AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 23, 1998

REGISTRATION NO. 333-38715

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 4

TO
FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

DELAWARE	1731	76-0542208
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

2301 PRESTON
HOUSTON, TEXAS 77003
(713) 222-1875
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

JIM P. WISE
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
2301 PRESTON
HOUSTON, TEXAS 77003
(713) 222-1875
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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copy to:

MELINDA H. BRUNGER
ANDREWS & KURTH L.L.P.
4200 TEXAS COMMERCE TOWER
HOUSTON, TEXAS 77002
(713) 220-4200

T. MARK KELLY
VINSON & ELKINS L.L.P.
2300 FIRST CITY TOWER
HOUSTON, TEXAS 77002
(713) 758-2222

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ____________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ____________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ____________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

EXPLANATORY NOTE

This Registration Statement contains two forms of prospectus: one (the "U.S. Prospectus") to be used in connection with a United States and Canadian offering and one (the "International Prospectus") to be used in connection with a concurrent international offering. The U.S. Prospectus and the International Prospectus are identical except that they contain different front, inside front and back cover pages and different descriptions of the plan of distribution (contained under the caption "Underwriting" in both prospectuses). The form of U.S. Prospectus is included herein and is followed by those pages to be used in the International Prospectus which differ from those used in the U.S. Prospectus. Each of the pages for the International Prospectus included herein is labeled "Alternate Page for International Prospectus."

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED JANUARY 23, 1998

PROSPECTUS

7,000,000 SHARES

[IES LOGO]

COMMON STOCK

All of the shares of Common Stock, $.01 par value per share (the "Common Stock"), offered hereby are being offered by Integrated Electrical Services, Inc. ("IES" or the "Company").

Of the shares of Common Stock being offered hereby, 5,600,000 shares (the "U.S. Shares") are being offered initially in the United States and Canada (the "U.S. Offering") by the U.S. Underwriters and 1,400,000 shares (the "International Shares") are being offered initially outside the United States and Canada (the "International Offering" and, together with the U.S. Offering, the "Offerings") by the International Managers. The price to public and underwriting discount per share are identical for both Offerings and the closings for both Offerings are conditioned upon each other. See "Underwriting."

Prior to the Offerings there has been no public market for the Common Stock. It is currently estimated that the initial public offering price will be between $13.00 and $15.00 per share. See "Underwriting" for information relating to the factors to be considered in determining the initial public offering price. Shares of Common Stock are being reserved for sale to certain employees, directors and business associates of, and certain other persons designated by, the Company, at the initial public offering price. Such employees, directors, and other persons are expected to purchase, in the aggregate, not more than 10% of the Common Stock offered in the Offerings. See "Underwriting."

The Common Stock has been approved for listing upon notice of issuance on The New York Stock Exchange ("NYSE") under the symbol "IEE."

SEE "RISK FACTORS" BEGINNING ON PAGE 9 FOR A DISCUSSION OF CERTAIN MATTERS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share	$	$	$
Total(3)	$	$	$

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."
(2) Before deducting expenses payable by the Company estimated at $.
(3) The Company has granted the U.S. Underwriters and International Managers options, exercisable within 30 days after the date hereof, to purchase up to 840,000 and 210,000 additional shares of Common Stock, respectively, solely to cover over-allotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock offered hereby are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by the Underwriters against payment therefor, subject to certain conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the share certificates representing the Common Stock will be made in New York, New York on or about , 1998.

MERRILL LYNCH & CO.

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

SUNTRUST EQUITABLE SECURITIES

SANDERS MORRIS MUNDY

The date of this Prospectus is , 1998.

[MAP OF LOCATIONS AND OTHER GRAPHICS]

[Map of the Continental United States depicting locations in which the Company maintains offices. Map also denotes states in which the Company conducts business.]

[Photograph of a two-story, glass residential structure]

[Photograph of modern office building.]

[Photograph of a contemporary home.]

[Photograph of an end of an exposed cable. A number of the individual strands running through the cable are exposed and illuminated.]

[Photograph of a 2-story apartment facility.]

[Photograph of hotel. Photo shows the entrance side of the hotel.]

[Photograph of showroom of a car dealership.]

[Photograph of concession stand in movie theater.]

