383)	(596)	5,196
Cumulative effect of change in accounting principle, net of tax	(283,284)	—	—	(283,284)
Net loss	$ (273,351)	$ (586)	$(1,071)	$ (275,008)
Basic earnings (loss) per share:				
Basic earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.25	$(0.01)	$ (0.03)	$ 0.21
Cumulative effect of change in accounting principle	$ (7.11)		$	$ (7.11)
Basic earnings (loss) per share	$ (6.86)	$(0.01)	$ (0.03)	$ (6.90)
Diluted earnings (loss) per share:				
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	$ 0.25	$(0.01)	$ (0.03)	$ 0.21
Cumulative effect of change in accounting principle	$ (7.11)	$	$	$ (7.11)
Diluted earnings (loss) per share	$ (6.86)	$(0.01)	$ (0.03)	$ (6.90)

4. BUSINESS COMBINATIONS:

Purchases

On February 27, 2003, the Company purchased the assets of Riviera Electric LLC, an electrical contractor located in the state of Colorado, out of a bankruptcy auction of a prior competitor. The total consideration paid in this transaction was approximately $2.7 million, comprised entirely of cash, net of cash acquired. The fair value of the tangible net assets acquired exceeded the total consideration paid. As a result, the long-term fixed assets of the acquisition were reduced to zero. The purchase price was allocated as follows (amounts in thousands):

Accounts receivable, net	$ 11,643
Retention	3,884
Costs and estimated earnings in excess of billings on uncompleted projects and other	922
Less: Accounts payable and accrued expenses	(10,214)
Less: Billings in excess of costs and estimated earnings on uncompleted projects and other	(3,512)
Cash paid, net of cash acquired	$ 2,723

The results of operations of Riviera are included in the Company's consolidated financial statements from February 27, 2003 through September 30, 2004.

Pro Forma Presentation

The unaudited pro forma data presented below reflect the results of operations of IES and the acquisition of Riviera Electric LLC assuming the transaction was completed on October 1, 2001 (in thousands):

	Year ended September 30,	
	2002 (unaudited)	2003 (unaudited)
Revenues	$1,556,742	$1,482,428
Net income before cumulative effect of change in accounting principle	$ 13,768	$ 20,157
Net income (loss)	$ (269,516)	$ 20,157
Basic earnings per share before cumulative effect of change in accounting principle	$ 0.35	$ 0.52
Cumulative effect of change in accounting principle	$ (7.11)	$ 0.00
Basic earnings (loss) per share	$ (6.76)	$ 0.52
Diluted earnings per share before cumulative effect of change in accounting principle	$ 0.35	$ 0.51
Cumulative effect of change in accounting principle	$ (7.11)	$ 0.00
Diluted earnings (loss) per share	$ (6.76)	$ 0.51

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 compensation programs and additional income tax expense based on the Company's effective income tax rate. The unaudited pro forma financial data does not purport to represent what the Company's combined results of operations would actually have been if such transactions had in fact occurred on October 1, 2001, and are not necessarily representative of the Company's results of operations for any future period.

Divestitures

On July 25, 2002, the Company sold all of the stock of two of its operating companies. The proceeds from the sale were $7.5 million in cash and 241,224 shares of the Company's common stock. The Company recorded a pre-tax gain of $2.1 million associated with this sale that is recorded in other income.

On October 8, 2002, the Company sold all of the stock of one of its operating companies. The proceeds from the sale were $1.1 million in cash and 70,330 shares of the Company's common stock. The Company recorded a pre-tax gain of less than $0.1 million associated with this sale that is recorded in other income.

On July 1, 2003, the Company sold all of the stock of one of its operating companies. The proceeds from the sale were $1.1 million in cash. The Company recorded a pre-tax gain of $0.4 million associated with this sale that is recorded in other income.

In connection with the dispositions discussed above, the net pre-tax gain was determined as follows for the years ended September 30, 2002 and 2003 (in thousands):

	2002	2003
Book value of assets divested	$10,783	$2,719
Liabilities divested	(3,987)	(675)
Net assets divested	6,796	2,044
Cash received	7,549	2,155
Common stock received	1,392	270
Total consideration received	8,941	2,425
Pre-tax gain	$ 2,145	$ 381

Had the dispositions discussed above been completed on October 1, 2001, the results of the Company for the years ended September 30, 2002 and 2003 would have excluded revenues of $33.0 million and $0.1 million, respectively and losses from operations of $0.3 million and $0.0 million, respectively.

5. PROPERTY AND EQUIPMENT:

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

	Estimated useful lives in years	September 30, 2003	September 30, 2004
Land	N/A	$ 2,820	$ 2,820
Buildings	5-32	6,873	6,958
Transportation equipment	3-5	29,221	25,701
Machinery and equipment	3-10	53,692	53,742
Leasehold improvements	5-32	13,658	13,744
Furniture and fixtures	5-7	8,815	8,324
		115,079	111,289
Less-Accumulated depreciation and amortization		(62,382)	(66,428)
Property and equipment, net		$ 52,697	$ 44,861

6. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	September 30, 2003	September 30, 2004
Balance at beginning of period	$ 6,262	$ 5,425
Additions to costs and expenses	2,277	3,614
Additions for acquisitions	411	—
Deductions for uncollectible receivables written off, net of recoveries	(3,514)	(4,520)
Deductions for divestitures	(11)	—
Balance at end of period	$ 5,425	$ 4,519

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

	September 30, 2003	September 30, 2004
Accounts payable, trade	$ 77,598	$ 83,190
Accrued compensation and benefits	24,809	23,935
Accrual for self-insurance liabilities	18,162	15,827
Accrual for legal settlements	—	9,253
Other accrued expenses	17,574	17,280
	$138,143	$149,485

Contracts in progress are as follows (in thousands):

	September 30, 2003	September 30, 2004
Costs incurred on contracts in progress	$ 1,131,809	$ 1,298,175
Estimated earnings	148,837	133,042
	1,280,646	1,431,217
Less-Billings to date	(1,276,062)	(1,426,990)
	$ 4,584	$ 4,227
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 46,999	$ 41,816
Less-Billings in excess of costs and estimated earnings on uncompleted contracts	(42,415)	(37,589)
	$ 4,584	$ 4,227

7. DEBT:

Debt consists of the following (in thousands):

	September 30, 2003	September 30, 2004
Secured credit facility and term loan with a group of lending institutions, due February 27, 2008, with a weighted average interest rate of 4.39%	$ —	$ 57,929
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 9.50%	137,885	62,885
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 10.00%	110,000	110,000
Other	451	144
	248,336	230,958
Less-current maturities of long-term debt	(256)	(42,995)
Less-unamortized discount on Senior Subordinated Notes	(3,198)	(2,307)
Fair value of unamortized portion of terminated interest rate hedges	3,240	2,630
Total long-term debt	$248,122	$188,286

Future payments due on debt at September 30, 2004 are as follows (in thousands):

2005	$ 42,995
2006	78
2007	—
2008	15,000
2009	172,885
Thereafter	—
Total	$230,958

Credit Facility

On February 27, 2004, the Company amended and restated the $125.0 million revolving credit facility to a $125.0 million revolving credit facility and a $50.0 million term loan led by Bank One, NA. The Company used the proceeds from the term loan and available cash to redeem $75.0 million principal amount of the Company's long term bonds. Since February 27, 2004, and through December 10, 2004, the Company amended the credit facility four times. The amendments reduced the facility commitment, provided for covenants or waivers that permit the Company to file the Form 10-Q for the quarter ended June 30, 2004 on or before December 15, 2004, permitted the Company to issue senior convertible notes, specified mandatory debt reduction amounts by quarter, adjusted and redefined financial covenants on a monthly basis beginning December 31, 2004, increased pricing, established the borrowing base at 70 percent of qualifying receivables and permit the Company to release certain collateral related to bonded jobs to companies providing surety bonding. These amendments required the payments of fees upon their execution. These fees are capitalized as deferred financing costs and amortized over the life of the facility. The credit facility, as amended, matures on January 13, 2006. The Company has the ability to extend the facility until January 12, 2007 upon the payment of a fee if certain financial conditions are met. The term loan of the credit facility is due by September 30, 2005. At September 30, 2004, the term loan had outstanding borrowings of $42.9 million. Amounts borrowed under the credit facility, as amended, bear interest at an annual rate of the bank's prime rate plus two percent. Fees of one percent per annum are assessed on the outstanding credit facility commitments as of the beginning of each quarter beginning January 1, 2005. The Company's direct and indirect subsidiaries guarantee the repayment of all amounts due under the facility and the facility is secured by a first perfected security interest in all the assets of the Company and those subsidiaries, including all of the outstanding capital shares of the capital stock of those subsidiaries. Among other restrictions, the financial covenants include minimum EBITDA, as defined in the credit agreement, requirements for core and all operations, a maximum senior secured debt to EBITDA ratio and a minimum interest coverage ratio.

As of September 30, 2004, the Company was in compliance with all financial covenants as they pertain to the Credit Facility, as amended.

As of September 30, 2004, the Company had $42.9 million outstanding under the term loan portion of its Credit Facility, and $15.0 outstanding under the revolving credit line portion of its Credit Facility, letters of credit outstanding under its Credit Facility of $25.8 million, $0.1 million of other borrowings and available borrowing capacity under its Credit Facility of $41.3 million.

Senior Subordinated Notes

The Company has outstanding two different issues of senior subordinated notes with similar terms. The notes bear interest at 9⅜% and will mature on February 1, 2009. Interest is paid on the notes on February 1 and August 1 of each year. The notes are unsecured senior subordinated obligations and are subordinated to all other existing and future senior indebtedness. The notes are guaranteed on a senior subordinated basis by all the Company's subsidiaries. Under the terms of the notes, the Company is required to comply with various affirmative and negative covenants including (1) restrictions on additional indebtedness, and (2) restrictions on liens, guarantees and dividends. During the year ended September 30, 2002, the Company retired approximately $27.1 million of these senior subordinated notes. In connection with these transactions, the Company recorded a gain of $1.0 million. This gain is recorded in interest and other expense, net during the year ended September 30, 2002 in accordance with SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," adopted July 1, 2002. During the year ended September 30, 2004, the Company redeemed $75.0 million principal amount of its senior subordinated notes, paying a call premium of 4.688%, or $3.5 million. This premium along with a write off of previously capitalized deferred financing costs of $1.6 million was recorded as a loss in other income and expense in accordance with SFAS No. 145. At September 30, 2004, the Company had $172.9 million in outstanding senior subordinated notes.

Interest Rate Swaps

The Company entered into an interest rate swap agreement in August 2001, designated as a fair value hedge, in order to minimize the risks and cost associated with its financing activities. The interest rate swap agreement had a notional amount of $100.0 million and was established to manage the interest rate risk of the senior subordinated note obligations. Under the swap agreement, the Company paid the counterparty variable rate interest (3-month LIBOR plus 3.49%) and the counterparty paid the Company fixed rate interest of 9.375% on a semiannual basis over the life of the instrument through February 1, 2009. Pursuant to SFAS No. 133, as amended, such interest rate swap contract was reflected at fair value on the Company's consolidated balance sheet and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligation attributable to the interest rate being hedged. The net effect of this accounting on the Company's operating results is that interest expense on the portion of fixed-rate debt being hedged was generally recorded based on variable interest rates. The interest rate swap was considered to be perfectly effective because it qualified for the "short-cut" method under SFAS No. 133 and therefore there was no net change in fair value to be recognized in income. At September 30, 2001 the fair value of this derivative was $3.2 million and was included in other noncurrent assets. The Company terminated this contract in February 2002. The Company received cash equal to the fair value of this derivative of $1.5 million, which is being amortized over the remaining life of the bonds.

The Company entered into a new interest rate swap agreement in February 2002, designated as a fair value hedge, in order to minimize the risks and cost associated with its financing activities. The interest rate swap agreement had a notional amount of $100.0 million and was established to manage the interest rate risk of the senior subordinated note obligations. Under the swap agreement, the Company paid the counterparty variable rate interest (3-month trailing LIBOR plus 3.49%) and the counterparty paid the Company fixed rate interest of 9.375% on a semiannual basis over the life of the instrument. Pursuant to SFAS No. 133, as amended, such interest rate swap contract was reflected at fair value on the Company's consolidated balance sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligation attributable to the interest rate being hedged. The net effect of this accounting on the Company's operating results was that interest expense on the portion of fixed-rate debt being hedged was generally recorded based on variable interest rates. The interest rate swap was considered to be perfectly effective because it qualified for the "short-cut" method under SFAS No. 133 and therefore there was no net change in fair value to be recognized in income. The Company terminated this contract in August 2002. The Company received cash equal to the fair value of this derivative of $2.5 million, which is being amortized over the remaining life of the bonds. At September 30, 2003 and 2004 the Company had no outstanding interest rate swap contracts.

The following table presents the balance sheet details of the Senior Subordinated Notes (in thousands):

	September 30, 2003	September 30, 2004
Senior Subordinated Notes, due February 1, 2009	$247,885	$172,885
Less: Unamortized discount on Senior Subordinated Notes	(3,198)	(2,307)
Add: Unamortized portion of interest rate hedge	3,240	2,630
	$247,927	$173,208

8. LEASES:

The Company leases various facilities under noncancelable operating leases. For a discussion of leases with certain related parties see Note 12. Rental expense for the years ended September 30, 2002, 2003 and 2004 was approximately $15.4 million, $14.6 million and $16.6 million respectively. Future minimum lease payments under these noncancelable operating leases with terms in excess of one year are as follows (in thousands):

Year Ended September 30,	
2005	$14,261
2006	9,703
2007	6,326
2008	3,795
2009	2,911
Thereafter	—
Total	$36,996

9. INCOME TAXES:

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

	Year Ended September 30,		
	2002 (restated)	2003 (restated)	2004
Federal:			
Current	$ —	$ —	$ 1,173
Deferred	5,714	6,624	8,624
State:			
Current	—	—	952
Deferred	(518)	953	335
	$5,196	$7,577	$11,084

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

	Year Ended September 30,		
	2002 (restated)	2003 (restated)	2004
Provision at the statutory rate	$4,717	$ 9,454	$(39,823)
Increase resulting from:			
State income taxes, net of benefit for federal deduction	237	258	—
Non-deductible expenses	997	700	956
Change in valuation allowance	—	—	27,716
Contingent tax liabilities	—	457	—
Non-deductible goodwill impairment	—	—	31,004
Other	—	—	64
Decrease resulting from:			
Utilization of state net operating losses	(755)	—	—
Change in valuation allowance	—	(3,292)	(6,262)
State income taxes, net of federal deduction	—	—	(1,648)
Contingent tax liability	—	—	(923)
	$5,196	$ 7,577	$ 11,084

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

	Year Ended September 30, 2003 (restated)	2004
Deferred income tax assets:		
Allowance for doubtful accounts	$ 2,062	$ 1,666
Goodwill	9,123	12,532
Accrued expenses	5,063	7,248
Net operating loss carry forward	4,262	9,990
Various reserves	1,316	470
Equity adjustment in affiliate	884	1,185
Other	1,474	1,707
Subtotal	24,184	34,798
Less valuation allowance	(7,800)	(29,254)
Total deferred income tax assets	16,384	5,544
Deferred income tax liabilities:		
Property and equipment	(4,308)	(4,822)
Deferred contract revenue and other	(591)	(250)
Total deferred income tax liabilities	(4,899)	(5,072)
Net deferred income tax assets	$11,485	$ 472

In 2002, the Company adopted a tax accounting method change that allowed it to deduct goodwill for income tax purposes that had previously been classified as non-deductible. The accounting method change resulted in additional amortizable tax basis in goodwill. The Company believes the realization of the additional tax basis in goodwill is less than probable and has not recorded a deferred tax asset. Although a deferred tax asset has not been recorded, as of September 30, 2004, the Company has derived a cumulative cash tax reduction of $10.9 million from the change in tax accounting method and the subsequent amortization of the additional tax goodwill. The Company has provided a tax reserve for the cumulative cash tax reduction. In addition, the amortization of the additional tax goodwill has resulted in additional federal and state net operating loss carry forwards of $40.6 and $26.0 million, respectively. The Company believes the realization of the additional net operating loss carry forwards is less than probable and has not recorded a deferred tax asset. The Company has $108.7 million of tax basis in the additional tax goodwill that remains to be amortized. As of September 30, 2004, approximately 10 years remain to be amortized.

As of September 30, 2004, the Company had available approximately $55.7 million of federal net tax operating loss carry forward for federal income tax purposes including $40.6 million resulting from the additional amortization of tax goodwill. This carry forward, which may provide future tax benefits, begin to expire in 2011. The Company also had available approximately $143.8 million of net tax operating loss carry forwards for state income tax purposes including $26.0 million resulting from the additional amortization of tax goodwill which begin to expire in 2005.

In assessing the realizability of deferred tax assets at September 30, 2004, the Company considered whether it was more likely than not that some portion or all of the deferred tax assets will not be realized. The Company's realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. However, SFAS 109, "Accounting for Income Taxes" places considerably more weight on historical results and less weight on future projections when there is negative evidence such as cumulative pretax losses in recent years. The Company incurred a cumulative pretax loss of $73.3 million for September 30, 2002, 2003 and 2004 including goodwill impairment of $99.8 million in the year ended September 30, 2004 and excluding $283.3 million resulting from the adoption of SFAS 142 in the year ended September 30, 2002. In the absence of specific favorable evidence of sufficient weight to offset the negative evidence of the cumulative pretax loss, the Company has provided valuation allowances of $23.5 million for certain federal deferred tax assets and $5.8 million for certain state deferred tax assets. The Company believes that $5.0 million of federal deferred tax assets will be realized by offsetting reversing deferred tax liabilities. The Company believes that $0.5 million of state deferred tax assets will be realized for certain non-unitary, non-consolidated and non-combined state tax returns and valuation allowances were not provided for these assets. During the quarters ended December 31, 2003 and March 31, 2004 the Company believed that certain deferred tax assets for which valuation allowances were established would be realized by the Company and $1.4 and $4.9 million of tax effected valuation allowances were released, respectively. The Company will evaluate the appropriateness of its remaining deferred tax assets and valuation allowances on a quarterly basis.

The Company has adopted positions that a taxing authority may view differently. The Company believes its reserves of $13.5 million recorded in other non-current liabilities are adequate in the event the positions are not ultimately upheld. The timing of the payment of these reserves is not currently known and would be based on the outcome of a possible review by a taxing authority. Statutes of limitations will begin to expire June 15, 2006 and thereafter.

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

	September 30,	
	2003 (restated)	2004
Current deferred income taxes:		
Assets	$ 6,373	$ 286
Liabilities	(872)	(250)
	5,501	36
Noncurrent deferred income taxes:		
Assets	$ 9,621	$ 5,258
Liabilities	(3,637)	(4,822)
	5,984	436
Net deferred income tax assets	$11,485	$ 472

10. OPERATING SEGMENTS

The Company follows SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Certain information is disclosed, per SFAS No. 131, based on the way management organizes financial information for making operating decisions and assessing performance.

The Company's reportable segments are strategic business units that offer products and services to two distinct customer groups. They are managed separately because each business requires different operating and marketing strategies. These segments, which contain different economic characteristics, are managed through geographically-based regions.

The Company manages and measures performance of its business in two distinctive operating segments; commercial and industrial, and residential. The commercial and industrial segment provides electrical and communications contracting, design, installation, renovation, engineering and upgrades and maintenance and replacement services in facilities such as office buildings, high-rise apartments and condominiums, theaters, restaurants, hotels, hospitals and critical-care facilities, school districts, manufacturing and processing facilities, military installations, airports, refineries, petrochemical and power plants, outside plant, network enterprise and switch network customers. The residential segment consists of electrical and communications contracting, installation, replacement and renovation services in single family and low-rise multifamily housing units. Corporate includes expenses associated with the Company's home office and regional infrastructure.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income from operations of the respective business units prior to home office expenses. Management allocates costs between segments for selling, general and administrative expenses, goodwill amortization, depreciation expense, capital expenditures and total assets.

Segment information for the years ended September 30, 2002, 2003 and 2004 are as follows (in thousands):

	Fiscal Year Ended September 30, 2002 (restated)			
	Commercial and Industrial	Residential	Corporate	Total
Revenues	$1,192,422	$282,039	$ —	$1,474,461
Cost of services	1,032,665	220,366	—	1,253,031
Gross profit	159,757	61,673	—	221,430
Selling, general and administrative	124,271	27,053	23,673	174,997
Restructuring Charges	—	—	5,556	5,556
Income (loss) from operations	$ 35,486	$ 34,620	$ (29,229)	$ 40,877
Other data:				
Depreciation and amortization expense	$ 13,921	$ 885	$ 3,827	$ 18,633
Capital expenditures	8,301	753	2,841	11,895
Total assets	519,897	89,896	101,737	711,530

	Fiscal Year Ended September 30, 2003 (restated)			
	Commercial and Industrial	Residential	Corporate	Total
Revenues	$1,171,596	$276,167	$ —	$1,447,763
Cost of services	1,023,151	218,179	—	1,241,330
Gross profit	148,445	57,988	—	206,433
Selling, general and administrative	101,096	33,110	19,445	153,651
Income (loss) from operations	$ 47,349	$ 24,878	$ (19,445)	$ 52,782
Other data:				
Depreciation and amortization expense	$ 11,419	$ 1,133	$ 3,763	$ 16,315
Capital expenditures	5,345	891	2,491	8,727
Total assets	503,863	108,204	102,420	714,487

	Fiscal Year Ended September 30, 2004			
	Commercial And Industrial	Residential	Corporate	Total
Revenues	$1,114,093	$310,007	$ —	$1,424,100
Cost of services	999,992	250,178	—	1,250,170
Gross profit	114,101	59,829	—	173,930
Selling, general and administrative	99,868	33,898	25,140	158,906
Goodwill impairment charge	99,798	—	—	99,798
Income (loss) from operations	$ (85,565)	$ 25,931	$ (25,140)	$ (84,774)
Other data:				
Depreciation and amortization expense	$ 9,876	$ 1,167	$ 2,311	$ 13,354
Capital expenditures	3,463	1,082	1,960	6,505
Total assets	396,810	107,205	76,918	580,933

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

11. STOCKHOLDERS' EQUITY:

Restricted Voting Common Stock

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

Common Stock Repurchase Programs

During the year ended September 30, 2003, the Company completed a 2 million share repurchase program. The Company used approximately $10.2 million in cash generated form operations to repurchase shares during the year ended September 30, 2003 for this program. On November 5, 2003, we commenced a $13 million share repurchase program. We used approximately $4.6 million in cash generated from operations to repurchase 549,200 shares during the year ended September 30, 2004 under this program.

1997 Stock Plan

In September 1997, the Company's board of directors and stockholders approved the Company's 1997 Stock Plan (the "Plan"), which provides for the granting or awarding of incentive or nonqualified stock options, stock appreciation rights, restricted or phantom stock and other incentive awards to directors, officers, key employees and consultants of the Company. The number of shares authorized and reserved for issuance under the Plan is 15 percent of the aggregate number of shares of common stock outstanding. The terms of the option awards will be established by the compensation committee of the Company's board of directors. Options generally expire between seven and ten years from the date of grant, one year following termination of employment due to death or disability, or three months following termination of employment by means other than death or disability.

Directors' Stock Plan

In September 1997, the Company's board of directors and stockholders approved the 1997 Directors' Stock Plan (the "Directors' Plan"), which provides for the granting or awarding of stock options to nonemployee directors. In May 2000, the Company's board of directors amended the Directors' Plan. The number of shares authorized and reserved for issuance under the Directors' Plan is 250,000 shares. Each nonemployee director is granted options to purchase 3,000 shares at the time of an initial election of such director. In addition, each director will be automatically granted options to purchase 3,000 shares annually at each September 30 on which such director remains a director. All options have an exercise price based on the fair market value at the date of grant, are immediately vested and expire 10 years from the date of the grant. In the event that the director ceases to serve as a member of the board for any reason the options must be exercised within one year.

1999 Incentive Compensation Plan

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

In March 2000, the Company granted 400,000 restricted stock awards under this stock plan to an employee. This award was vested in equal installments on March 20th of each year through 2004, provided the recipient was still employed by the Company. The market value of the underlying stock on the date of grant for this award was $2.3 million, which was recognized as compensation expense over the related vesting periods. The award was accelerated on its terms, and became fully vested and was fully amortized during the year ended September 30, 2002.

In December 2003, the Company granted a restricted stock award of 242,295 shares under the 1999 Plan to certain employees. This award vests in equal installments on December 1, 2004 and 2005, provided the recipient is still employed by the Company. The market value of the stock on the date of grant for this award was $2.0 million, which will be recognized as compensation expense over the related two year vesting period. During the year ended September 30, 2004, the Company amortized $0.8 million to expense in connection with this award.

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

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 2001	6,929,121	$10.06
Options Granted	2,073,069	4.60
Exercised	(434,471)	1.51
Forfeited and Cancelled	(2,033,039)	8.33
Outstanding, September 30, 2002	6,534,680	$ 9.39
Options Granted	21,000	6.90
Exercised	(392,273)	5.32
Forfeited and Cancelled	(800,566)	12.20
Outstanding, September 30, 2003	5,362,841	$ 9.28
Options Granted	303,226	1.20
Exercised	(855,599)	5.17
Forfeited and Cancelled	(643,677)	10.02
Outstanding, September 30, 2004	4,166,791	$ 9.42
Exercisable, September 30, 2002	3,314,864	$11.70
Exercisable, September 30, 2003	3,747,774	$10.93
Exercisable, September 30, 2004	3,469,828	$10.68

The table below summarizes options outstanding and exercisable at September 30, 2004:

Range of Exercise Prices	Outstanding as of September 30, 2004	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable as of September 30, 2004	Weighted-Average Exercise Price
$ 0.0000-$ 4.6240	886,190	4.6	$ 2.74	414,499	$ 3.71
$ 4.6250-$ 6.9000	1,229,920	6.2	$ 5.68	1,023,050	$ 5.76
$ 6.9100-$10.3000	26,500	5.5	$ 8.90	20,600	$ 8.95
$10.3100-$15.4000	1,591,283	3.6	$13.63	1,578,781	$13.65
$15.4100-$22.1250	432,898	3.9	$18.25	432,898	$18.25
	4,166,791	4.6	$ 9.42	3,469,828	$10.68

Options granted during the years ended September 30, 2002, 2003 and 2004 had weighted average fair values per option of $1.91, $3.63 and $0.20, respectively.

Unexercised options expire at various dates from January 27, 2008 through October 1, 2014.

Employee Stock Purchase Plan

In February 2000, the Company's stockholders approved the Company's Employee Stock Purchase Plan (the "ESPP"), which provides for the sale of common stock to participants as defined at a price equal to the lower of 85% of the Company's closing stock price at the beginning or end of the option period, as defined. The number of shares of common stock authorized and reserved for issuance under the ESPP is 1.0 million shares. The purpose of the ESPP is to provide an incentive for employees of the Company to acquire a proprietary interest in the Company through the purchase of shares of the Company's common stock. The ESPP is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the ESPP are construed in a manner to be consistent with the requirements of that section of the Code. During the years ended September 30, 2002, 2003 and 2004, the Company issued 207,642, 55,742 and 248,982 shares pursuant to the ESPP, respectively. For purposes of SFAS No. 123, "Accounting for Stock-Based Compensation," estimated compensation cost as it relates to the ESPP was computed for the fair value of the employees' purchase rights using the Black-Scholes option pricing model with the following assumptions for 2002: expected dividend yield of 0.00%, expected stock price volatility of 81.56%, weighted average risk free interest rate of 3.96% and an expected life of 0.5 years. The weighted average fair value per share of these purchase rights granted in 2002 was approximately $1.54. The following assumptions were used for 2003: expected dividend yield of 0.00%, expected stock price volatility of 51.94%, weighted average risk free interest rate of 3.21% and an expected life of 0.5 years. The weighted average fair value per share of these purchase rights granted in 2003 was approximately $0.89. The following assumptions were used for 2004: expected dividend yield of 0.00%, expected stock price volatility of 33.09%, weighted average risk free interest rate of 1.32% and an expected life of 0.5 years. The weighted average fair value per share of these purchase rights granted in 2004 was approximately $1.49.

12. RELATED-PARTY TRANSACTIONS:

The Company has transactions in the normal course of business with certain affiliated companies. The Company has a note receivable from an affiliate, EPV, of $1.8 million as of September 30, 2003 and 2004 and believes this loan is fully collectible. No loan loss amount has been recorded to date for this note receivable from EPV. Amounts due from other related parties at September 30, 2003 and 2004 were $0.1 million. In connection with certain of the acquisitions, subsidiaries of the Company have entered into a number of related party lease arrangements for facilities. These lease agreements are for periods generally ranging from three to five years. Related party lease expense for the years ended September 30, 2002, 2003 and 2004 were $4.2 million, $4.2 million and $3.5 million, respectively. Future commitments with respect to these leases are included in the schedule of minimum lease payments in note 7.

13. EMPLOYEE BENEFIT PLANS:

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

Certain subsidiaries of the Company do not participate in the 401(k) Plan, but instead provide various defined contribution savings plans for their employees (the "Plans"). The Plans cover substantially all full-time employees of such subsidiaries. Participants vest at varying rates ranging from full vesting upon participation to those that provide for vesting to begin after three years of service and are fully vested after eight years. Certain plans provide for a deferral option that allows employees to elect to contribute a portion of their pay into the plan and provide for a discretionary profit sharing contribution by the individual subsidiary. Generally the subsidiaries match a portion of the amount deferred by participating employees. Contributions for the profit sharing portion of the Plans are generally at the discretion of the individual subsidiary. The aggregate contributions by the Company to the 401(k) Plan and the Plans were $3.0 million, $3.0 million and $2.2 million for the years ended September 30, 2002, 2003 and 2004, respectively.

14. COMMITMENTS AND CONTINGENCIES:

The Company and its subsidiaries are involved in various legal proceedings that have arisen in the ordinary course of business. While it is not possible to predict the outcome of such proceedings with certainty and it is possible that the results of legal proceedings may materially adversely affect us, in the opinion of the Company, all such proceedings are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability which would have a material adverse effect on the financial position, liquidity or results of operations of the Company. The Company expenses routine legal costs related to such proceedings as incurred.

On August 20, 2004, August 23, 2004, September 10, 2004, September 15, 2004, and October 4, 2004, Corinne Orem, Elaine English, Park Partners, L.P., Jack Zimny, and James Elmore, respectively, each filed a putative class action complaint against IES, and certain of our officers and directors, in the United States District Court for the Southern District of Texas, alleging that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and seeking a class determination for purchasers of IES stock between November 10, 2003 and August 13, 2004. The complaints seek unspecified amounts of compensatory damages, interest and costs, including legal fees. On November 19, 2004, these cases were consolidated. A motion to appoint a lead plaintiff is pending before the Court, and once an appointment is made plaintiff will have sixty days to file a consolidated amended complaint. Defendants will have sixty days from the filing of this consolidated amended complaint to respond.

On September 3, 2004, Chris Radek filed a shareholder derivative action in the District Court of Harris County, Texas naming Herbert R. Allen, Richard L. China, William W. Reynolds, Britt Rice, David A. Miller, Ronald P. Badie, Donald P. Hodel, Alan R. Sielbeck, C. Byron Snyder, Donald C. Trauscht, and James D. Woods as individual defendants and IES as nominal defendant. In this derivative action, the plaintiff makes substantially similar claims as made in the putative class action complaints, and adds common law claims against the individual defendants. The complaint in the shareholder derivative actions seeks unspecified amounts of damages, interest and costs, including legal fees. By agreement, the Defendants will not respond to this action until the plaintiff files an amended petition.

The Company intends to vigorously contest these actions. However, because they are at an early stage, it is premature at this time to predict liability or to estimate the damages, or the range of damages, if any, that we might incur in connection with these actions. An adverse outcome in these actions could have a material adverse effect on our business, consolidated financial condition, results of operations or cash flows.

Some of the Company's customers require the Company to post letters of credit as a means of guaranteeing performance under its contracts and ensuring payment by the Company to subcontractors and vendors. If the customer has reasonable cause to effect payment under a letter of credit, the Company would be required to reimburse its creditor for the letter of credit. Depending on the circumstances surrounding a reimbursement to its creditor, the Company may have a charge to earnings in that period. To date the Company has not had a situation where a customer has had reasonable cause to effect payment under a letter of credit. At September 30, 2004, $1.9 million of the Company's outstanding letters of credit were to collateralize its customers.

Some of the underwriters of the Company's casualty insurance program require it to post letters of credit as collateral. This is common in the insurance industry. To date the Company has not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At September 30, 2004, $18.9 million of the Company's outstanding letters of credit were to collateralize its insurance program.

Many of the Company's customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that the Company will perform under the terms of a contract and that it will pay its subcontractors and vendors. In the event that the Company fails to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under the Company's bond. The Company's relationship with its sureties is such that it will indemnify the sureties for any expenses they incur in connection with any of the bonds they issues on the Company's behalf. To date, the Company has not incurred significant expenses to indemnify its sureties for expenses they incurred on the Company's behalf. As of September 30, 2004, the Company's cost to complete projects covered by surety bonds was approximately $200.0 million and utilized a combination of cash and letters of credit totaling $12.5 million to collateralize the Company's bonding program.

The Company has committed to invest up to $5.0 million in EnerTech Capital Partners II L.P. ("EnerTech"). EnerTech is a private equity firm specializing in investment opportunities emerging from the deregulation and resulting convergence of the energy, utility and telecommunications industries. Through September 30, 2004, the Company had invested $3.5 million under its commitment to EnerTech.

The asset divestiture program involves the sale of substantially all of the assets and liabilities of certain wholly owned subsidiary business units. As part of the sale, the purchaser assumes all liabilities except those specifically retained by the Company. The transaction does not include sale of the legal entity or Company subsidiary and as such the Company retains certain legal liabilities. In addition to specifically retained liabilities contingent liabilities exist in the event the purchaser is unable or unwilling to perform under its assumed liabilities. Those contingent liabilities may include items such as:

- Joint responsibility for any liability to the surety bonding company if the purchaser fails to perform the work
- Liability for contracts for work not finished if the contract has not been assigned and a release obtained from the customer
- Liability on ongoing contractual arrangements such as real property and equipment leases where no assignment and release has been obtained

15. QUARTERLY RESULTS OF OPERATIONS (Unaudited):

Quarterly financial information for the years ended September 30, 2003 and 2004 are summarized as follows (in thousands, except per share data):

	Fiscal Year Ended September 30, 2003 (restated)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$348,495	$343,089	$375,303	$ 380,876
Gross profit	$ 51,274	$ 49,059	$ 53,373	$ 52,727
Net income	$ 3,629	$ 3,212	$ 5,260	$ 7,336
Earnings per share:				
Basic	$ 0.09	$ 0.08	$ 0.14	$ 0.19
Diluted	$ 0.09	$ 0.08	$ 0.13	$ 0.19

	Fiscal Year Ended September 30, 2004			
	First Quarter (restated)	Second Quarter (restated)	Third Quarter	Fourth Quarter
Revenues	$360,206	$339,995	$367,009	$ 356,890
Gross profit	$ 50,927	$ 43,021	$ 42,795	$ 37,187
Net income (loss)	$ 6,289	$ 2,472	$ 740	$(134,365)
Earnings per share:				
Basic	$ 0.16	$ (0.06)	$ (0.02)	$ (3.46)
Diluted	$ 0.16	$ (0.06)	$ (0.02)	$ (3.46)

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.

Included in net loss for the fourth quarter is a $99.8 million goodwill impairment charge.

15. SUBSEQUENT EVENTS:

Discontinued Operations

Subsequent to September 30, 2004, the Company sold three operating units from its commercial and industrial segment for total proceeds of $11.5 million. These subsidiaries had a combined revenues of $49.7 million, $46.1 million and $57.7 million, and income from operations of $4.3 million, $3.1 million, and $1.1 million for the years ended September 30, 2002, 2003, and 2004, respectively.

Litigation Settlement

As previously reported pursuant to the Company's Current Report on Form 8-K dated October 4, 2004, on September 30, 2004, a verdict was rendered by a jury in a case pending in the 133rd District Court of Harris County, Texas involving a dispute arising from a failed attempted sale of the assets of a wholly owned subsidiary of the Company and an employment claim by a former officer of that subsidiary. The jury verdict, if judgment had been entered on that verdict, could have been for approximately $30,000,000. The parties settled the lawsuit post-verdict for a cash payment of $8,000,000. This settlement was entered on December 2, 2004 and the matter was resolved. This amount was accrued at September 30, 2004.

Amendments to the Credit Facility

On November 18, 2004, the Company obtained a third amendment to the Credit Facility effective on November 24, 2004 upon the initial funding of Senior Convertible Notes. The amendment modified certain provisions of the Credit Facility to permit the issuance of the Senior Convertible Notes, modified certain definitions, specified mandatory debt reduction amounts and required a fee.