Certain persons participating in the Offerings may engage in transactions that stabilize, maintain or otherwise affect the price of the Common Stock. Such transactions may include stabilizing, the purchase of Common Stock to cover syndicate short positions and the imposition of penalty bids. For a description of these activities, see "Underwriting."

PROSPECTUS SUMMARY

Concurrently with the closing of the Offerings, Integrated Electrical Services, Inc. plans to acquire, in separate transactions (collectively, the "Acquisitions"), for consideration including cash and shares of Common Stock (the "Acquisitions Consideration"), the following 16 companies engaged in all facets of electrical contracting and maintenance services: Houston-Stafford Electric, Inc. and Stark Investments, Inc., a related electrical supply company (such two companies, collectively, "Houston-Stafford"), Mills Electrical Contractors, Inc. ("Mills"), BW Consolidated, Inc., including Bexar Electric Company, Ltd., and Calhoun Electric Company, Ltd. (collectively, "Bexar-Calhoun"), Pollock Electric Inc. ("Pollock"), Muth Electric, Inc. ("Muth"), Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc. (collectively, "Daniel"), Amber Electric, Inc. ("Amber"), Charles P. Bagby, Co., Inc. and General Partner, Inc. (collectively, "Haymaker"), Summit Electric of Texas, Incorporated ("Summit"), Thurman & O'Connell Corporation ("Thurman & O'Connell"), Rodgers Electric Company, Inc. ("Rodgers"), Hatfield Electric, Inc. ("Hatfield"), Ace Electric, Inc. ("Ace"), Reynolds Electric Corp. ("Reynolds") and Thomas Popp & Company ("Popp") (the foregoing companies referred to herein as the "Founding Companies"). Unless otherwise indicated, references herein to "IES" mean Integrated Electrical Services, Inc., and references to the "Company" mean IES and the Founding Companies collectively.

The following summary is qualified in its entirety by reference to, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Unless otherwise indicated, the information, share and per share data in this Prospectus (i) give effect to the Acquisitions, (ii) assume the Underwriters' over-allotment options are not exercised and (iii) give effect to a 2,329.6-for-one stock split of the Common Stock effected in October 1997.

THE COMPANY

IES was founded in June 1997 to create a leading national provider of electrical contracting and maintenance services to the commercial, industrial and residential markets. Concurrently with and as a condition to the closing of the Offerings, IES will acquire 15 electrical contracting and maintenance service companies and a related supply company with pro forma combined revenues of $312.7 million for the year ended September 30, 1997, making the Company one of the largest providers of electrical contracting and maintenance services in the United States. Of such pro forma revenues, approximately 63% was derived from commercial and industrial contracting, approximately 25% was derived from residential contracting and approximately 12% was derived from electrical maintenance work. Combined revenues of the Founding Companies, which have been in business an average of 18 years, increased at an average compound annual growth rate of approximately 23% from fiscal 1994 through 1996.

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

In certain markets the Company offers design-and-build expertise and specialized services, which typically require specific skills and equipment and provide higher margins than general electrical contracting and maintenance services. In a design-and-build project, the electrical contractor applies in-house electrical engineering expertise to design the most cost-effective electrical system for a given structure and purpose, taking into account local code requirements. Specialized services offered by the Company include installations of wiring or cabling for the following: data cabling for computer networks; fiber optic cable systems; telecommunications systems; energy management systems which control the amount of power used in facilities; fire alarm and security systems; cellular phone transmission sites; "smart houses" that integrate computer, energy management, security, safety, comfort and telecommunication systems; lightning protection systems; clean rooms for fabrication of microprocessors and similar devices; computer rooms; back-up electrical systems and uninterruptible power supplies; high voltage distribution and traffic signal systems.

INDUSTRY OVERVIEW

General. Virtually all construction and renovation in the United States generates demand for electrical contracting services. Depending upon the exact scope of work, electrical work generally accounts for approximately 8% to 12% of the total construction cost of the Company's commercial and industrial projects and 5% to 10% of the total construction cost of the Company's residential projects. In recent years, the Founding Companies have experienced a growing demand for electrical contracting services per project due to increased electrical code requirements, demand for additional electrical capacity, including increased capacity for computer systems, additional data cabling requirements and the construction of smart houses with integrated systems.