On December 10, 2004, the Company obtained a fourth amendment to the Credit Facility, effective as of June 30, 2004 with respect to specific financial covenants. The amendment modified the Credit Facility to reduce the total facility commitment to a revolving loan commitment of $82.1 million plus outstanding term loan commitments, modified definitions, specified mandatory debt reduction amounts by quarter, adjusted and redefined financial covenants on a monthly basis, released defined collateral under specified conditions, increased pricing, established the borrowing base at 70% of qualifying assets and required a fee.

Senior Convertible Notes

On November 24, 2004, the Company entered into a purchase agreement for a private placement of $36.0 million aggregate principal amount of its 6.5% Senior Convertible Notes due 2014. Investors in the notes agreed to a purchase price equal to 100% of the principal amount of the notes. The investors have an option to purchase up to an aggregate of $14 million in additional notes on or before the later to occur of the 90th day after the closing date and the fifth business day after the Company's next annual meeting of stockholders. The notes require payment of interest semi-annually in arrears at an annual rate of 6.5%, have a stated maturity of November 1, 2014, constitute senior unsecured obligations of the Company, are guaranteed on a senior unsecured basis by the Company's significant domestic subsidiaries, and are convertible at the option of the holder under certain circumstances into shares of the Company's common stock at an initial conversion price of $3.25 per share, subject to adjustment. The total number of shares of common stock deliverable upon conversion of the notes is limited to approximately 9.4 million shares (including approximately 1.9 million treasury shares), absent receipt of stockholder approval of the issuance of additional shares. Subject to certain conditions, to the extent that more shares would otherwise be issuable upon conversions of notes, the Company will be required to settle such conversions in cash by paying the value of the stock into which the notes would otherwise be convertible. The net proceeds from the sale of the notes were used to prepay a portion of the Company's senior secured Credit Facility and for general corporate purposes. The notes, the guarantees and the shares of common stock issuable upon conversion of the notes to be offered have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and, unless so registered, the securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

Posting of Collateral

Subsequent to September 30, 2004, the Company has posted additional cash collateral with its surety of $10.0 million and issued additional letters of credit to its insurance underwriters of $12.6 million.

Goodwill Impairment

The Company decided to begin selling or divesting operations that were underperforming, and were heavily dependant on bonding or were in markets that continue to have weak economic forecasts. These operations accounted for $289.2 million in revenues and a loss of $13.1 million in operating income during the year ended September 30, 2004. The identification of the subsidiaries to sell or close required the Company to determine if a goodwill impairment exists. The Company determined that an impairment did exist and accordingly recorded a $7.3 million write off of goodwill in the first quarter of fiscal 2005. The impairment related to the Company's operating regions as follows (amounts in millions):

Northeast	$1.6
Gulf Plains	0.5
Central	1.1
West	4.1
Total	$7.3

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

(a) **Disclosure controls and procedures.** An evaluation was performed under the supervision and with the participation of the Company's management, including the CEO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2004. Based on that evaluation, the Company's management, including the CEO, concluded that the Company's disclosure controls and procedures were not effective, as of September 30, 2004, in providing reasonable assurances that material information required to be disclosed is included on a timely basis in the reports it files with the Securities and Exchange Commission. Based upon that evaluation, the Company took the following steps to improve the functioning of its disclosure controls:

- Changed the reporting relationships of regional controllers, so that they report directly to IES' chief accounting officer and have a direct line of communication to the chief accounting officer and the disclosure committee regarding accounting matters.
- Conducted a further investigation of accounting matters at the direction and under the supervision of the Audit Committee.
- Provided accounting briefings to subsidiary management to clarify and strengthen management's understanding of the Company's revenue recognition policies and the reporting by subsidiaries of revenue and write-downs on contracts.
- Expanded the form of certification used for subsidiary presidents and controllers so that exceptions are identified to the chief accounting officer and the disclosure committee to permit further review and gathering of information and more timely disclosure.

(b) **Internal Controls.** During the fourth quarter of fiscal 2004, IES conducted an evaluation of the financial results relating to certain projects at one of its subsidiaries. Following the internal investigation, the Company's Audit Committee engaged special counsel to conduct an investigation of those matters. The special investigation has been concluded, and the Company believes that the issues regarding its financial results were not widespread. The issues at one subsidiary related to (1) a series of large contracts accounted for on a percentage of completion basis in which actual costs projected to be incurred exceeded the original projected costs, but appropriate adjustments were not reflected, (2) general and administrative costs recorded to a particular contract that did not relate to that contract and (3) the recognition of revenue related to the recording of incorrect margin on a particular long-term contract. The issues at another subsidiary related to incorrectly recorded revenues attributable to a large project that were not detected as part of the Company's normal closing process. The aggregate amount of the issues at these two subsidiaries is approximately $5.7 million.

As a result of the above matters, the independent auditors of IES advised the Company that they would not be able to complete their procedures in accordance with AU 722, "Interim Financial Information," on the Company's third quarter results. They advised IES that until the audit of its fiscal year 2004 financial statements was completed, they would be unable to complete their procedures in accordance with AU 722 on third quarter results. The reasons for the delay were the two material weaknesses identified by the independent auditors as described below and concerns that the size of the adjustments taken for the items identified above, coupled with any other adjustments that may have been identified in the course of the audit, could have resulted in a requirement to restate prior periods.

In response to the issues identified above, by letter dated August 12, 2004, Ernst & Young, IES' independent auditors, issued a letter to IES advising the Company that they had identified two deficiencies in the design of internal controls that are material weaknesses:

- First, at one subsidiary, certain administrative costs were inappropriately recorded as additional contract costs on a large cost-plus contract, which resulted in the deferral of expenses and overstatement of revenues for the first quarter of fiscal 2002. Additionally, the subsidiary recorded margin on that same contract of up to 8% when the contract only allowed for costs plus a maximum of 6%.
- Second, the Company recorded an additional $4.3 million in adjustments to contract cost, reversal of revenue and other issues. The auditors concluded that the Company's lack of timely updating of estimated costs to complete contracts and lack of monitoring revenue recognition policies was a deficiency and material weakness.

To address the issues described above, IES' management made the policy, training, controls and organizational changes described below:

- IES is reviewing its internal controls by to improve the functioning of internal controls and address the potential deficiencies and weaknesses.
- The number of reporting regions was reduced, and a new "rapid response" team was created to step in and assist subsidiaries experiencing difficulties to accelerate corrective measures.
- Implementation of new and significantly expanded training programs for employees responsible for financial reporting.
- The form of certification used for subsidiary presidents and controllers was revised and expanded.
- Reporting relationships were changed so that regional controllers report directly to IES' chief accounting officer and have a direct line of communication to the chief accounting officer.
- A centralized accounting system has been implemented at 90 percent of the Company's subsidiaries as of December 2004. This accounting system permits remote access and increased oversight of the accounting records at each subsidiary location. The increased automation of the revenue reporting process has strengthened the Company's internal controls.
- IES is in the process of implementing policies to require additional support in narrative or other form to document probable collection of larger aged accounts receivable. Under the revised policy, evidence required to recognize revenue will be a written or oral change order or notice to proceed.
- IES is in the process of clarifying and improving its accounting policies, including its policies regarding revenue recognition, ethics compliance and contract documentation, and providing the policies in language and format that are more readily usable.

IES believes these changes allow it to better enforce controls and detect potential issues more quickly in the future.

Item 9B. ***Other Information***

None.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this item is incorporated by reference to the sections entitled "Management;" "Section 16(a) Beneficial Ownership Reporting Compliance;" and "Election of Directors" in the Company's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission no later than January 28, 2005. Information regarding executive officers of the Company is presented in Part I of this Form 10-K under the caption "Executive Officers."

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Code of Ethics may be found on our website at *www.ies-co.com.* If we make any substantive amendments to the Code of Ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, we will disclose the nature of such amendment or waiver on that website or in a report on Form 8-K. Paper copies of these documents are also available free of charge upon written request to us. We have designated an "audit committee financial expert" as that term is defined by the SEC. Further information about this designee may be found in the Proxy Statement for the Annual Meeting of Stockholders of the Company under the section entitled "Designation of the Audit Committee Financial Expert".

Item 11. *Executive Compensation*

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

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Securities Authorized for Issuance Under Equity Compensation Plans.

Equity Compensation Plan Information

The following table provides information as of September 30, 2004 with respect to shares of our common stock that may be issued upon the exercise of options, warrants and rights granted to employees or members of the Board of Directors under the Company's existing equity compensation plans. For additional information about our equity compensation plans, see note 11 to our financial statements in Item 8.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,152,681(1)	$14.10	3,279,077(2)
Equity compensation plans not approved by security holders	2,045,784(3)	$ 4.98	1,350,897(4)
Total	4,198,465	$ 9.66	4,629,974

(1) Represents 2,053,681 shares and 99,000 shares issuable upon exercise of outstanding options granted under the 1997 Stock Plan and the Directors' Stock Plan, respectively. Each of these plans has been approved by our shareholders.

(2) Represents 3,141,577 shares and 137,500 shares remaining available for issuance under the 1997 Stock Plan and the Directors' Stock Plan, respectively.

(3) Represents shares issuable upon exercise of outstanding options granted under the 1999 Incentive Compensation Plan. This plan provides for the granting or awarding of stock options, stock appreciation rights, restricted stock and other stock based awards to employees (including officers) and consultants of the Company. All stock options granted under this plan were granted at fair market value on the date of grant. The options generally become exercisable over a three year period after grant and expire seven years after the date of grant or expire earlier in the event of termination of employment.

(4) Represents shares remaining available for issuance under the 1999 Incentive Compensation Plan.

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

Item 13. ***Certain Relationships and Related Transactions***

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

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is incorporated by reference to the section entitled "Audit Fees" in the Proxy Statement.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

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

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

(b) Exhibits.

3.1	Amended and Restated Certificate of Incorporation as amended. (Incorporated by reference to 3.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
3.2	Bylaws, as amended (Incorporated by reference to 3.2 to the Registration Statement on Form S-4 (File No. 333-65160) of the Company)
4.1	Specimen Common Stock Certificate. (Incorporated by reference to 4.1 to the Registration Statement on Form S-1 (File No. 333-38715) of the Company)
4.2	Indenture, dated January 28, 1999, by and among Integrated Electrical Services, Inc. and the subsidiaries named therein and State Street Bank and Trust Company covering up to $150,000,000 9⅜% Senior Subordinated Notes due 2009. (Incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 3 to the Registration Statement on Form S-4 (File No. 333-50031) of the Company)
4.3	Form of Integrated Electrical Services, Inc. 9⅜% Senior Subordinated Note due 2009 (Series A) and (Series B). (Included in Exhibit A to Exhibit 4.2 to Post-Effective Amendment No. 3 to the Registration Statement on Form S-4 (File No. 333-50031) of the Company)
4.4	Indenture, dated May 29, 2001, by and among Integrated Electrical Services, Inc. and the subsidiaries named therein and State Street Bank and Trust Company covering up to $125,000,000 9⅜% Senior Subordinated Notes due 2009. (Incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-4 (File No. 333-65160) of the Company)
4.5	Form of Integrated Electrical Services, Inc. 9⅜% Senior Subordinated Note due 2009 (Series C) and (Series D). (Included in Exhibit A to Exhibit 4.3 to Registration Statement on Form S-4 (File No. 333-65160) of the Company)
4.6	Indenture, dated November 24, 2004, among the Company, the subsidiaries of the Company named therein, each a Guarantor, and The Bank Of New York, a New York Banking Corporation, as Trustee, for the benefit of the holders of the Company's Series A 6.5% Senior Convertible Notes Due 2014 and Series B 6.5% Senior Convertible Notes Due 2014. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 24, 2004)
4.7	Registration Rights Agreement, dated November 24, 2004, by and among the Company, the parties set forth on Schedule I thereto, each a Purchaser, and the subsidiaries of the Company set forth on Schedule II thereto, each a Guarantor, for the benefit of the holders of the Company's Series A 6.5% Senior Convertible Notes Due 2014 and Series B 6.5% Senior Convertible Notes Due 2014. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 24, 2004)
*10.1	Form of Amended and Restated Employment Agreement between the Company and H. Roddy Allen entered into effect as of January 30, 2003 (Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2003)
*10.2	Form of Amended and Restated Employment Agreement between the Company and Richard L. China entered into effective as of August 12, 2003 (Incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended September 30, 2003)

*10.3	Form of Resignation Contract Amendment between the Company and Richard L. China dated September 28, 2004(1)
*10.4	Form of Mutual Settlement Agreement and Release between the Company and Richard L. China dated November 9, 2004(1)
*10.5	Form of Amended and Restated Employment Agreement between the Company and Daniel Petro effective as of January 26, 2003(1)
*10.6	Form of Amended and Restated Employment Agreement between the Company and Miles Dickinson effective May 13, 2004(1)
*10.7	Form of Amendment to Amended and Restated Employment Agreement between the Company and Miles Dickinson effective December 6, 2004(1)
*10.8	Form of Amended and Restated Employment Agreement between the Company and Robert Stalvey effective January 27, 2003(1)
10.9	Form of Officer and Director Indemnification Agreement. (Incorporated by reference to exhibit 10.2 to the Company's Annual report on Form 10-K for the year ended September 30, 2002)
10.10	Integrated Electrical Services, Inc. 1997 Stock Plan, as amended. (Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended September 30, 2001)
10.11	Integrated Electrical Services, Inc. 1997 Directors' Stock Plan. (Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended September 30, 2000)
10.12	Form of Stock Option Agreement for non-qualified Stock Options granted pursuant to the 1997 Directors Stock Plan(1)
10.13	Form of Stock Option Agreement for non-qualified Stock Options granted pursuant to the 1997 Stock Plan(1)
10.14	Integrated Electrical Services, Inc. 1999 Incentive Compensation Plan (Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended September 30, 2000)
10.15	Form of Stock Option Agreement for non-qualified Stock Options granted pursuant to the 1999 Incentive Compensation Plan(1)
10.16	Form of Restricted Stock Agreement granted pursuant to the 1999 Incentive Compensation Plan(1)
10.17	Credit Facility dated February 27, 2004, among the Company, as borrower, the Financial institutions named therein, as banks, U.S. Bank National Association as syndication agent, Bank of Scotland as managing agent, La Salle Bank National Association as documentation agent and Bank One, NA as administrative agent (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2004)
10.18	Agreement and Amendment to Credit Agreement dated as of June 30, 2004, among the financial institutions named therein, the Company, as borrower, and Bank One, NA, as administrative agent (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 17, 2004)
10.19	Agreement and Second Amendment to Credit Agreement dated as of August 16, 2004 among the financial institutions named therein, the Company, as borrower, and Bank One, NA, as administrative agent (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 1, 2004)

10.20	Agreement and Third Amendment to Credit Agreement dated as of November 18, 2004 among the financial Institutions named therein, the Company, as borrower, and Bank One, NA, as administrative agent. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 22, 2004)
10.21	Purchase Agreement, dated November 22, 2004, among the Company and the Purchasers named therein and Guarantors named therein (including form of Indenture and form of Registration Rights Agreement) (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 22, 2004)
10.22	Agreement and Fourth Amendment to Credit Agreement dated as of December 10, 2004 among the financial institutions named therein, the Company, as borrower, and JPMorgan Chase Bank, N.A. (successor by merger to Bank One, NA), as administrative agent.(1)
12	Ratio of Earnings to Fixed Charges(1)
16.1	Letter of Arthur Andersen LLP regarding a change in certifying accountant. (Incorporated by reference to Exhibit 16.1 to the Company's Current Report on Form 8-K (File No. 011-13783) filed June 10, 2002)
21.1	Subsidiaries of the Registrant(1)
23.1	Consent of Ernst & Young LLP(1)
24	Powers of Attorney(1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Herbert R. Allen, Chief Executive Officer and Interim Chief Financial Officer(1)
32.1	Section 1350 Certification(1)

* These exhibits relate to management contracts or compensatory plans or arrangements.

(1) 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 14, 2004.

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ HERBERT R. ALLEN

Herbert R. Allen
Chief Executive Officer and
Interim Chief Financial 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 14, 2004.

Signature	Title
/s/ HERBERT R. ALLEN **Herbert R. Allen**	Chief Executive Officer, Interim Chief Financial Officer and Director
/s/ RONALD P. BADIE* **Ronald P. Badie**	Director
/s/ DONALD PAUL HODEL* **Donald Paul Hodel**	Director
/s/ ALAN R. SIELBECK* **Alan R. Sielbeck**	Director
/s/ C. BYRON SNYDER* **C. Byron Snyder**	Chairman of the Board of Directors
/s/ DONALD C. TRAUSCHT* **Donald C. Trauscht**	Director
/s/ JAMES D. WOODS* **James D. Woods**	Director
/s/ DAVID A. MILLER* **David A. Miller**	Chief Accounting Officer

*By: /s/ HERBERT R. ALLEN

Herbert R. Allen as
attorney in fact for each
of the persons indicated.

Exhibit 10.3

September 27, 2004

Integrated Electrical Services, Inc.
1800 West Loop South
Suite 500
Houston, TX 77027

Mr. Herbert Allen, President and Chief Executive Officer

Re: Resignation Contract Amendment

Dear Mr. Allen:

This is to confirm the agreement between Mr. Richard China and Integrated Electrical Services (IES) that, in exchange for the consideration represented by the following mutual agreements and undertakings, the parties agree as follows:

1. Mr. China agrees to allow IES to make a public statement as early as September 27, 2004 to the effect that Mr. China will be changing his position from Chief Operating Officer to Senior Vice President of Strategic Development (at no reduction in compensation from his current compensation package), provided that an authorized representative of IES has signed this letter agreement.

2. IES agrees that this change in position constitutes "Good Reason" within the meaning of Mr. China's Amended and Restated Employment Agreement and shall entitle him to the remedies and rights afforded him under that agreement (in particular, and without limitation, paragraph 4(f) thereof), and further agrees that his 14 day period provided thereunder shall commence as of the earlier of November 4, 2004 or the date by which a written agreement is reached and signed providing for Mr. China's future employment or a possible severance agreement is presented to him by the Board of Directors of IES.

3. Mr. Allen and IES agree to negotiate in good faith with Mr. China the specific terms of a severance agreement for Mr. China and to present same to the Board with a recommendation for board action at its scheduled November 4, 2004 meeting.

Agreed to and accepted this ____ day of September, 2004.

Integrated Electrical Services, Inc. (IES)	**Richard L. China**

Exhibit 10. 4

Integrated Electrical Services, Inc.
MUTUAL SETTLEMENT AGREEMENT AND RELEASE

This Mutual Settlement Agreement and Release ("Agreement"), dated as of November 9, 2004, is between Richard L. China ("China") and Integrated Electrical Services, Inc. ("IES").

RECITALS

Richard L. China and IES wish to terminate their employment relationship amicably, settle existing disputes and to set forth their remaining obligations to one another. In order to provide for a smooth transition and to foreclose any potential claims or disputes existing or arising between the parties, Richard L. China and IES have agreed to enter this Agreement.

AGREEMENT

In consideration of the foregoing recitals, the mutual agreements and undertakings of the parties set forth below, and other good and valuable consideration that is addition to any rights China may already have and the receipt, adequacy and sufficiency of which are hereby expressly acknowledged, China and IES agree as follows:

1. Separation Date

China and IES hereby terminate their employment relationship effective November 9, 2004 ("Separation Date"). China acknowledges that he is subject to an employment contract and that all obligations of IES under that contract have been fulfilled or are fulfilled in full by this agreement and that IES has the right to terminate his employment without any further liability of any kind to IES or its officers, directors or employees, including but not limited to payments of any kind pursuant to such contract.

2. Severance Payment

In return for this entire Agreement and particularly for the releases set forth in paragraph 4, 9 and 10 below, IES will pay China a lump sum severance payment of $103,609.99 (less applicable state and federal taxes, Medicare, FICA and other customary deductions) as set out in paragraph 6 below. Additionally, China will receive additional severance of $610,500.24 that will be paid in the form of base salary continuation in accordance with IES's regular payroll schedule. These severance amounts will be paid as indicated following receipt of the Mutual Agreement and Release by the Company and within five (5) days of the satisfaction of the revocation period as set out in paragraph 6 below. Salary continuation payments shall be made until the full severance benefit has been paid. Additionally, IES will pay the cost of continuing medical and dental health care coverage for China and eligible dependents under COBRA for a period of 18 months. The total severance payment to be paid to China is $714,110.23 (less applicable state and federal taxes, Medicare, FICA and other customary deductions).

China agrees that IES may retain any amounts owed to IES and credit it to any amounts owed to IES from China. Such credited amounts will be considered paid to China for the purpose of this Agreement and will not affect the validity of this Agreement and the releases contained herein. China acknowledges that the severance payment constitutes good and valuable consideration for the promises, releases, waivers and assignments contained in this Agreement. The severance payment set forth in this paragraph includes the severance amount due to China under any contract, plan, policy, practice or guideline of IES. **China agrees that, without his signature on this Agreement, IES is not required to pay any sum as severance.**

The final payment for all work and services provided by China before the Separation Date has been paid separately and such payment has fully satisfied all obligations for compensation that IES owed to China through such date.

3. Other Benefit and Compensation Plans

This Agreement does not affect any previously vested rights to funds or benefits under the IES welfare or benefit plans. All benefits and distributions under those plans will be paid according to the terms and conditions of those plans. IES agrees that China may exercise any presently vested and exercisable stock options according to the terms and provisions of the relevant stock option plan, provided he does not have insider information.

PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES A COMPLETE RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

4. Release and Waiver

As a material inducement to IES to enter into this Agreement and the severance benefit payment discussed in paragraph 2 above, Richard L. China, on behalf of himself and his heirs and assigns, does hereby **RELEASE, ACQUIT, AND FOREVER DISCHARGE** Integrated Electrical Services, Inc., its successors, present and former employees, corporate officers, directors, corporate affiliates ("the parties released"), of and from any and all liability of any kind and character, including attorney's fees, whatsoever arising from, growing out of, or in any way connected with his employment with IES or separation there from or the negligent or intentional acts, statements or omissions of the parties released at any time up to and including the date of execution of this Agreement. China declares that it is his intention to fully release IES and all of the parties released from any and all liability of any kind and character whatsoever arising from, growing out of, or in any way connected with his employment with IES or separation there from including, but not limited to, known and unknown claims, in negligence, contract or in tort, which arose at any time prior to the execution of this Agreement, under any Federal or State statute including, but not limited to, the Age Discrimination in Employment Act, as amended, 29 U.S.C. §§ 621 - 634; Older Workers Benefit Protection Act, as amended, 29 U.S. §§ 621, 623; Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. §§ 2000e - 2000e-17; the Fair Labor Standards Act of 1938 as amended; the Equal Pay Act of 1963, as amended, 29 U.S.C. §§ 206(d); the Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. §§ 1001 - 1461; the Worker Adjustment and Retraining Notification Act, as amended, 29 U.S.C. § 2101 et seq.; the

National Labor Relations Act, as amended, 29 U.S.C. §§ 151-169; Family and Medical Leave Act of 1993, as amended, 29 U.S.C. § 825 et seq. Americans with Disability Act of 1990, as amended, 42 U.S.C. §§ 12101 et. seq.; infliction of emotional distress, defamation, personal injury, breach of contract, the Texas Commission on Human Rights Act; Tex. Lab. Code §§ 21.001 – 21.405; the Civil Law of the State of Texas; and the statutory and common law of these United States, collectively and singularly.

This is a full and final release, without limitation, of all known, unknown, and suspected claims. This complete release is intended to be for the benefit of the parties released. China waives all rights to re-employment, reinstatement or independent contractor status with IES and agrees not to apply for re-employment, reinstatement or future employment with IES. The preceding sentence does not restrict IES from contacting China for future employment or independent contractor services. This Agreement is not intended to and does not affect the rights, if any, that China may have for medical plan reimbursements, unemployment compensation or presently pending worker's compensation claims.

5. Indemnification

As a further part of this Agreement, China hereby agrees to indemnify and hold the parties released harmless from and against any and all loss, costs, damages, or expenses, including, without limitation, attorney's fees, incurred by the parties released and arising out of any negligent or intentional breach of the Agreement by China or because any of the representations made herein by China were false when made. China also hereby assigns to the parties released all causes of actions he or his heirs or assigns may have arising from his employment or termination thereof.

6. Review and Revocation of Release; Effective Date

China acknowledges that he has had a full and fair opportunity to review this Agreement and has been allowed at least twenty-one (21) ("Review Period") days to consider whether to accept the benefits of the Agreement in return for the release. China hereby certifies and represents that the decision to execute this Agreement was made after adequate reflection concerning the purposes and effects of this Agreement, and was not coerced by the parties released or anyone acting on their behalf or in concert with them. China represents that he understands the reasons for his employment termination and has had the opportunity to fully consider the terms, contents and conditions of this Agreement. Consequently, China has fully informed himself and warrants and represents that he knowingly and voluntarily executed this Agreement after his separation from employment with IES. The waivers contained herein are not intended to release any claims arising after the full execution of this Agreement.

China and IES agree that he shall have seven (7) calendar days (the "Revocation Period") following the date he executes this Agreement to revoke his acceptance of this Agreement and the Release set forth in paragraph 4 of this Agreement. China and IES agree and acknowledge that a revocation of this Agreement must be received before the expiration of the Revocation Period to Margery M. Harris; 1800 West Loop South, Suite 500, Houston, Texas 77027. This Agreement will become effective, binding and irrevocable upon signing this agreement. Severance payment, in the form of lump sum amount and base salary continuation will commence after IES's receipt of a completely executed copy of this Agreement and within five (5) days of the satisfaction of the revocation period.

7. Confidentiality of Agreement

China agrees that the terms and conditions of this Agreement shall be treated as confidential, and agrees not to disclose such terms and conditions to any third party. The preceding sentence shall not be applicable to disclosure or discussion with representatives of the Internal Revenue Service or the Social Security Administration, China's immediate family members or professionals from whom legal or financial advice is sought (provided they are instructed and agree to keep the information confidential), or as otherwise required by law.

8. Confidentiality of Information

China acknowledges that while he was employed by IES, China had access to confidential business information of IES and its subsidiaries and affiliated companies, including technical ideas; concepts and information; business strategies; long-term and short-term goals; business opportunities; and financial data and other business information (cumulatively referred to herein as IES's "Proprietary Information"). China represents to IES that he has returned to IES all documents and things (including magnetic media) belonging to IES, including all documents embodying or containing any of IES's Proprietary Information. China acknowledges his continuing obligation to maintain in confidence IES's Proprietary Information and to refrain from using such Proprietary Information or disclosing it to any other person, company or entity. China agrees not to communicate with any third party (including reporters, editors, and employees of trade publications, newspapers, magazines, etc.) concerning any matter involving the IES's business and/or confidential information or Proprietary Information. The foregoing paragraph is not intended and does not restrict the personal use of the confidential information for the sole purpose of formulating, arranging and proposing to IES and offer to buy one or more of the wholly owned subsidiaries of IES.

9. Transition and Cooperation

Upon IES's reasonable request, Employee agrees to cooperate fully and consult with IES, their officers and employees, at all times concerning his former areas of responsibility. This obligation includes, without limitation, full and good faith cooperation with IES and their officers, employees and/or attorneys concerning any litigation where Employee is or may be a witness or have relevant information.

China agrees that he further agree they will not now and will not in future disparage either parties name, reputation or business, IES Integrated Electrical Services, Inc. or of its officers, directors, affiliates or employees to any third party particularly including any customers or vendors. This non-disparagement includes an agreement to not participate or cooperate in any litigation contrary to the interest of IES, Integrated Electrical Services, Inc. or any of its subsidiaries, to the degree allow by law. If any governmental or private entity requests any information or statement about the Company or its officers, directors, affiliates or employees, China will give the Company immediate notice of such request to allow the Company to defend against the disclosure of such information.

10. Non-Solicitation Obligations

In addition to any other similar obligation owed by Employee agrees that for a period of six (6) months from the Separation Date, he shall not, directly or indirectly, for himself or for others' solicit, request or induce (i) any employee of IES or any of its subsidiaries or affiliated companies to terminate his employment with the IES or such subsidiaries or affiliates, or (ii) any customer, contractor or representative having a business relationship with IES or any of its subsidiaries or affiliated companies to alter, affect, modify, change, diminish or terminate such business relationship; or retain, hire or otherwise employ any individual who was employed by IES as of the Separation Date. As used herein, the term "subsidiary or affiliated IES shall mean an entity that directly or indirectly controlled by or under the common control of IES. The foregoing paragraph will be waived to the extent and only to the extent that the Board of Directors approves of and China makes bids for one or more wholly owned subsidiaries of IES and in that event, this paragraph is waived only with respect to the employees at those subsidiaries.

Further, China agrees the following provisions of his employment agreement dated August 12, 2003 shall survive: Non-Competition, Return of Company Property, Inventions, Trade Secrets, and Confidentiality. The Non-Competition provision of China's employment agreement is waived to the extent necessary to allow him to own, run, manage or otherwise operate any wholly owned subsidiaries that are purchased from IES or its subsidiaries.

11. Miscellaneous

The provisions of the Agreement are severable, and if any part of it is found to be unlawful or unenforceable, then such part will be deemed changed or deleted to the minimal extent necessary to make the entire Agreement lawful and enforceable. The other provisions of this Agreement shall remain fully valid and enforceable to the maximum extent consistent with applicable law.

China acknowledges and agrees (i) he is responsible for any tax liability that may result as a consequence of the receipt of the severance benefits described herein, (ii) IES makes no representation of the taxability of these funds and (iii) IES has encouraged him to seek advice from a personal tax advisor regarding the duty and manner to report any possible tax consequences. The money paid under this Agreement does not come from a qualified retirement plan and therefore it may not be rolled into any other qualified plan or Individual Retirement Account.

China represents and agrees that he: (i) was specifically advised to and fully understands his rights to discuss all aspects of this Agreement with an attorney, his immediate family and financial counselor, (ii) has, to the extent he desires, availed himself of these rights, (iii) has carefully read and fully understands all the provisions of this Agreement, and (iv) has entered into and executed this Agreement knowingly and without duress or coercion from any source.

China understands and agrees that this Agreement may not be used as evidence in any proceeding against the parties released except in a proceeding based solely upon a specific allegation that the parties released have breached this Agreement or in a proceeding in which either party presents testimony about matters covered by this Agreement. The parties released believe and assert that China has been treated in a fair and lawful manner, and it is agreed between the parties that nothing herein is intended or shall be construed as an admission of fault or liability by the parties released.

China understands and agrees that this Agreement is being executed by IES on behalf of itself, and its corporate affiliates and that all of the rights of IES under this Agreement and all of China's obligations and duties under this Agreement will inure to the benefit of and may be enforced by IES, or any of their affiliates or any of the parties released.

This Agreement sets forth the entire agreement between the parties and fully supersedes all prior written and oral agreements, understandings and representations between the parties. China represents, warrants and agrees that he does not rely and has not relied upon any representation or statement made by any officer, director, agent or representative of IES, or any subsidiary or affiliate of IES with regard to the subject matter, background or effect of this Agreement, except as expressly set forth in this Agreement.

This Agreement shall be governed and construed under the laws of the State of Texas. Any legal proceeding arising as a result of or relating to this Agreement, China's employment or separation shall be filed and heard in the City of Houston, Harris County, Texas without regard to conflicts of law.

This Agreement is executed in duplicate originals and is effective and enforceable only after both parties have signed the Agreement and an original executed Agreement has been returned to IES. China acknowledges that he has read this Agreement, has understood it and knowingly and voluntarily desires to sign it.

Accepted, Understood and Agreed

____
Richard L. China

Date:______________________________

IES Management, L.P.
By: IES Residential Group, Inc.
Its Managing General Partner

By: ______________________________
Margery M. Harris

Title: **Sr. Vice President, Human Resources**

Date:______________________________

Exhibit 10.5

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the “Restated Agreement”) by and between Integrated Electrical Services, Inc. (the “Company”), a Delaware corporation and a wholly owned subsidiary of Integrated Electrical Services, Inc., a Delaware corporation (“IES”), IES and Danniel J. Petro (“Executive”) is hereby entered into effective as of this ______ day of __________, 2003 (the “Effective Date”).

RECITALS

As of the Effective Date, the Company, IES and other subsidiaries of IES (collectively, the “IES Companies”) are engaged primarily in the providing of electrical and communications contracting services.

The Company and Executive have previously entered into an Employment Agreement dated effective as of January 26, 1998 (the “Employment Agreement”) that sets forth certain terms and conditions relating to Executive’s employment with the Company.

The Company and Executive have determined that the Employment Agreement should be amended and restated.

Therefore, in consideration of the mutual promises, terms, covenants and conditions set forth herein and the performance of each, it is hereby agreed that the Employment Agreement is amended and restated in its entirety as follows:

AGREEMENTS

1. Employment and Duties. The Company hereby employs Executive as Regional Operating Officer or in such other position with the Company, IES or another IES Company as from time to time is determined by the Company or IES.

2. Term. The term of this Restated Agreement shall commence on the Effective Date and continue until terminated by either the Executive or the Company or IES upon ten (10) days’ prior written notice. In the event of termination of the Restated Agreement, the provisions of paragraphs 3, 4, 5, 6 and 7 herein shall survive pursuant to their terms.

3. Non-Competition Agreement.

(a) Executive recognizes that the Company’s and IES’ willingness to enter into this Restated Agreement is based in material part on Executive’s agreement to the provisions of this paragraph 3 and that Executive’s breach of the provisions of this paragraph 3 could materially damage the IES Companies. Subject to the further provisions of this Restated Agreement, Executive will not, during the term of his employment with any IES Company, and for a period of eighteen (18) months immediately following the termination of such for any reason whatsoever, except as may be set forth herein, directly or indirectly, for himself or on behalf of or in conjunction with any other person, company, partnership, corporation or business of whatever nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any electrical contracting or communications business in direct competition with any IES Company within 100 miles of where any IES Company conducts business, including any territory serviced by an IES Company during the term of Executive's employment (the "Territory");

(ii) hire, employ (or offer to hire or employ) any IES Company employee for the purpose or with the intent of enticing such employee away from or out of the employ of the IES Company;

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of an IES national account or IES Company within the Territory for the purpose of soliciting or selling electrical or communications contracting products or services;

(iv) call upon any prospective acquisition candidate, on Executive's own behalf or on behalf of any competitor, which candidate was, to Executive's knowledge after due inquiry, either called upon by an IES Company or for which an IES Company made an acquisition analysis, for the purpose of acquiring such entity; or

(v) disclose customers, whether in existence or proposed, of an IES Company to any person, firm, partnership, corporation or business for any reason or purpose whatsoever except to the extent that the IES Company has in the past disclosed such information to the public for valid business reasons.

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Executive from acquiring as an investment not more than one percent (1%) of the capital stock of a competing business, whose stock is traded on a national securities exchange, the NASDAQ Stock Market or on an over-the-counter or similar market, unless the Board of Directors of the Company consents to such acquisition.

(b) Because of the difficulty of measuring economic losses to the IES Companies as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to the IES Companies for which they would have no other adequate remedy, Executive agrees that foregoing covenant may be enforced by the Company or IES, in the event of breach by Executive, by injunctions and restraining orders. Executive further agrees to waive any requirement for the securing or posting of any bond in connection with such remedies.

(c) It is agreed by the parties that the foregoing covenants in this paragraph 3 impose a reasonable restraint on Executive in light of the activities and business of the IES Companies on the date of the execution of this Agreement and the current plans of the IES Companies; but it is also the intent of the Company and IES and Executive that such covenants be construed and enforced in accordance with the changing activities, business and locations of the IES Companies throughout the term of this covenant, whether before or after the date of termination of the employment of Executive, unless the Executive was conducting such new business prior to any IES Company conducting such new business. For example, if, during the term of this Restated Agreement, an IES Company engages in new and different activities, enters a new business or establishes new locations for its current activities or business in addition to or other than the activities or business enumerated under the Recitals above or the locations currently established therefore, then Executive will be precluded from soliciting the customers or employees of such new activities or business or from such new location and from directly competing with such new business within 100 miles of its then-established operating location(s) through the term of this covenant, unless the Executive was conducting such new business prior to any IES Company conducting such new business.

(d) It is further agreed by the parties hereto that, in the event that Executive shall cease to be employed hereunder and shall enter into a business or pursue other activities not in competition with the electrical contracting activities of the IES Companies or similar activities or business in locations the operation of which, under such circumstances, does not violate clause (a)(i) of this paragraph 3, and in any event such new business, activities or location are not in violation of this paragraph 3 or of Executive's obligations under this paragraph 3, if any, Executive shall not be chargeable with a violation of this paragraph 3 if the IES Companies shall thereafter enter the same, similar or a competitive (i) business, (ii) course of activities or (iii) location, as applicable.

(e) The covenants in this paragraph 3 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent that the court deems reasonable, and the Agreement shall thereby be reformed.