The overall electrical contracting industry, including commercial, industrial and residential markets, was estimated by the U.S. Census to have generated annual revenues in excess of $40 billion in 1992, the most recent available U.S. Census data. These Census data indicate that the electrical contracting industry is highly fragmented with more than 54,000 companies, most of which are small, owner-operated businesses, performing various types of electrical work. The Company believes there are significant opportunities for a well-capitalized national company to provide comprehensive electrical contracting and maintenance services and that the fragmented nature of the electrical contracting industry will provide significant opportunities to consolidate commercial and industrial and residential electrical contracting and maintenance businesses.

Commercial and Industrial Market. Commercial and industrial consumers of electrical contracting and maintenance services include general contractors; developers; consulting engineers; architects; owners and managers of large retail establishments, office buildings, high-rise apartments and condominiums; theaters and restaurants; hotels and casinos; manufacturing and processing facilities; arenas and convention centers; hospitals; school districts; military and other government agencies; airports; prisons and car lots. The Company provides electrical contracting and maintenance services to the full range of commercial and industrial customers.

From fiscal 1994 through 1996, the Founding Companies' revenues from electrical contracting for commercial and industrial customers have grown at an average compound annual rate of approximately 23% per year. The Company believes that growth in the commercial and industrial market reflects a number of factors, including (i) levels of construction and renovation activity; (ii) regulations imposed by electric codes, which establish minimum power and wiring requirements; (iii) safety codes mandating additional installation of smoke detectors and the use of ground fault circuit protection devices in more locations; (iv) revised national energy standards that dictate the use of more energy-efficient lighting fixtures and other equipment; (v) continuing demand to build out lease spaces in office buildings and to reconfigure space for new tenants; (vi) increases in use of electrical power, creating needs for increased capacity and outlets, as well as data cabling and fiber optics and (vii) requirements of building owners and developers to facilitate marketing their properties to tenants and buyers by installing electrical capacity in excess of minimum code requirements.

Residential Market. Contracting work for the residential market consists primarily of electrical installations in new single family and low-rise multifamily residence construction for customers such as large homebuilders and apartment developers. The Company also provides maintenance services to these customers as well as to individual property owners in some locations. The residential market is primarily dependent on the number of single family and multifamily home starts, which are in turn affected by interest rates, tax considerations and general economic conditions. Competitive factors particularly important in the residential market include a contractor's ability to build relationships with customers by providing services in diverse geographic markets as construction activity shifts to new locations. The Founding Companies' residential electrical contracting revenues have grown at an average compound annual rate of approximately 22% from fiscal 1994 through 1996.

STRATEGY

The Company believes that its size, geographical diversity of operations, industry relationships, expertise in specialized markets, number of licensed electricians and access to design technology give the Company significant competitive advantages in the electrical contracting and maintenance services industry. Through increased size, the Company believes it will have greater ability to compete for larger jobs that require greater technical expertise, personnel availability and bonding capacity, to more effectively allocate and share resources in serving customers in each of its markets, and to attract, train and retain qualified electricians. The Company also believes that increased size will provide increased efficiency in materials purchasing, computer system development, employee benefits, bonding, insurance and financing. The Company believes that the diversity of its operations will diminish the effects of regional and market downturns, offer opportunities to pursue growth in its existing markets and create a base of expertise to expand into new markets and serve new customers.

The Company plans to leverage its experienced management and extensive relationships within the electrical contracting industry to increase its revenues and reduce its cost infrastructure through internal growth as well as the acquisition of additional electrical contracting businesses. The Company's management includes a Chief Executive Officer and two Chief Operating Officers, each with 25 years or more of experience in the electrical contracting industry. The Company has extensive business relationships within the industry, in part through Founding Companies that are members of the Independent Electrical Contractors Association ("IEC"). The IEC is the second largest electrical trade organization in the U.S. and has nearly 3,000 contracting firms as members. The Company's Chief Executive Officer is a past president of the IEC, and two founders are members of the executive committee of the IEC. The IEC sponsors forum groups, which are discussion groups of members of the IEC that foster the sharing of best business practices. The Founding Companies are members of the IEC and other trade organizations, and the Company intends to expand the practice of sharing best practices among the Founding Companies and with future acquisitions.

The Company's goal is to become a leading national provider of electrical services by improving its operations, expanding its business and markets through internal growth and pursuing an aggressive acquisition strategy.

Operating Strategy. The Company believes there are significant opportunities to increase revenues and profitability of the Founding Companies and subsequently acquired businesses. The key elements of the Company's operating strategy are:

Share Information, Technical Capabilities and Best Practices. The Company believes it will be able to expand the services it offers in its local markets by leveraging the specialized technical and marketing strengths of individual Founding Companies. The Company will identify and share best practices that can be successfully implemented throughout its operations. The Company intends to use the computer-aided-design technology and expertise of certain of the Founding Companies to bid for more design-and-build projects and to assist customers in value engineering and creating project documents. The Company believes that its increased size, capital and workforce will permit it to pursue projects that require greater design and performance capabilities and the ability to meet accelerated timetables.

Expand Scope of Maintenance and Specialized Services. The Company intends to further develop its long-term and per-call maintenance service operations, which generally realize higher gross margins and provide recurring revenues that are relatively independent of levels of construction activity. The Company also believes that certain specialized businesses currently offered by only a few of the Founding Companies can be expanded throughout the Company and in some cases can provide higher margins. Through sharing of expertise and specialized licenses and the ability to demonstrate a safety record in specialized markets served by the Founding Companies, the Company intends to expand its presence and profitability in markets where it previously relied on subcontractors.

Establish National Market Coverage. The Company believes that the growth of many of the Founding Companies has been restricted due to the geographic limitations of existing operations and that the Company's broad geographic coverage will increase internal growth opportunities. The Company intends to leverage its geographic diversity to bid for additional business from existing customers that operate on a regional and national basis, such as developers, contractors, homebuilders and owners of national chains. The Company believes that significant demand exists from such companies to utilize the services of a single electrical contracting and maintenance service provider and that existing local and regional relationships can be expanded as the Company develops a nationwide network.

Operate on Decentralized Basis. The Company believes that, while maintaining strong operating and financial controls, a decentralized operating structure will retain the entrepreneurial spirit present in each of the Founding Companies. The Company also will be structured to allow it to capitalize on the considerable local and regional market knowledge and customer relationships possessed by each Founding Company, as well as companies that may be acquired in the future. By maintaining a local and regional focus in each of its markets, the Company believes it will be able to build relationships with general contractors and other customers, address design preferences and code requirements, respond quickly to customer demands for higher-margin renovation and upgrade projects and adjust to local conditions.

Attract and Retain Quality Employees. The Company believes that the ability to attract and retain qualified electricians is a critical competitive factor and that the Acquisitions and the Offerings will provide competitive advantages in this regard. The Company intends to attract and develop skilled employees by extending active recruiting and training programs, offering stock-based compensation for key employees, and offering expanded career paths and more stable income through the larger public company. The Company believes that this ability will allow it to increase efficiency and pursue additional customer relationships.

Achieve Operating Efficiencies. Certain administrative functions will be centralized following the Offerings. In addition, by combining overlapping operations of certain of the Founding Companies, the Company expects to realize savings in overhead and other expenses. The Company intends to use its increased purchasing power to gain volume discounts in areas such as electrical materials, vehicles, advertising, bonding, employee benefits and insurance. The Company will seek to realize cost savings and other benefits by the sharing of purchasing, pricing, bidding and other business practices and the sharing of licenses. The Company intends to further develop and extend the use of computer systems to facilitate communication among the Founding Companies. At some locations, the larger combined workforce will provide additional staffing flexibility.

Acquisition Strategy. The Company believes that, due to the highly fragmented nature of the electrical contracting and maintenance services industry, it has significant opportunities to pursue its acquisition strategy. The Company intends to focus on acquiring companies with management philosophies based on an entrepreneurial attitude as well as a willingness to learn and share improved business practices through open communications. The Company believes that many electrical contracting and maintenance service businesses that lack the capital necessary to expand operations will become acquisition candidates. For these acquisition candidates, the Company will provide (i) information on best practices, (ii) expertise to expand in specialized markets, (iii) the opportunity to focus on customers rather than administration, (iv) national name recognition, (v) increased liquidity and (vi) the opportunity for a continued role in management. The Founding Companies participate in professional associations such as the IEC and Associated Builders and Contractors, and the Company intends to continue these relationships, in part to assist in identifying attractive acquisition candidates. Other key elements of the Company's acquisition strategy are:

Enter New Geographic Markets. The Company will pursue acquisitions that are located in new geographic markets, are financially stable and have the customer base necessary to integrate with or complement its existing business. The Company also expects that increasing its geographic diversity will allow it to better serve an increasingly nationwide base of customers and further reduce the impact on the Company of local and regional economic cycles, as well as weather-related or seasonal variations in business.