(f) All of the covenants in this paragraph 3 shall be construed as an agreement independent of any other provision in this Restated Agreement, and the existence of any claim or cause of action of Executive against the IES Companies, whether predicated on this Restated Agreement or otherwise, shall not constitute a defense to the enforcement by IES or the Company of such covenants. It is specifically agreed that the period of eighteen (18) months (subject to the further provisions of this Restated Agreement) following termination of employment stated at the beginning of this paragraph 3, during which the agreements and covenants of Executive made in this paragraph 3 shall be effective, shall be computed by excluding from such computation any time during which Executive is in violation of any provision of this paragraph 3.

(g) The Company and IES and Executive hereby agree that this covenant is a material and substantial part of this transaction.

4. Return of Company Property. All records, designs, patents, business plans, financial statements, manuals, memoranda, lists and other property delivered to or compiled by Executive by or on behalf of the Company, IES or any IES Companies or their representatives, vendors or customers which pertain to the business of the Company or IES or any IES Companies shall be and remain the property of the Company or IES or the IES Company, as the case may be, and be subject at all times to their discretion and control. Likewise, all correspondence, reports, records, charts, advertising materials and other similar data pertaining to the business, activities or future plans of the Company or IES or the IES Company which is collected by Executive shall be delivered promptly to the Company without request by it upon termination of Executive’s employment.

5. Inventions. Executive shall disclose promptly to the Company (or to IES or his then-current IES Company employer if it is other than the Company) any and all significant conceptions and ideas for inventions, improvements and valuable discoveries, whether patentable or not, which are conceived or made by Executive, solely or jointly with another, during the period of employment or within one year thereafter, if conceived during employment, and which are directly related to the business or activities of the IES Companies and which Executive conceives as a result of his employment by the IES Companies. Executive hereby assigns and agrees to assign all his interests therein to the Company or its nominee. Whenever requested to do so by the employing IES Company, Executive shall execute any and all applications, assignments or other instruments that such IES Company shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect the IES Company’s interest therein.

6. Trade Secrets. Executive agrees that he will not, during or after the term of this Restated Agreement, disclose the specific terms of the Company’s, IES’ or IES Companies’ relationships or agreements with their respective significant vendors or customers or any other significant and material trade secret of the Company, IES or IES Companies, whether in existence or proposed, to any person, firm, partnership, corporation or business for any reason or purpose whatsoever.

7. Confidentiality.

(a) Executive acknowledges and agrees that all Confidential Information (as defined below) of the IES Companies is confidential and a valuable, special and unique asset of the IES Companies that gives the IES Companies an advantage over their actual and potential, current and future competitors. Executive further acknowledges and agrees that Executive owes the IES Companies a fiduciary duty to preserve and protect all Confidential Information from unauthorized disclosure or unauthorized use, that certain Confidential Information constitutes "trade secrets" under applicable laws and, that unauthorized disclosure or unauthorized use of the IES Companies' Confidential Information would irreparably injure the IES Companies.

(b) Both during the term of Executive's employment and after the termination of Executive's employment for any reason (including wrongful termination), Executive shall hold all Confidential Information in strict confidence, and shall not use any Confidential Information except for the benefit of the IES Companies, in accordance with the duties assigned to Executive. Executive shall not, at any time (either during or after the term of Executive's employment), disclose any Confidential Information to any person or entity (except other employees of the IES Companies who have a need to know the information in connection with the performance of their employment duties), or copy, reproduce, modify, decompile or reverse engineer any Confidential Information, or remove any Confidential Information from the IES Companies' premises, without the prior written consent of the President of the employing IES Company, or permit any other person to do so. Executive shall take reasonable precautions to protect the physical security of all documents and other material containing Confidential Information (regardless of the medium on which the Confidential Information is stored). This Restated Agreement applies to all Confidential Information, whether now known or later to become known to Executive.

(c) Upon the termination of Executive's employment with the IES Companies for any reason, and upon request of the employing IES Company at any other time, Executive shall promptly surrender and deliver to the IES Company all documents and other written material of any nature containing or pertaining to any Confidential Information and shall not retain any such document or other material. Within five days of any such request, Executive shall certify to the IES Company in writing that all such materials have been returned.

(d) As used in this Agreement, the term "Confidential Information" shall mean any information or material known to or used by or for the IES Companies (whether or not owned or developed by the IES Company and whether or not developed by Executive) that is not generally known to persons in the electrical contracting business. Confidential information includes, but is not limited to, the following: all trade secrets of the IES Companies; all information that the IES Companies have marked as confidential or has otherwise described to Executive (either in writing or orally) as confidential; all nonpublic information concerning the IES Companies' products, services, prospective products or services, research, product designs, prices, discounts, costs, marketing plans, marketing techniques, market studies, test data, customers, customer lists and records, suppliers and contracts; all IES Companies business records and plans; all IES Companies personnel files; all financial information of or concerning the IES Companies; all information relating to operating system software, application software, software and system methodology, hardware platforms, technical information, inventions, computer programs and listings, source codes, object codes, copyrights and other intellectual property; all technical specifications; any proprietary information belonging to the IES Companies; all computer hardware or software manual; all training or instruction manuals; and all data and all computer system passwords and user codes.

8. Release. Notwithstanding anything in this Restated Agreement to the contrary, Executive shall not be entitled to receive any payments pursuant to this Restated Agreement unless Executive has executed (and not revoked) a general release of all claims Executive may have against the IES Companies in a form of such release reasonably acceptable to the employing IES Company.

9. Termination Payment. In the event the employing IES Company determines to terminate Executive without cause during the term of this Restated Agreement, the employing IES Company shall pay Executive one times his then-current annual salary, payable pursuant to normal payroll practice in return for Executive's continuing to be bound by the terms of paragraph 3 of this Restated Agreement for a period of eighteen (18) months from the date of termination.

In the event Executive voluntarily terminates his employment or if Executive is terminated by the employing IES company for cause no payment shall be due and the terms of paragraph 3 of this Restated Agreement shall continue for a period of eighteen (18) months from the date of termination.

10. Complete Agreement. The Employment Agreement dated effective as of January 26, 1998 is hereby amended and restated in its entirety by this Restated Agreement. Executive has no oral representations, understandings or agreements with the Company, IES or any of their officers, directors or representatives covering the same subject matter as this Restated Agreement. This written Restated Agreement is the final, complete and exclusive statement and expression of the agreement between the Company, IES and Executive and of all the terms of this Restated Agreement, and it cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Restated Agreement may not be later modified except by a further writing signed by a duly authorized officer of the Company, IES and Executive, and no term of this Restated Agreement may be waived except by writing signed by the party waiving the benefit of such term. Without limiting the generality of the foregoing, either party's failure to insist on strict compliance with this Restated Agreement shall not be deemed a waiver thereof.

11. Notice. Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To the Company: Integrated Electrical Services, Inc.
Attn: Regional Operating Office
630 Kissimmee Avenue
Ocoee, FL 34761

with a copy to: Law Department
Integrated Electrical Services, Inc.
1800 West Loop South, Suite 500
Houston, Texas 77027

To Executive: Danniel J. Petro
P.O. Box 737
Ocoee, FL 34761

Notice shall be deemed given and effective on the earlier of three (3) days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this paragraph 11.

12. Severability; Headings. If any portion of this Restated Agreement is held invalid or inoperative, the other portions of this Restated Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The paragraph headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of the Restated Agreement or of any part hereof.

13. Governing Law. This Restated Agreement shall in all respects be construed according to the laws of the State of Texas without regard to its conflicts of law provisions.

14. Counterparts. This Restated Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective for all purposes as of the Effective Date.

EXECUTIVE

By: ______________________________
Name: **Danniel J. Petro**
Title: **Regional Operating Officer**

Integrated Electrical Services, Inc.

By: ______________________________
Name: **Ray Holan**
Title: **Assistant Secretary**

INTEGRATED ELECTRICAL SERVICES, INC.

By: ______________________________
Name: **Margery M. Harris**
Title: **Sr. Vice President, Human Resources**

Exhibit 10. 6

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the "Restated Agreement") by and between Delco Electric, Inc. (the "Company"), a Delaware corporation and a wholly owned subsidiary of Integrated Electrical Services, Inc., a Delaware corporation ("IES"), IES and Miles Dickinson ("Executive") is hereby entered into effective as of this ______ day of __________, 2004 (the "Effective Date").

RECITALS

As of the Effective Date, the Company, IES and other subsidiaries of IES (collectively, the "IES Companies") are engaged primarily in the providing of electrical and communications contracting services.

The Company and Executive have previously entered into an Employment Agreement dated effective as of May 13, 1999 (the "Employment Agreement") that sets forth certain terms and conditions relating to Executive's employment with the Company.

The Company and Executive have determined that the Employment Agreement should be amended and restated.

Therefore, in consideration of the mutual promises, terms, covenants and conditions set forth herein and the performance of each, it is hereby agreed that the Employment Agreement is amended and restated in its entirety as follows:

AGREEMENTS

1. Employment and Duties. The Company hereby employs Executive as President/ROO or in such other position with the Company, IES or another IES Company as from time to time is determined by the Company or IES.

2. Term. The term of this Restated Agreement shall commence on the Effective Date and continue until terminated by either the Executive or the Company or IES upon ten (10) days' prior written notice. In the event of termination of the Restated Agreement, the provisions of paragraphs 3, 4, 5, 6 and 7 herein shall survive pursuant to their terms.

3. Non-Competition Agreement.

(a) Executive recognizes that the Company's and IES' willingness to enter into this Restated Agreement is based in material part on Executive's agreement to the provisions of this paragraph 3 and that Executive's breach of the provisions of this paragraph 3 could materially damage the IES Companies. Subject to the further provisions of this Restated Agreement, Executive will not, during the term of his employment with any IES Company, and for a period of eighteen (18) months immediately following the termination of such for any reason whatsoever, except as may be set forth herein, directly or indirectly, for himself or on behalf of or in conjunction with any other person, company, partnership, corporation or business of whatever nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any electrical contracting or communications business in direct competition with any IES Company within 100 miles of where any IES Company conducts business, including any territory serviced by an IES Company during the term of Executive's employment (the "Territory");

(ii) hire, employ (or offer to hire or employ) any IES Company employee for the purpose or with the intent of enticing such employee away from or out of the employ of the IES Company;

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of an IES national account or IES Company within the Territory for the purpose of soliciting or selling electrical or communications contracting products or services;

(iv) call upon any prospective acquisition candidate, on Executive's own behalf or on behalf of any competitor, which candidate was, to Executive's knowledge after due inquiry, either called upon by an IES Company or for which an IES Company made an acquisition analysis, for the purpose of acquiring such entity; or

(v) disclose customers, whether in existence or proposed, of an IES Company to any person, firm, partnership, corporation or business for any reason or purpose whatsoever except to the extent that the IES Company has in the past disclosed such information to the public for valid business reasons.

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Executive from acquiring as an investment not more than one percent (1%) of the capital stock of a competing business, whose stock is traded on a national securities exchange, the NASDAQ Stock Market or on an over-the-counter or similar market, unless the Board of Directors of the Company consents to such acquisition.

(b) Because of the difficulty of measuring economic losses to the IES Companies as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to the IES Companies for which they would have no other adequate remedy, Executive agrees that foregoing covenant may be enforced by the Company or IES, in the event of breach by Executive, by injunctions and restraining orders. Executive further agrees to waive any requirement for the securing or posting of any bond in connection with such remedies.

(c) It is agreed by the parties that the foregoing covenants in this paragraph 3 impose a reasonable restraint on Executive in light of the activities and business of the IES Companies on the date of the execution of this Agreement and the current plans of the IES Companies; but it is also the intent of the Company and IES and Executive that such covenants be construed and enforced in accordance with the changing activities, business and locations of the IES Companies throughout the term of this covenant, whether before or after the date of termination of the employment of Executive, unless the Executive was conducting such new business prior to any IES Company conducting such new business. For example, if, during the term of this Restated Agreement, an IES Company engages in new and different activities, enters a new business or establishes new locations for its current activities or business in addition to or other than the activities or business enumerated under the Recitals above or the locations currently established therefore, then Executive will be precluded from soliciting the customers or employees of such new activities or business or from such new location and from directly competing with such new business within 100 miles of its then-established operating location(s) through the term of this covenant, unless the Executive was conducting such new business prior to any IES Company conducting such new business.

(d) It is further agreed by the parties hereto that, in the event that Executive shall cease to be employed hereunder and shall enter into a business or pursue other activities not in competition with the electrical contracting activities of the IES Companies or similar activities or business in locations the operation of which, under such circumstances, does not violate clause (a)(i) of this paragraph 3, and in any event such new business, activities or location are not in violation of this paragraph 3 or of Executive's obligations under this paragraph 3, if any, Executive shall not be chargeable with a violation of this paragraph 3 if the IES Companies shall thereafter enter the same, similar or a competitive (i) business, (ii) course of activities or (iii) location, as applicable.

(e) The covenants in this paragraph 3 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent that the court deems reasonable, and the Agreement shall thereby be reformed.

(f) All of the covenants in this paragraph 3 shall be construed as an agreement independent of any other provision in this Restated Agreement, and the existence of any claim or cause of action of Executive against the IES Companies, whether predicated on this Restated Agreement or otherwise, shall not constitute a defense to the enforcement by IES or the Company of such covenants. It is specifically agreed that the period of eighteen (18) months (subject to the further provisions of this Restated Agreement) following termination of employment stated at the beginning of this paragraph 3, during which the agreements and covenants of Executive made in this paragraph 3 shall be effective, shall be computed by excluding from such computation any time during which Executive is in violation of any provision of this paragraph 3.

(g) The Company and IES and Executive hereby agree that this covenant is a material and substantial part of this transaction.

4. Return of Company Property. All records, designs, patents, business plans, financial statements, manuals, memoranda, lists and other property delivered to or compiled by Executive by or on behalf of the Company, IES or any IES Companies or their representatives, vendors or customers which pertain to the business of the Company or IES or any IES Companies shall be and remain the property of the Company or IES or the IES Company, as the case may be, and be subject at all times to their discretion and control. Likewise, all correspondence, reports, records, charts, advertising materials and other similar data pertaining to the business, activities or future plans of the Company or IES or the IES Company which is collected by Executive shall be delivered promptly to the Company without request by it upon termination of Executive's employment.

5. Inventions. Executive shall disclose promptly to the Company (or to IES or his then-current IES Company employer if it is other than the Company) any and all significant conceptions and ideas for inventions, improvements and valuable discoveries, whether patentable or not, which are conceived or made by Executive, solely or jointly with another, during the period of employment or within one year thereafter, if conceived during employment, and which are directly related to the business or activities of the IES Companies and which Executive conceives as a result of his employment by the IES Companies. Executive hereby assigns and agrees to assign all his interests therein to the Company or its nominee. Whenever requested to do so by the employing IES Company, Executive shall execute any and all applications, assignments or other instruments that such IES Company shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect the IES Company's interest therein.

6. Trade Secrets. Executive agrees that he will not, during or after the term of this Restated Agreement, disclose the specific terms of the Company's, IES' or IES Companies' relationships or agreements with their respective significant vendors or customers or any other significant and material trade secret of the Company, IES or IES Companies, whether in existence or proposed, to any person, firm, partnership, corporation or business for any reason or purpose whatsoever.

7. Confidentiality.

(a) Executive acknowledges and agrees that all Confidential Information (as defined below) of the IES Companies is confidential and a valuable, special and unique asset of the IES Companies that gives the IES Companies an advantage over their actual and potential, current and future competitors. Executive further acknowledges and agrees that Executive owes the IES Companies a fiduciary duty to preserve and protect all Confidential Information from unauthorized disclosure or unauthorized use, that certain Confidential Information constitutes "trade secrets" under applicable laws and, that unauthorized disclosure or unauthorized use of the IES Companies' Confidential Information would irreparably injure the IES Companies.

(b) Both during the term of Executive's employment and after the termination of Executive's employment for any reason (including wrongful termination), Executive shall hold all Confidential Information in strict confidence, and shall not use any Confidential Information except for the benefit of the IES Companies, in accordance with the duties assigned to Executive. Executive shall not, at any time (either during or after the term of Executive's employment), disclose any Confidential Information to any person or entity (except other employees of the IES Companies who have a need to know the information in connection with the performance of their employment duties), or copy, reproduce, modify, decompile or reverse engineer any Confidential Information, or remove any Confidential Information from the IES Companies' premises, without the prior written consent of the President of the employing IES Company, or permit any other person to do so. Executive shall take reasonable precautions to protect the physical security of all documents and other material containing Confidential Information (regardless of the medium on which the Confidential Information is stored). This Restated Agreement applies to all Confidential Information, whether now known or later to become known to Executive.

(c) Upon the termination of Executive's employment with the IES Companies for any reason, and upon request of the employing IES Company at any other time, Executive shall promptly surrender and deliver to the IES Company all documents and other written material of any nature containing or pertaining to any Confidential Information and shall not retain any such document or other material. Within five days of any such request, Executive shall certify to the IES Company in writing that all such materials have been returned.

(d) As used in this Agreement, the term "Confidential Information" shall mean any information or material known to or used by or for the IES Companies (whether or not owned or developed by the IES Company and whether or not developed by Executive) that is not generally known to persons in the electrical contracting business. Confidential information includes, but is not limited to, the following: all trade secrets of the IES Companies; all information that the IES Companies have marked as confidential or has otherwise described to Executive (either in writing or orally) as confidential; all nonpublic information concerning the IES Companies' products, services, prospective products or services, research, product designs, prices, discounts, costs, marketing plans, marketing techniques, market studies, test data, customers, customer lists and records, suppliers and contracts; all IES Companies business records and plans; all IES Companies personnel files; all financial information of or concerning the IES Companies; all information relating to operating system software, application software, software and system methodology, hardware platforms, technical information, inventions, computer programs and listings, source codes, object codes, copyrights and other intellectual property; all technical specifications; any proprietary information belonging to the IES Companies; all computer hardware or software manual; all training or instruction manuals; and all data and all computer system passwords and user codes.

8. Release. Notwithstanding anything in this Restated Agreement to the contrary, Executive shall not be entitled to receive any payments pursuant to this Restated Agreement unless Executive has executed (and not revoked) a general release of all claims Executive may have against the IES Companies in a form of such release reasonably acceptable to the employing IES Company.

9. Termination Payment. In the event the employing IES Company determines to terminate Executive without cause during the term of this Restated Agreement, the employing IES Company shall pay Executive one times his then-current annual salary, payable pursuant to normal payroll practice in return for Executive's continuing to be bound by the terms of paragraph 3 of this Restated Agreement for a period of eighteen (18) months from the date of termination.

In the event Executive voluntarily terminates his employment or if Executive is terminated by the employing IES company for cause no payment shall be due and the terms of paragraph 3 of this Restated Agreement shall continue for a period of eighteen (18) months from the date of termination.