Expand Within Existing Markets. Once the Company has entered a market, it will seek to acquire other well-established electrical contracting and maintenance businesses operating within that region, including "tuck-in" acquisitions of smaller companies. The Company believes that tuck-in acquisitions afford the opportunity to improve its overall cost structure through the integration of such acquisitions into existing operations as well as to increase revenues through access to additional specialized markets, such as heavy industrial markets. Despite the integration opportunities afforded by such tuck-in acquisitions, the Company intends to maintain existing business names and identities to retain goodwill for marketing purposes.

THE OFFERINGS

Common Stock offered:	
U.S. Offering....................	5,600,000
International Offering...........	1,400,000
Total....................	7,000,000
Common Stock to be outstanding after the Offerings(1)...................	23,365,336 shares
Use of proceeds....................	To pay the cash portion of the Acquisitions Consideration, to repay certain historical indebtedness of the Founding Companies, to provide working capital and to use for general corporate purposes, which are expected to include acquisitions. See "Use of Proceeds."
NYSE trading symbol................	"IEE"

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(1) Includes (i) 12,313,025 shares to be issued to the owners of the Founding Companies, (ii) 7,000,000 shares to be sold in the Offerings, (iii) 1,396,602 shares issued to the management of IES and (iv) 2,655,709 shares of restricted voting common stock, par value $0.01("Restricted Common Stock"), issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children. Excludes options to purchase 300,000 shares which are currently outstanding and options to purchase 2,343,600 shares which are expected to be granted upon consummation of the Offerings. See "Management -- 1997 Stock Plan," "Management -- 1997 Directors Stock Plan," "Certain Transactions" and "Description of Capital Stock."

SUMMARY PRO FORMA COMBINED FINANCIAL DATA
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

IES will acquire the Founding Companies simultaneously with and as a condition to the consummation of the Offerings. For financial statement presentation purposes, Houston-Stafford has been identified as the "accounting acquirer." The following summary unaudited pro forma combined financial data present certain data for the Company, as adjusted for (i) the effects of the Acquisitions, (ii) the effects of certain other pro forma adjustments to the historical financial statements and (iii) the consummation of the Offerings and the application of the net proceeds therefrom. The unaudited pro forma combined income statement data assume that the Acquisitions, the Offerings and related transactions were closed on October 1, 1996 and are not necessarily indicative of the results that the Company would have obtained had these events actually occurred at that date or indicative of the Company's future results. During the periods presented below, the Founding Companies were not under common control or management and, therefore, the data presented may not be comparable to or indicative of post-combination results to be achieved by the Company. The unaudited pro forma combined income statement data are based on preliminary estimates, available information and certain assumptions that Company management deems appropriate. The unaudited pro forma combined financial data should be read in conjunction with the other financial information included elsewhere in this Prospectus. See "Selected Financial Data," the Unaudited Pro Forma Combined Financial Statements and notes thereto, and the historical financial statements for certain of the Founding Companies and the notes thereto, all included elsewhere in this Prospectus.

	PRO FORMA
	YEAR ENDED SEPTEMBER 30, 1997
INCOME STATEMENT DATA:	
Revenues	$ 312,747
Cost of services (including depreciation)	247,772
Gross profit	64,975
Selling, general and administrative expenses(a)	35,938
Goodwill amortization(b)	4,094
Income from operations	24,943
Interest and other income (expense), net(c)	249
Income before income taxes	25,192
Provision for income taxes	11,161
Net income(d)	$ 14,031
Net income per share	$ .64
Shares used in computing pro forma net income per share(e)	22,075,967

	PRO FORMA(F)(G)	
	AS OF SEPTEMBER 30, 1997	
	COMBINED	AS ADJUSTED(H)
BALANCE SHEET DATA:		
Working capital	$(35,884)(i)	$ 45,848
Total assets	252,599	270,770
Long-term debt, net of current maturities	18,541	13,983
Total stockholders' equity	120,881	207,171

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(a) The unaudited pro forma combined income statement data reflect an aggregate of approximately $6.1 million in pro forma reductions in salary, bonus and benefits of the owners of the Founding Companies to which they have agreed prospectively, and the effect of revisions of certain lease agreements between the Founding Companies and certain stockholders of the Founding Companies. Additionally, excludes the $13.6 million non-recurring, non-cash compensation charge recognized by IES related to the issuance of Common Stock to management. See "Certain Transactions."