10. Complete Agreement. The Employment Agreement dated effective as of May 13, 1999 is hereby amended and restated in its entirety by this Restated Agreement. Executive has no oral representations, understandings or agreements with the Company, IES or any of their officers, directors or representatives covering the same subject matter as this Restated Agreement. This written Restated Agreement is the final, complete and exclusive statement and expression of the agreement between the Company, IES and Executive and of all the terms of this Restated Agreement, and it cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Restated Agreement may not be later modified except by a further writing signed by a duly authorized officer of the Company, IES and Executive, and no term of this Restated Agreement may be waived except by writing signed by the party waiving the benefit of such term. Without limiting the generality of the foregoing, either party's failure to insist on strict compliance with this Restated Agreement shall not be deemed a waiver thereof.

11. Notice. Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To the Company: Delco Electric, Inc.
Attn: Regional Operating Office
1 NW 132nd Street
Oklahoma City, OK 73114

with a copy to: Law Department
Integrated Electrical Services, Inc.
1800 West Loop South, Suite 500
Houston, Texas 77027

To Executive: Miles Dickinson
6204 N. Oak Forest
Edmond, OK 73003

Notice shall be deemed given and effective on the earlier of three (3) days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this paragraph 11.

12. Severability; Headings. If any portion of this Restated Agreement is held invalid or inoperative, the other portions of this Restated Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The paragraph headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of the Restated Agreement or of any part hereof.

13. Governing Law. This Restated Agreement shall in all respects be construed according to the laws of the State of Texas without regard to its conflicts of law provisions.

14. Counterparts. This Restated Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective for all purposes as of the Effective Date.

EXECUTIVE

By: ____________________________
Name: **Miles Dickinson**
Title: **President/ROO**

Delco Electric, Inc.

By: ____________________________
Name: **Mark Older**
Title: **Assistant Secretary**

INTEGRATED ELECTRICAL SERVICES, INC.

By: ____________________________
Name: **Margery M. Harris**
Title: **Sr. Vice President, Human Resource**

Exhibit 10.7

AMENDMENT TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDMENT TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Amendment") is entered into as of December 6, 2004, by and between Miles Dickinson (the "Executive"), Delco Electric, Inc., a Delaware corporation (the "Company") and Integrated Electrical Services, Inc., a Delaware corporation ("IES"). The Executive, the Company and IES are the "Parties".

R E C I T A L S:

A. The Executive, the Company and IES entered into that certain Amended and Restated Employment Agreement dated as of the 13th day of May, 2004, relating to the employment of Executive by the Company (the "Agreement").

B. Substantially all of the assets of the Company are being sold of even date herewith to DFI Group, Inc. ("DFI"), and Executive, with the permission of IES and Company, is serving as a lender and consultant to DFI.

C. The Parties have agreed to amend the Agreement to amend the Non-Competition provision of the Agreement.

AGREEMENT

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein, the parties hereto do hereby agree as follows:

1. Capitalized Terms. Capitalized terms used herein but not defined herein shall have the meanings ascribed to them in the Agreement.

2. Amendment. The parties hereby agree to amend Paragraph 3(a) of the Agreement by adding the following language at the end of the paragraph:

> "Furthermore, the participation by the Executive as a lender and consultant to DFI during the term of this Agreement shall not violate the foregoing covenant, so long as such activities do not interfere with the full time (approximately 40 hours per week) performance of Executive's duties for IES."

Paragraph 9 of the Agreement shall be amended by adding the following language at the end of both paragraphs:

> "provided, however, that the terms of paragraph 3 of this Restated Agreement shall not prohibit or restrict Executive's full time employment following such termination by IES and the performance by Executive of any and all duties typical of a full time employee of a company such as DFI."

3. Effect of this Amendment. The Agreement, as amended by this Amendment, shall continue in full force and effect in accordance with its terms.

4. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[The remainder of this page is intentionally blank.]

IN WITNESS WHEREOF, the parties hereto have executed or caused their duly authorized representatives to execute this Amendment as of the date first above written.

EXECUTIVE:

____
Miles Dickinson

COMPANY:

DELCO ELECTRIC, INC.

By: ____
Name: ____
Title: ____

IES:

INTEGRATED ELECTRICAL SERVICES, INC.

By: ____
Name: ____
Title: ____

Exhibit 10.8

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This amended and restated Employment Agreement (the “Agreement”) by and between Integrated Electrical Services, Inc., a Delaware Corporation (sometimes referred to as “IES” or “Company”), Ace Electric, Inc. and Robert Stalvey (“Executive”) is hereby entered into effective as of this 27th day of January, 2003, (the “Effective Date”).

RECITALS

Whereas, Executive and Ace Electric, Inc. have previously entered into an Employment Agreement (the “Original Agreement”) as of the 27th day of January, 1998; and

Whereas, the parties to the Original Agreement deem it desirable to amend and restate such Agreement in its entirety and to include IES as a party to the Agreement; and

Whereas, as of the Effective Date, IES and the subsidiary companies of IES (collectively, the “IES Companies”) are engaged primarily in the providing of any electrical contracting, information technology principally related to the electrical contracting or cabling industry, and related services business; and

Whereas, Executive is employed hereunder by IES in a confidential relationship wherein Executive, in the course of his employment with IES, has and will continue to become familiar with and aware of information as to IES’s customers and specific manner of doing business, including the processes, techniques and trade secrets utilized by IES, and future plans with respect thereto, all of which has been and will be established and maintained at great expense to IES. This information is a trade secret and constitutes the valuable goodwill of IES.

Therefore, in consideration of the mutual promises, terms, covenants and conditions set forth herein and the performance of each, the Original Agreement is hereby amended and restated in its entirety as follows:

AGREEMENTS

1. Employment and Duties.

(a) IES hereby employs Executive as Senior Vice President, Operations. As such, Executive shall have responsibilities, duties and authority reasonably accorded to, expected of and consistent with Executive’s position. Executive hereby accepts this employment upon the terms and conditions herein and agrees to devote substantially all of his time, attention and efforts to promote and further the business and interests of IES and its affiliates.

(b) Executive shall faithfully adhere to, execute and fulfill all lawful policies established by IES.

(c) Executive shall not, during the term of his employment hereunder, engage in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes in any material respect with Executive's duties and responsibilities hereunder. The foregoing limitations shall not be construed as prohibiting Executive from making personal investments in such form or manner as will neither require his services in the operation or affairs of the companies or enterprises in which such investments are made nor violate the terms of paragraph 3 hereof.

2. Compensation. For all services rendered by Executive, IES shall compensate Executive as follows:

(a) *Base Salary.* The base salary payable to Executive during the term shall be $22,500.00 monthly ($270,000.00 on an annualized basis), payable in accordance with IES' payroll procedures for officers, but not less frequently than monthly. Such base salary may be increased from time to time, at the discretion of the Board of Directors of IES (the "IES Board"), in light of the Executive's position, responsibilities and performance.

(b) *Executive Perquisites, Benefits and Other Compensation.* Executive shall be entitled to receive additional benefits and compensation from IES in such form and to such extent as specified below:

(i) Reimbursement for all business travel and other out-of-pocket expenses (including those costs to maintain any professional certifications held or obtained by Executive) reasonably incurred by Executive in the performance of his duties pursuant to this Agreement and in accordance with IES' policy for executives of IES. All such expenses shall be appropriately documented in reasonable detail by Executive upon submission of any request for reimbursement, and in a format and manner consistent with IES' expense reporting policy.

(ii) Executive shall, subject to the satisfaction of any general eligibility criteria, be eligible to participate in all compensation and

(iii) Provided Executive is the Senior Vice President, Operations of IES, he may receive an incentive payment equal to a percentage of his annualized base, as set forth in paragraph 2(a) above, developed based on mutually agreeable goals, objectives and incremental performance of the business unit for which Executive is directly responsible, all subject to approval of the Compensation Committee of the Board of Directors. The actual payout of any incentive payment is typically made in December of each year.

(iv) IES shall provide Executive with such other perquisites as may be deemed appropriate for Executive by the IES Board.

3. Non-Competition Agreement.

(a) Executive recognizes that IES' willingness to enter into this Agreement is based in material part on Executive's agreement to the provisions of this paragraph 3 and that Executive's breach of the provisions of this paragraph 3 could materially damage IES. Subject to the further provisions of this Agreement, Executive will not, during the term of his employment with IES, and for a period of two years immediately following the termination of such for any reason whatsoever, either for Cause or in the event the Executive terminates his employment without Good Reason, except as may be set forth herein, directly or indirectly, for himself/herself or on behalf of or in conjunction with any other person, company, partnership, corporation or business of whatever nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any electrical contracting, information technology principally related to the electrical contracting or cabling industry, and related services business in direct competition with any IES Company within 100 miles of where any IES Company conducts business, including any territory serviced by an IES Company during the term of Executive's employment (the "Territory");

(ii) call upon any person who is, at that time, an employee of an IES Company for the purpose or with the intent of enticing such employee away from or out of the employ of the IES Company;

(iii) call upon any person or entity which is, at that time, or which has been, within one year prior to that time, a customer of an IES Company within the Territory for the purpose of soliciting or selling electrical contracting, information technology principally related to the electrical contracting or cabling industry, and related products or services in direct competition with the IES Companies within the Territory;

(iv) call upon any prospective acquisition candidate, on Executive's own behalf or on behalf of any competitor, which candidate was, to Executive's knowledge after due inquiry, either called upon by an IES Company or for which an IES Company made an acquisition analysis, for the purpose of acquiring such entity; or

(v) disclose customers, whether in existence or proposed, of IES to any person, firm, partnership, corporation or business for any reason or purpose whatsoever except to the extent that IES has in the past disclosed such information to the public for valid business reasons.

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Executive from acquiring as an investment not more than 1% of the capital stock of a competing business, whose stock is traded on a national securities exchange, the Nasdaq Stock Market or on an over-the-counter or similar market, unless the Board of Directors of IES consents to such acquisition.

(b) Because of the difficulty of measuring economic losses to IES as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to IES for which they would have no other adequate remedy, Executive agrees that foregoing covenant may be enforced by IES, in the event of breach by him/her, by injunctions and restraining orders. Executive further agrees to waive any requirement for IES' securing or posting of any bond in connection with such remedies.

(c) It is agreed by the parties that the foregoing covenants in this paragraph 3 impose a reasonable restraint on Executive in light of the activities and business of the IES Companies on the date of the execution of this Agreement and the current plans of the IES Companies; but it is also the intent of IES and Executive that such covenants be construed and enforced in accordance with the changing activities, business and locations of the IES Companies throughout the term of this covenant, whether before or after the date of termination of the employment of Executive, unless the Executive was conducting such new business prior to any IES Company conducting such new business. For example, if, during the term of this Agreement, an IES Company engages in new and different activities, enters a new business or establishes new locations for its current activities or business in addition to or other than the activities or business enumerated under the Recitals above or the locations currently established therefore, then Executive will be precluded from soliciting the customers or employees of such new activities or business or from such new location and from directly competing with such new business within 100 miles of its then-established operating location(s) through the term of this covenant, unless the Executive was conducting such new business prior to any IES Company conducting such new business.

(d) It is further agreed by the parties hereto that, in the event that Executive shall cease to be employed hereunder and shall enter into a business or pursue other activities not in competition with the electrical contracting activities of the IES Companies or similar activities or business in locations the operation of which, under such circumstances, does not violate clause (a)(i) of this paragraph 3, and in any event such new business, activities or location are not in violation of this paragraph 3 or of Executive's obligations under this paragraph 3, if any, Executive shall not be chargeable with a violation of this paragraph 3 if the IES Companies shall thereafter enter the same, similar or a competitive (i) business, (ii) course of activities or (iii) location, as applicable.

(e) The covenants in this paragraph 3 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which the court deems reasonable, and the Agreement shall thereby be reformed.

(f) All of the covenants in this paragraph 3 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Executive against IES, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by IES of such covenants. It is specifically agreed that the period of two years (subject to the further provisions of this Agreement) following termination of employment stated at the beginning of this paragraph 3, during which the agreements and covenants of Executive made in this paragraph 3 shall be effective, shall be computed by excluding from such computation any time during which Executive is in violation of any provision of this paragraph 3.

(g) IES and the Executive hereby agree that this covenant is a material and substantial part of this transaction.

4. Term; Termination; Rights on Termination. The term of this Agreement shall begin on the Effective Date and continue for three years (the "Initial Term") and, unless terminated sooner as herein provided, shall continue on a year-to-year basis on the same terms and conditions contained herein in effect as of the time of renewal (the "Extended Term"). This Agreement and Executive's employment may be terminated in any one of the following ways:

(a) *Notice of Non-Renewal.* This amended and restated agreement may be terminated by the Company by serving notice of intent not to continue the agreement no later than ninety (90) days prior to the expiration of the Initial or Extended Term. Notwithstanding the foregoing, in the event a change of control (as defined in Paragraph 9) occurs during either the Initial Term or the Extended Term, this Agreement may no be terminated by the Company for a period of two (2) years following such change in control.

(b) *Death.* The death of Executive shall immediately terminate this Agreement with no severance compensation due to Executive's estate.

(c) *Disability.* If, as a result of incapacity due to physical or mental illness or injury, Executive shall have been absent from his full-time duties hereunder for four consecutive months, then 30 days after receiving written notice (which notice may occur before or after the end of such four-month period, but which shall not be effective earlier than the last day of such four-month period), IES may terminate Executive's employment hereunder, provided that Executive is unable to resume his full-time duties at the conclusion of such notice period. Also, Executive may terminate his employment hereunder if his health should become impaired to an extent that makes the continued performance of his duties hereunder hazardous to his physical or mental health, provided that Executive shall have furnished IES with a written statement from a doctor reasonably acceptable to IES to such effect and provided, further, that, at IES' request made within 30 days of the date of such written statement, Executive shall submit to an examination by a doctor selected by IES who is reasonably acceptable to Executive or Executive's doctor and such second doctor shall have concurred in the conclusion of Executive's doctor. In the event this Agreement is terminated as a result of Executive's disability, Executive shall receive from IES, in a lump sum payment due within 10 days of the effective date of termination, six months of base salary at the rate then in effect.

(d) *Cause.* IES may terminate this Agreement and Executive's employment 10 days after written notice to Executive for "Cause", which shall be: (1) Executive's breach of this Agreement; (2) Executive's gross negligence in the performance or intentional nonperformance of any of Executive's duties and responsibilities hereunder; (3) Executive's dishonesty or fraud with respect to the business, reputation or affairs of IES; (4) Executive's conviction of a felony crime or crime involving moral turpitude; (5) Executive's violation of Company policy; or (6) Executive's drug or alcohol abuse. In the event of a termination for Cause, Executive shall have no right to any severance compensation.

(e) *Without Cause.* Executive may be terminated without Cause by IES during either the Initial Term or Extended Term. Should Executive be terminated by IES without Cause during the Initial Term or the Extended Term, Executive shall receive from IES, in a lump sum payment due on the effective date of termination, the base salary at the rate then in effect for one year (severance compensation). Further, any termination without Cause by IES shall operate to shorten the period set forth in paragraph 3(a) and during which the terms of paragraph 3 apply to one year from the date of termination of employment.

(f) *Good Reason.* Executive may voluntarily terminate his employment for Good Reason (as hereinafter defined), effective 14 days after written notice is provided to IES. Should Executive terminate his employment for Good Reason during the Initial Term or the Extended Term, Executive shall receive from IES, in a lump sum payment due on the effective date of termination, the base salary at the rate then in effect for one year (severance compensation). Further, any termination by Executive for Good Reason shall operate to shorten the period set forth in paragraph 3(a) and during which the terms of paragraph 3 apply to one year from the date of termination of employment. Otherwise, Executive may voluntarily terminate his employment without Good Reason, effective 30 days after written notice is provided to IES. If Executive resigns or otherwise terminates his employment without Good Reason, Executive shall have no right to any severance compensation.

Executive shall have "Good Reason" to terminate his employment hereunder upon the occurrence of any of the following events, unless such event is agreed to in writing by Executive: (a) Executive's annual base salary as then in effect is reduced; (b) Executive is demoted by means of a material reduction in authority, responsibilities or duties to a position of less stature or importance within IES than the position described in Section 1 hereof; or (c) the relocation of the Company's principal executive offices to a location outside the greater Houston, Texas area or the Company's requiring Executive to relocate anywhere other than the Company's principal executive offices.

5. Return of Company Property. All records, designs, patents, business plans, financial statements, manuals, memoranda, lists and other property delivered to or compiled by Executive by or on behalf of IES or any IES Companies or their representatives, vendors or customers which pertain to the business of IES or any IES Companies shall be and remain the property of IES or the IES Company, as the case may be, and be subject at all times to their discretion and control. Likewise, all correspondence, reports, records, charts, advertising materials and other similar data pertaining to the business, activities or future plans of IES or the IES Company which is collected by Executive shall be delivered promptly to IES without request by it upon termination of Executive's employment.

6. Inventions. Executive shall disclose promptly to IES any and all significant conceptions and ideas for inventions, improvements and valuable discoveries, whether patentable or not, which are conceived or made by Executive, solely or jointly with another, during the period of employment or within one year thereafter, if conceived during employment, and which are directly related to the business or activities of IES and which Executive conceives as a result of his employment by IES. Executive hereby assigns and agrees to assign all his interests therein to IES or its nominee. Whenever requested to do so by IES, Executive shall execute any and all applications, assignments or other instruments that IES shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect IES' interest therein.

7. Trade Secrets. Executive agrees that he will not, during or after the term of this Agreement, disclose the specific terms of IES' relationships or agreements with their respective significant vendors or customers or any other significant and material trade secret of IES, whether in existence or proposed, to any person, firm, partnership, corporation or business for any reason or purpose whatsoever.

8. Confidentiality.

(a) Executive acknowledges and agrees that all Confidential Information (as defined below) of IES is confidential and a valuable, special and unique asset of IES that gives IES an advantage over its actual and potential, current and future competitors. Executive further acknowledges and agrees that Executive owes IES a fiduciary duty to preserve and protect all Confidential Information from unauthorized disclosure or unauthorized use, that certain Confidential Information constitutes "trade secrets" under applicable laws and, that unauthorized disclosure or unauthorized use of IES' Confidential Information would irreparably injure IES.

(b) Both during the term of Executive's employment and after the termination of Executive's employment for any reason (including wrongful termination), Executive shall hold all Confidential Information in strict confidence, and shall not use any Confidential Information except for the benefit of IES, in accordance with the duties assigned to Executive. Executive shall not, at any time (either during or after the term of Executive's employment), disclose any Confidential Information to any person or entity (except other employees of IES who have a need to know the information in connection with the performance of their employment duties), or copy, reproduce, modify, decompile or reverse engineer any Confidential Information, or remove any Confidential Information from IES' premises, without the prior written consent of the President of IES, or permit any other person to do so. Executive shall take reasonable precautions to protect the physical security of all documents and other material containing Confidential Information (regardless of the medium on which the Confidential Information is stored). This Agreement applies to all Confidential Information, whether now known or later to become known to Executive.

(c) Upon the termination of Executive's employment with IES for any reason, and upon request of IES at any other time, Executive shall promptly surrender and deliver to IES all documents and other written material of any nature containing or pertaining to any Confidential Information and shall not retain any such document or other material.

Within five days of any such request, Executive shall certify to IES in writing that all such materials have been returned.

(d) As used in this Agreement, the term "Confidential Information" shall mean any information or material known to or used by or for IES (whether or not owned or developed by IES and whether or not developed by Executive) that is not generally known to persons in the electrical contracting business. Confidential information includes, but is not limited to, the following: all trade secrets of IES; all information that IES has marked as confidential or has otherwise described to Executive (either in writing or orally) as confidential; all nonpublic information concerning IES' products, services, prospective products or services, research, product designs, prices, discounts, costs, marketing plans, marketing techniques, market studies, test data, customers, customer lists and records, suppliers and contracts; all Company business records and plans; all Company personnel files; all financial information of or concerning IES; all information relating to operating system software, application software, software and system methodology, hardware platforms, technical information, inventions, computer programs and listings, source codes, object codes, copyrights and other intellectual property; all technical specifications; any proprietary information belonging to IES; all computer hardware or software manual; all training or instruction manuals; and all data and all computer system passwords and user codes.

9. Change in Control.

(a) Executive understands and acknowledges that the Company may be merged or consolidated with or into another entity and that such entity shall automatically succeed to the rights and obligations of the Company hereunder or that the Company may undergo a Change in Control (as defined below). In the event a Change in Control is initiated or occurs during the Initial Term or Extended Term, then the provisions of this paragraph 9 shall be applicable.

(b) In the event of a Change in Control wherein the Company and Executive have not received written notice at least ten business days prior to the date of the event giving rise to the Change in Control from the successor to all or a substantial portion of the Company's business and/or assets that such successor is willing as of the closing to assume and agree to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company is hereby required to perform, then Executive may, at Executive's sole discretion, elect to terminate Executive's employment on such Change in Control by providing written notice to the Company prior to the closing of the transaction giving rise to the Change in Control. In such case, Executive shall receive from Company, in a lump sum payment due on the effective date of termination the base salary at the rate then in effect for two years, one year's bonus payment with all goals deemed met in full, and two years' coverage under the Company's medical benefit plan on a tax neutral basis. .

(c) If, on or within six months following the effective date of a Change in Control the Company terminates Executive's employment other than for Cause or Executive terminates his employment for Good Reason, or if Executive's employment with the Company is terminated by the Company within thirty days before the effective date of a Change in Control and it is reasonably demonstrated that such termination (i) was at the request of a third party that has taken steps reasonably calculated to effect a Change in Control, or (ii) otherwise arose in connection with or anticipation of a Change in Control, then Executive shall receive from Company, in a lump sum payment due on the effective date of termination the base salary at the rate then in effect for two years, one year's bonus payment with all goals met in full, and two years' coverage under the Company's medical benefit plan on a tax neutral basis.

(d) A "Change in Control" shall be deemed to have occurred if:

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

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

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

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

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

(e) Notwithstanding anything in this Agreement to the contrary, a termination pursuant to paragraph 9(b), (c), or (d) shall operate to automatically waive in full the non-competition restrictions imposed on Executive pursuant to paragraph 3(a).

(f) If it shall be finally determined that any payment made or benefit provided to Executive in connection with a Change in Control of the Company, whether or not made or provided pursuant to this Agreement, is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, or any successor thereto, the Company shall pay Executive an amount of cash (the "Additional Amount") such that the net amount received by Executive after paying all applicable taxes on such Additional Amount shall be equal to the amount that Executive would have received if Section 4999 were not applicable.

10. Indemnification. In the event Executive is made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by the Company against Executive), by reason of the fact that he is or was performing services under this Agreement, then the Company shall indemnify Executive against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, as actually and reasonably incurred by Executive in connection therewith. In the event that both Executive and the Company are made a party to the same third-party action, complaint, suit or proceeding, the Company agrees to engage competent legal representation, and Executive agrees to use the same representation, provided that if counsel selected by the Company shall have a conflict of interest that prevents such counsel from representing Executive, Executive may engage separate counsel and the Company shall pay all reasonable attorneys' fees and reasonable expenses of such separate counsel. Further, while Executive is expected at all times to use his best efforts to faithfully discharge his duties under this Agreement, Executive cannot be held liable to the Company for errors or omissions made in good faith where Executive has not exhibited gross, willful and wanton negligence and misconduct nor performed criminal and fraudulent acts which materially damage the business of the Company.

11. Outplacement Services. Should Executive be terminated Without Cause or resign with Good Reason, he shall be entitled to outplacement services commensurate with Executive's position for a period of one year or until he obtains comparable employment, whichever is less.

12. No Prior Agreements. Executive hereby represents and warrants to IES that the execution of this Agreement by Executive and his employment by IES and the performance of his duties hereunder will not violate or be a breach of any agreement with a former employer, client or any other person or entity. Further, Executive agrees to indemnify IES for any claim, including, but not limited to, reasonable attorneys' fees and expenses of investigation, by any such third party that such third party may now have or may hereafter come to have against IES based upon or arising out of any non-competition agreement, invention or secrecy agreement between Executive and such third party which was in existence as of the date of this Agreement.

13. Assignment; Binding Effect. Executive understands that he has been selected for employment by IES on the basis of his personal qualifications, experience and skills. Executive agrees, therefore, that he cannot assign all or any portion of his performance under this Agreement. Subject to the preceding two sentences and the express provisions of paragraph 11 below, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective heirs, legal representatives, successors and assigns.

14. Release. Notwithstanding anything in this Agreement to the contrary, Executive shall not be entitled to receive any payments pursuant to this Agreement unless Executive has executed (and not revoked) a general release of all claims Executive may have against IES and its affiliates in a form of such release reasonably acceptable to IES.

15. Complete Agreement. Executive has no oral representations, understandings or agreements with IES, IES or any of their officers, directors or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete and exclusive statement and expression of the agreement between IES, IES and Executive and of all the terms of this Agreement, and it cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Agreement may not be later modified, except by a further writing signed by an officer of IES who must be duly authorized by IES' Board of Directors and Executive, and no term of this Agreement may be waived except by writing signed by the party waiving the benefit of such term. Without limiting the generality of the foregoing, either party's failure to insist on strict compliance with this Agreement shall not be deemed a waiver thereof.

16. Notice. Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To IES:	Law Department Integrated Electrical Services, Inc. 1800 West Loop South, Suite 500 Houston, Texas 77027
To Executive:	Robert Stalvey 1901 Post Oak Drive, # 8402 Houston, Texas 77027

Notice shall be deemed given and effective on the earlier of three days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this paragraph 16.

17. Severability; Headings. If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The paragraph headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of the Agreement or of any part hereof.

18. Dispute Resolutions. Except with respect to injunctive relief as provided in paragraph 3(b), neither party shall institute a proceeding in any court or administrative agency to resolve a dispute between the parties before that party has sought to resolve the dispute through direct negotiation with the other party. If the dispute is not resolved within two weeks after a demand for direct negotiation, the parties shall attempt to resolve the dispute through mediation. If the parties do not promptly agree on a mediator, the parties shall request the Association of

Attorney Mediators in Harris County, Texas to appoint a mediator certified by the Supreme Court of Texas. If the mediator is unable to facilitate a settlement of the dispute within a reasonable period of time, as determined by the mediator, the mediator shall issue a written statement to the parties to that effect and any unresolved dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in Houston, Texas, in accordance with the rules of the American Arbitration Association then in effect. A decision by a majority of the arbitration panel shall be final and binding. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The costs and expenses, including reasonable attorneys' fees, of the prevailing party in any dispute arising under this Agreement will be promptly paid by the other party.

19. Governing Law. This Agreement shall in all respects be construed according to the laws of the State of Texas without regard to its conflicts of law provisions.

20. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective for all purposes as of the Effective Date.

INTEGRATED ELECTRICAL SERVICES, INC.

By: ______________________________
Name: ______________________________
Title: ______________________________

ACE ELECTRIC, INC.

By: ______________________________
Name: ______________________________
Title: ______________________________

EXECUTIVE

____
Robert Stalvey

INTEGRATED ELECTRICAL SERVICES
1800 WEST LOOP SOUTH, SUITE 500
HOUSTON, TEXAS 77027

[Date]

Director Stock Option Agreement

«Director Name»
«Director Address»
«Director Address»

Dear «Director Name»:

Integrated Electrical Services, Inc. (the "Company") is pleased to inform you that you have been granted a nonqualified stock option under the Company's 1997 Directors' Stock Plan (the "Plan") to buy shares of the Common Stock of the Company as follows

1. Director Grant # _________
   Grant Date _________
   Option Price per Share _________
   Total Number of Shares Granted _________

2. Subject to the further provisions of this Agreement, on or after the applicable Vesting Date set forth below, you shall be entitled to exercise, on a cumulative basis, the number of shares of Common Stock determined by multiplying the Total Number of Shares Granted by the designated percentage set forth hereafter:

Vesting Date	Percentage Exercisable
[Date]	100%

By my signature below, I hereby acknowledge receipt of this Option granted on the date shown above, which has been issued to me under the terms and conditions of the Plan and the terms and conditions attached hereto. I further agree to conform to all of the terms and conditions of the Option and the Plan.

Signature:______________________________ Date:______________________________

INTEGRATED ELECTRICAL SERVICES, INC.

By:______________________________ Date:______________________________

To the extent vested, the Option may be exercised in whole or in part or in two or more successive parts; *provided, however,* that the Option shall not be exercisable following the tenth anniversary of its Grant Date or the earlier termination of such Option as provided herein.

3. The Option may be exercised from time to time by a notice in writing of such exercise which states the Director Grant # set forth above and the number of shares in respect of which the Option is being exercised. Such notice shall be delivered to the Secretary of the Company or addressed to the Secretary of the Company at its corporate offices in Houston, Texas. An election to exercise shall be irrevocable. The date of exercise shall be the date the notice is hand delivered or received by the Secretary, whichever is applicable.

4. An election to exercise an Option shall be accompanied by the tender of the full purchase price of the shares of Common Stock for which the election is made. Payment may be made (i) in cash or check acceptable to the Company, (ii) shares of Common Stock already-owned without any restriction on sale for at least six months, (iii) a combination of the foregoing, or (iv) notice of a "cashless-broker" exercise in accordance with a Company-established policy or program for the same. If you desire to tender already-owned shares of Common Stock as payment, you must notify the Secretary in writing of the notice of exercise of such desire and, subject to the Secretary's confirmation that you are the record holder of such number of shares, it shall not be necessary for you to tender stock certificates to effectuate such payment of the exercise price. The value of the number of shares tendered to exercise the Option cannot exceed the Option's exercise price and such tendered shares shall be valued at their fair market value per share on the date of exercise of the Option. In addition, no exercise shall be effective until you have made arrangements satisfactory to the Company to satisfy all applicable tax withholding requirements of the Company with respect to such exercise. Unless you use exercise procedure (iv) above, you may direct the Company to satisfy any tax withholding obligation through the withholding of shares of Common Stock.

5. The Option is not transferable by you, other than by will or laws of descent and distribution, and may be exercised during your lifetime only by you; provided, however, notwithstanding the foregoing, you may transfer the Option to a family member, trust or partnership, subject to the prior written approval of the Company concerning the terms of such transferred option.

6. In the event of your termination of membership on the Board of Directors of the Company ("Termination") for any reason, the Option outstanding on such date of Termination, to the extent vested on such date, may be exercised by you (or, in the event of your subsequent death, by your Heir (as defined below)) within one (1) year following such Termination, but not thereafter; however, in no event shall the Option be exercisable after the tenth anniversary of the Grant Date. To the extent the Option is not vested on your date of Termination, the Option shall automatically lapse and be canceled unexercised as of such date. As used herein, "disability" means you are receiving benefits under Title II of the Federal Social Security Act.

7. In the event of your Termination by reason of death or disability, the Option shall be fully vested on such date of Termination and may be exercised by you or, in the event of your death, by the person to whom your rights shall pass by will or the laws of descent and distribution ("Heir"), at any time within the one-year period beginning on your date of death or Termination, but not thereafter; however, in no event shall the Option be exercisable after the tenth anniversary of the Grant Date.

8. This Option is subject to the terms of the Plan, which are hereby incorporated by reference. In the event of a conflict between the terms of this Agreement and the Plan, the Plan shall be the controlling document. Capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to them in the Plan.

Exhibit 10.13

INTEGRATED ELECTRICAL SERVICES
1800 WEST LOOP SOUTH, SUITE 500
HOUSTON, TEXAS 77027

[Date]

Nonqualified Stock Option Agreement

«First_Name» «I» «Last_Name»
«Address_Line_1»
«City», «St» «Zip»

Dear Optionee:

I am pleased to inform you that Integrated Electrical Services, Inc. (the "Company") has granted you a nonqualified stock option under the Company's 1997 Stock Plan (the "Plan") to buy shares of the Common Stock of the Company as follows:

1. NQO Grant #	____________
Grant Date	____________
Option Price per Share	____________
Total Number of Shares Granted	____________

2. Subject to the further provisions of this Agreement, on or after the applicable Vesting Date set forth below, you shall be entitled to exercise, on a cumulative basis, the number of shares of Common Stock determined by multiplying the Total Number of Shares Granted by the designated percentage set forth hereafter:

Vesting Dates	Percentage Exercisable
(1st 1/3 Vesting Date)	33-1/3%
(2nd 1/3 Vesting Date)	66-2/3%
(3rd 1/3 Vesting Date)	100%

To the extent vested, the Option may be exercised in whole or in part or in two or more successive parts; *provided, however,* that the Option shall not be exercisable following the seventh anniversary of its Grant Date or the earlier termination of such Option as provided herein.

3. The Option may be exercised from time to time by a notice in writing of such exercise which states the Option Grant # set forth above and the number of shares in respect of which the Option is being exercised. Such notice shall be delivered to the Secretary of the Company or addressed to the Secretary of the Company at its corporate offices in Houston,

Texas. An election to exercise shall be irrevocable. The date of exercise shall be the date the notice is hand delivered or received by the Secretary, whichever is applicable.

4. An election to exercise an Option shall be accompanied by the tender of the full purchase price of the shares of Common Stock for which the election is made. Payment may be made (i) in cash or check acceptable to the Company, (ii) shares of Common Stock already owned without any restriction on sale for at least six months, (iii) a combination of the foregoing, or (iv) notice of a "cashless-broker" exercise in accordance with a Company-established policy or program for the same. If you desire to tender already-owned shares of Common Stock as payment, you must notify the Secretary in writing of the notice of exercise of such desire and, subject to the Secretary's confirmation that you are the record holder of such number of shares, it shall not be necessary for you to tender stock certificates to effectuate such payment of the exercise price. The value of the number of shares tendered to exercise the Option cannot exceed the Option's exercise price and such tendered shares shall be valued at their fair market value per share on the date of exercise of the Option. In addition, no exercise shall be effective until you have made arrangements satisfactory to the Company to satisfy all applicable tax withholding requirements of the Company with respect to such exercise.

5. The Option is not transferable by you, other than by will or laws of descent and distribution, and may be exercised during your lifetime only by you.

6. In the event of your termination of employment with the Company and its Affiliates, including, if applicable, as a consultant to or a director of any such entity (collectively, a "Termination of Employment") for any reason other than death or disability, the Option outstanding on such date of Termination of Employment, to the extent vested on such date, may be exercised by you (or, in the event of your subsequent death, by your Heir (as defined below)) within three months following such Termination of Employment, but not thereafter; however, in no event shall the Option be exercisable after the seventh anniversary of the Grant Date. To the extent the Option is not vested on your date of Termination of Employment, the Option shall automatically lapse and be canceled unexercised as of such date. As used herein, "disability" means you are receiving benefits under a long-term disability insurance plan of the Company.

7. In the event of your Termination of Employment by reason of death or disability, the Option shall be fully vested on such date of termination and may be exercised by you or, in the event of your death, by the person to whom your rights shall pass by will or the laws of the descent and distribution ("Heir"), at any time within the one-year period beginning on your date of death or Termination of Employment, but not thereafter; however, in no event shall the Option be exercisable after the seventh anniversary of the Grant Date.

8. This Option is subject to the terms of the Plan, which are hereby incorporated by reference. In the event of a conflict between the terms of this Agreement and the Plan, the Plan shall be the controlling document. Capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to them in the Plan.

By my signature below I hereby acknowledge receipt of this Option granted on the date shown above, which has been issued to me under the terms and conditions of the Plan and the terms and conditions hereto. I further agree to conform to all of the terms and conditions of the Options and the Plan.

Signature: ________________________________ Date: ________________________________
(Optionee Name_First_MI_Last)

INTEGRATED ELECTRICAL SERVICES, INC.

By: ____
IES Designated Officer Signature

Exhibit 10.15

INTEGRATED ELECTRICAL SERVICES, INC.
1800 WEST LOOP SOUTH, SUITE 500
HOUSTON, TEXAS 77027

[Date]

Nonqualified Stock Option Agreement

«Optionee Name»
«Optionee Address»
«Optionee Address»

Dear «Optionee Name»:

Integrated Electrical Services, Inc. (the "Company") is pleased to inform you that you have been granted a nonqualified stock option ("Option") under the Company's 1999 Incentive Compensation Plan (the "Plan") to buy shares of the Common Stock of the Company as follows:

NQO Grant #
Grant Date
Option Price per Share
Total Number of Shares Granted

2. Subject to the further provisions of this Agreement, on or after the applicable Vesting Date set forth below, you shall be entitled to exercise, on a cumulative basis, the number of shares of Common Stock determined by multiplying the Total Number of Shares Granted by the designated percentage set forth hereafter:

Percentage Exercisable	Vesting Dates
33-1/3%	(MM/DD/YYYY)
66-2/3%	(MM/DD/YYYY)
100%	(MM/DD/YYYY)

3. To the extent vested, the Option may be exercised in whole or in part or in two or more successive parts; provided, however, that the Option shall not be exercisable following the seventh anniversary of its Grant Date or the earlier termination of such Option as provided herein.

4. The Option may be exercised from time to time by a notice in writing of such exercise which states the Option Grant # set forth above and the number of shares in respect of which the Option is being exercised. Such notice shall be delivered to the Secretary of the Company or addressed to the Secretary of the Company at its corporate offices in Houston, Texas. An election to exercise shall be irrevocable. The date of exercise shall be the date the notice is hand delivered or received by the Secretary, whichever is applicable.

5. An election to exercise an Option shall be accompanied by the tender of the full purchase price of the shares of Common Stock for which the election is made. Payment may be made (i) in cash or check acceptable to the Company, (ii) shares of Common Stock already owned without any restriction on sale for at least six months, (iii) a combination of the foregoing, or (iv) notice of a "cashless-broker" exercise in accordance with a Company-established policy or program for the

same. If you desire to tender already owned shares of Common Stock as payment, you must notify the Secretary in writing of the notice of exercise of such desire and, subject to the Secretary's confirmation that you are the record holder of such number of shares, it shall not be necessary for you to tender stock certificates to effectuate such payment of the exercise price. The value of the number of shares tendered to exercise the Option cannot exceed the Option's exercise price and such tendered shares shall be valued at their fair market value per share on the date of exercise of the Option. In addition, no exercise shall be effective until you have made arrangements satisfactory to the Company to satisfy all applicable tax withholding requirements of the Company with respect to such exercise.

6. The Option is not transferable by you, other than by will or laws of descent and distribution, and may be exercised during your lifetime only by you.

7. In the event of your termination of employment with the Company and its Affiliates, including, if applicable, as a consultant to or a director of any such entity (collectively, a "Termination of Employment") for any reason other than death or disability, the Option outstanding on such date of Termination of Employment, to the extent vested on such date, may be exercised by you (or, in the event of your subsequent death, by your Heir (as defined below)) within three months following such Termination of Employment, but not thereafter; however, in no event shall the Option be exercisable after the seventh anniversary of the Grant Date. To the extent the Option is not vested on your date of Termination of Employment, the Option shall automatically lapse and be canceled unexercised as of such date. As used herein, "disability" means you are receiving benefits under a long-term disability insurance plan of the Company.

8. In the event of your Termination of Employment by reason of death or disability, the Option shall be fully vested on such date of termination and may be exercised by you or, in the event of your death, by the person to whom your rights shall pass by will or the laws of the descent and distribution ("Heir"), at any time within the one-year period beginning on your date of death or Termination of Employment, but not thereafter; however, in no event shall the Option be exercisable after the seventh anniversary of the Grant Date.

9. This Option is subject to the terms of the Plan, which are hereby incorporated by reference. In the event of a conflict between the terms of this Agreement and the Plan, the Plan shall be the controlling document. Capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to them in the Plan.

By my signature below I hereby acknowledge receipt of this Option granted on the date shown above, which has been issued to me under the terms and conditions of the Plan and the terms and conditions hereto. I further agree to conform to all of the terms and conditions of the Option and the Plan.

Signature:______________________________ Date:______________________________

(Optionee Name First MI Last)

INTEGRATED ELECTRICAL SERVICES, INC.

By:______________________________

Officer Signature

Exhibit 10.16

INTEGRATED ELECTRICAL SERVICES, INC.
1800 WEST LOOP SOUTH, SUITE 500
HOUSTON, TEXAS 77027

[Date]

Restricted Stock Grant Agreement

«Optionee Name»
«Optionee Address»
«Optionee Address»

Dear «Optionee Name»:

Integrated Electrical Services, Inc. (the "Company") is pleased to inform you that you have been granted restricted shares of Integrated Electrical Services, Inc. common stock under the 1999 Incentive Compensation Plan.

1. Restricted Stock Grant Number
   Grant Date
   Grant Price Per Share
   Total Number of Shares Granted

2. These shares will vest in two installments —________ shares on __________ and ______ shares on __________ provided that you are still employed by IES or one of its subsidiaries on those dates. The shares will be issued as soon as practical but will remain subject to forfeiture as described in item #5.

3. The shares are not transferable by you, other than by will or laws of descent and distribution, until they vest.

4. If your employment with IES or one of its subsidiaries ceases before a date for vesting of shares, other than because of death, your disability as determined by IES or because there is a "Change of Control" of IES (as this term is defined in the 1999 Incentive Compensation Plan), then you will forfeit any shares that have not yet vested. If your employment ceases because of your death, your disability as determined by IES or a Change of Control of IES, you or your heirs will still be entitled to receive these shares.

5. Upon vesting of these shares of common stock, the Company must receive any amount it is required to withhold under applicable tax laws and regulations, and the Company is authorized to withhold from any compensation payable to you any tax required to be withheld. The Company is permitted to fulfill any other legal requirements prior to issuing the shares.

6. These shares will be issued to you under IES' 1999 Incentive Compensation Plan, and their issuance is governed by this Plan and any determination made by the Compensation Committee of the IES Board of Directors.

7. This grant is subject to the terms of the Plan, which are hereby incorporated by reference. In the event of a conflict between the terms of this Agreement and the Plan, the Plan shall be the controlling document. Capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to them in the Plan.

By my signature below I hereby acknowledge receipt of this grant on the date shown above, which has been issued to me under the terms and conditions of the Plan and the terms and conditions attached hereto. I further agree to conform to all of the terms and conditions of the grant and the Plan. This grant agreement is effective after your signature and the subsequent counter signature of Integrated Electrical Services, Inc.

Signature:______________________________ Date:______________________________

INTEGRATED ELECTRICAL SERVICES, INC.

By: ______________________________ Date:______________________________

Exhibit 12

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

	Year Ended September 30,				
	2000	**2001**	**2002**	**2003**	**2004**
CONSOLIDATED					
Earnings:					
Income (loss) before taxes and cumulative effect of change in accounting principle	$42,799	$54,381	$13,472	$27,014	$(113,780)
Fixed charges	25,925	29,631	30,006	28,945	26,340
	$68,724	$84,012	$43,478	$55,959	$ (87,440)
Fixed Charges:					
Interest expense	$23,230	$26,053	$26,702	$25,744	$ 23,187
Portion of rental cost representing interest	2,695	3,578	3,304	3,201	3,153
	$25,925	$29,631	$30,006	$28,945	$ 26,340
Ratio of Earnings to Fixed Charges	2.7	2.8	1.4	1.9	(3.3)

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT
AS OF SEPTEMBER 30, 2004

Subsidiary	State of Incorporation or Organization
1st Group Telecommunications, Inc.	Delaware
Ace/Putzel Electric, Inc.	Georgia
Aladdin-Ward Electric & Air, Inc.	Florida
Amber Electric, Inc.	Florida
Anderson & Wood Construction Co., Inc.	Delaware
ARC Electric, Incorporated	Delaware
B. Rice Electric LP	Texas
Bachofner Electric, Inc.	Delaware
Bear Acquisition Corporation	Delaware
Bexar Electric Company, Ltd.	Texas
Bexar Electric II LLC	Arizona
Brink Electric Construction Co.	South Dakota
Britt Rice Electric, Inc.	Delaware
Britt Rice Holdings LLC	Arizona
Britt Rice Holdings II LLC	Delaware
Britt Rice Management LLC	Arizona
Bryant Electric Company, Inc.	North Carolina
BW Consolidated, Inc.	Nevada
BW/BEC, L.L.C.	Nevada
BW/BEC II LLC	Arizona
BW/BEC, Inc.	Delaware
Canova Electrical Contracting, Inc.	Delaware
Carroll Holdings LLC	Arizona
Carroll Holdings II LLC	Delaware
Carroll Management LLC	Arizona
Carroll Systems LP	Texas
Carroll Systems, Inc.	Delaware
Charles P. Bagby Co., Inc.	Alabama
Collier Electric Company, Inc.	Florida
Commercial Electrical Contractors, Inc.	Delaware
Cross State Electric, Inc.	California
Cypress Electrical Contractors, Inc.	Delaware
Daniel Electrical Contractors, Inc.	Florida
Daniel Electrical of Treasure Coast, Inc.	Florida
Daniel Integrated Technologies, Inc.	Florida

Davis Electrical Constructors, Inc.	South Carolina
Delco Electric, Inc.	Delaware
DKD Electric Company, Inc.	New Mexico
ElectroTech, Inc.	Nevada
EMC Acquisition Corporation	Delaware
Ernest P. Breaux Electrical, Inc.	Delaware

Federal Communications Group, Inc.	Delaware
Florida Industrial Electric, Inc.	Florida
General Partner, Inc.	Alabama
Goss Electric Company, Inc.	Delaware
H.R. Allen, Inc.	South Carolina
Hatfield Reynolds Electric Company	Arizona
Haymaker Electric, Inc.	Alabama
Holland Electrical Systems, Inc.	Delaware
Houston Stafford Holdings LLC	Arizona
Houston-Stafford Electric Holdings III, Inc.	Delaware
Houston-Stafford Electrical Contractors, LP	Texas
Houston-Stafford Holdings II LLC	Delaware
Houston-Stafford Management LLC	Arizona
Howard Brothers Electric Co., Inc.	Delaware
ICS Holdings LLC	Arizona
IES Communications, Inc.	Delaware
IES Contractors Holdings LLC	Arizona
IES Contractors Management LLC	Arizona
IES Contractors, Inc.	Delaware
IES ENC Management, Inc.	Delaware
IES ENC, Inc.	Delaware
IES Federal Contract Group, LP	Texas
IES Holdings II LLC	Delaware
IES Holdings LLC	Arizona
IES Management LP	Texas
IES Management ROO, LP	Texas
IES Operations Group, Inc.	Delaware
IES Properties Holdings II LLC	Arizona
IES Properties Holdings, Inc.	Delaware
IES Properties Management, Inc.	Delaware
IES Properties, Inc.	Delaware
IES Properties, LP	Texas
IES Reinsurance, Ltd.	Bermuda
IES Residential Group, Inc.	Delaware
IES Specialty Lighting, Inc.	Delaware
IES Ventures Inc.	Delaware
Integrated Electrical Finance, Inc.	Delaware
Intelligent Building Solutions, Inc.	Delaware
J.W. Gray Electric Company, Inc.	Delaware
J.W. Gray Electrical Contractors, LP	Texas

J.W. Gray Holdings II LLC	Delaware
J.W. Gray Holdings, LLC	Arizona
J.W. Gray Management, LLC	Arizona
Kayton Electric, Inc.	Nebraska
Key Electrical Supply, Inc.	Texas
Linemen, Inc. dba California Communications	Delaware
Mark Henderson, Incorporated	Delaware

Menninga Electric, Inc.	Delaware
Mid-States Electric Company, Inc.	Delaware
Mills Electric LP	Texas
Mills Electric Holdings II LLC	Delaware
Mills Electrical Contractors, Inc.	Delaware
Mills Electrical Holdings, LLC	Arizona
Mills Management LLC	Arizona
Mitchell Electric Company, Inc.	Arizona
M-S Systems, Inc.	Tennessee
Murray Electrical Contractors, Inc.	Delaware
NBH Holding Co., Inc.	Delaware
Neal Electric LP	Texas
Neal Electric Management LLC	Arizona
New Technology Electrical Contractors, Inc.	Delaware
Newcomb Electric Company, Inc.	Delaware
Pan American Electric Company, Inc.	New Mexico
Pan American Electric, Inc.	Tennessee
Paulin Electric Company, Inc.	Delaware
Pollock Electric, Inc.	Delaware
Pollock Summit Electric, LP	Texas
Pollock Summit Holdings II LLC	Delaware
Pollock Summit Holdings, Inc.	Arizona
PrimeNet, Inc.	Delaware
Primo Electric Company	Delaware
Raines Electric Co., Inc.	Delaware
Raines Electric LP	Texas
Raines Holdings II LLC	Delaware
Raines Holdings LLC	Arizona
Raines Management LLC	Arizona
Riviera Electric LLC	Delaware
RKT Electric, Inc.	Delaware
Rockwell Electric, Inc.	Delaware
Rodgers Electric Company, Inc.	Washington
Ron’s Electric, Inc., dba IES-North Plains	Delaware
SEI Electrical Contractor, Inc.	Florida
Spectrol, Inc.	Delaware
Summit Electric of Texas, Inc.	Delaware
T&H Electrical Corporation	Delaware
Tech Electric Co., Inc.	Delaware
Tesla Power (Nevada) II LLC	Delaware

Tesla Power (Nevada), Inc.	Nevada
Tesla Power & Automation, LP	Texas
Tesla Power GP, Inc.	Delaware
Tesla Power Properties, LP	Texas
Thomas Popp & Company	Ohio
Valentine Electrical, Inc.	Delaware
Wright Electrical Contracting, Inc.	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Forms S-8 and S-4 File Nos. 333-67113, 333-45447, 333-45449, 333-91041, 333-31608, 333-32624, 333-50031, 333-62636, 333-68274, and 333-112282) of Integrated Electrical Services, Inc. of our report dated December 8, 2004, except for Notes 1, 7 and 16, as to which the date is December 13, 2004, with respect to the consolidated financial statements of Integrated Electrical Services, Inc. included in this Annual Report (Form 10-K) for the year ended September 30, 2004.

ERNST & YOUNG LLP

Houston, Texas
December 14, 2004

Exhibit 24

Power of Attorney

Know all men by these presents that Herbert R. Allen constitutes and appoints David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ HERBERT R. ALLEN

Herbert R. Allen

Power of Attorney

Know all men by these presents that Ronald P. Badie constitutes and appoints Herbert R. Allen, David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ RONALD P. BADIE

Ronald P. Badie

Power of Attorney

Know all men by these presents that Donald P. Hodel constitutes and appoints Herbert R. Allen, David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ DONALD P. HODEL

Donald P. Hodel

Power of Attorney

Know all men by these presents that David A. Miller constitutes and appoints Herbert R. Allen, David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ DAVID A. MILLER

David A. Miller

Power of Attorney

Know all men by these presents that Alan R. Sielbeck constitutes and appoints Herbert R. Allen, David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ ALAN R. SIELBECK

Alan R. Sielbeck

Power of Attorney

Know all men by these presents that C. Byron Snyder constitutes and appoints Herbert R. Allen, David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ C. BYRON SNYDER

C. Byron Snyder

Power of Attorney

Know all men by these presents that Donald C. Trauscht constitutes and appoints Herbert R. Allen, David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ DONALD C. TRAUSCHT

Donald C. Trauscht

Power of Attorney

Know all men by these presents that James D. Woods constitutes and appoints Herbert R. Allen, David A. Miller and Curt L. Warnock and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities to sign in his name to the Annual Report on Form 10-K of Integrated Electrical Services, Inc. for the fiscal year ended September 30, 2004, and any amendments thereto and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or their substitutes may lawfully do or cause to be done by virtue hereof.

December 14, 2004

/s/ JAMES D. WOODS

James D. Woods

Exhibit 31.1

CERTIFICATION

I, Herbert R. Allen, certify that:

1. I have reviewed this annual report on Form 10-K of Integrated Electrical Services, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and I have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and;
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2004

/s/ HERBERT R. ALLEN

Chief Executive Officer and
Interim Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Annual Report of Integrated Electrical Services, Inc. (the "Company") on Form 10-K for the period ending September 30, 2004 (the "Report"), I, Herbert R. Allen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ HERBERT R. ALLEN

Herbert R. Allen
Chief Executive Officer and
Interim Chief Financial Officer

December 14, 2004

CORPORATE HEADQUARTERS
1800 West Loop South, Suite 500
Houston, Texas 77027
PHONE: (713) 860-1500
FAX: (713) 860-1599

COMMON STOCK DATA
Trading Symbol: IES
New York Stock Exchange

INDEPENDENT AUDITORS
Ernst & Young LLP
5 Houston Center, Suite 1200
1401 McKinney
Houston, Texas 77010-2007

STOCK TRANSFER AGENT AND REGISTRAR
Wachovia Bank, N.A.
1525 West W.T. Harris Boulevard, 3C3
Charlotte, North Carolina 28262-1153

Further information about Integrated Electrical Services, Inc. is available on the Company's web site at www.ies-co.com

CORPORATE SECRETARY
Curt L. Warnock
Integrated Electrical Services, Inc.
1800 West Loop South, Suite 500
Houston, Texas 77027

DIRECTORS
C. Byron Snyder
Herbert R. Allen
Ronald P. Badie
Donald Paul Hodel
Alan R. Sielbeck
Donald C. Trauscht

For additional copies of the Company's 2004 Annual Report, contact:

Investor Relations Department
Integrated Electrical Services, Inc.
1800 West Loop South, Suite 500
Houston, Texas 77027

SUBSIDIARIES
Aladdin Ward Electric & Air, Inc.
Amber Electric, Inc.
Anderson & Wood Construction Co., Inc.
ARC Electric, Incorporated
Bachofner Electric, Inc.
Bexar Electric Company, Ltd.
Ernest P. Breaux Electrical, Inc.
Brink Electric Construction Co.
Bryant Electric Company, Inc.
Canova Electrical Contracting, Inc.
Collier Electric Company, Inc.
Commercial Electrical Contractors, Inc.
Cross State Electric, Inc.
Cypress Electrical Contractors, Inc.
Daniel Electrical Contractors, Inc.
Davis Electrical Constructors, Inc.
DKD Electric Co., Inc.
Electro-Tech, Inc.
Federal Communications Group, Inc.
Florida Industrial Electric, Inc.
J. W. Gray Electrical Contractors LP
Hatfield Reynolds Electric Company
Haymaker Electric, Ltd.
Mark Henderson, Incorporated
Howard Brothers Electric Co., Inc.
H. R. Allen, Inc.
Houston-Stafford Electrical Contractors LP
Ron's Electric, Inc.
Kayton Electric, Inc.
Key Electrical Supply, Inc.
Menninga Electric, Inc.
Mid-States Electric Company, Inc.
Mills Electric LP
Mitchell Electric Company, Inc.
Murray Electrical Contractors, Inc.
Rodgers Electric Company, Inc.
Neal Electric LP
New Technology Electrical Contractors, Inc.
Newcomb Electric Company, Inc.
Pan American Electric, Inc.
Pan American Electric Company, Inc.
Paulin Electric Company, Inc.
Pollock Summit Electric LP
Thomas Popp & Company
PrimeNet, Inc.
Primo Electric Company
Raines Electric LP
Riviera Electric, LLC
Rockwell Electric, Inc.
T&H Electrical Corporation
Tech Electric Co., Inc.
Tesla Power and Automation, L.P.
Valentine Electrical, Inc.

The Company has submitted to the New York Stock Exchange ("NYSE") its Annual CEO Certification, dated March 10, 2004, as required under Section 303A.12(a) of the NYSE Listed Company Manual and has filed its certification required under Section 302 of the Sarbanes-Oxley Act of 2002 as an exhibit to its Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

1800 West Loop South, Suite 500 • Houston, Texas 77027