(b) Reflects amortization of the goodwill to be recorded as a result of the Acquisitions over a 40-year period and computed on the basis described in the notes to the Unaudited Pro Forma Combined Financial Statements.

(c) Reflects the reduction for interest expense of $0.7 million attributable to $8.1 million of historical debt which will be repaid with proceeds from the Offerings or distributed prior to the Acquisitions, net of additional interest expense of $1.0 million related to the debt discussed in (g) below. Additionally, reflects a $316,000 reduction in minority interest expense.

(d) Assumes all pretax income before non-deductible goodwill and other permanent items is subject to a 38% overall tax rate.

(e) Includes (i) 12,313,025 shares to be issued to the owners of the Founding Companies, (ii) 1,396,602 shares issued to the management of IES, (iii) 2,655,709 shares of Restricted Common Stock issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children and (iv) 5,590,631 of the 7,000,000 shares to be sold in the Offerings necessary to pay the cash portion of the Acquisitions Consideration and the offering expenses. Also, includes 120,000 shares computed under the treasury stock method related to 300,000 options which are currently outstanding, but excludes any effects from options to purchase 2,343,600 shares which are expected to be granted at the initial public offering price upon consummation of the Offerings. See "Description of Capital Stock."

(f) Reflects the Acquisitions and related transactions as if they had occurred on September 30, 1997 as described in the notes to the Unaudited Pro Forma Combined Financial Statements. The unaudited pro forma combined balance sheet data are based upon preliminary estimates, available information and certain assumptions that management deems appropriate and should be read in conjunction with the other financial information and historical financial statements, and notes thereto, included elsewhere in this Prospectus.

(g) Reflects $30.6 million of previously undistributed earnings and nonoperating assets and liabilities that will be transferred in connection with the Acquisitions to the owners of the Founding Companies. This amount will be funded through the following (collectively, the "Owner Amounts"): (i) transfers of approximately $5.7 million of nonoperating assets, net of liabilities, (ii) transfers of approximately $11.6 million of cash (including $2.7 million of proceeds from the Offerings) and (iii) the issuance of approximately $13.3 million of notes payable to certain owners of the Founding Companies which will be retired with new borrowings under the proposed credit facility. See "Certain Transactions."

(h) Reflects the closing of the Offerings and the Company's application of the net proceeds therefrom to fund the cash portion of the Acquisitions Consideration and to repay certain indebtedness of the Founding Companies. See "Use of Proceeds" and "Certain Transactions."

(i) Includes the estimated $57.5 million of notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds from the Offerings. See "Pro Forma -- As Adjusted" amounts. The cash portion of the Acquisitions Consideration will be adjusted based on the initial public offering price of the Common Stock offered hereby.

SUMMARY INDIVIDUAL FOUNDING COMPANY HISTORICAL FINANCIAL DATA (IN THOUSANDS)

The following table presents certain summary historical income statement data of the Founding Companies for each of their three most recent fiscal years and the year ended September 30, 1997. The historical income statement data below have not been adjusted for the pro forma adjustments related to contractually agreed reductions in salaries and benefits, or any other pro forma adjustments, reflected in the Unaudited Pro Forma Combined Financial Statements, included elsewhere in this Prospectus. The income statement data presented below have been audited for certain of the Founding Companies and for the periods as reflected in the historical financial statements of such Founding Companies, included elsewhere in this Prospectus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	FISCAL YEARS(A)(B)			YEAR ENDED SEPTEMBER 30,
	1994	1995	1996	1997(C)
HOUSTON-STAFFORD:				
Revenues	$48,001	$54,082	$70,493	$81,575
Income from operations	519	1,343	5,021	5,270
MILLS:				
Revenues	$25,544	$35,250	$65,439	$74,399
Income from operations	1,216	3,137	7,261	5,049
BEXAR-CALHOUN:				
Revenues	$23,168	$27,730	$33,023	$32,165
Income from operations	2,110	3,129	4,320	3,423
POLLOCK:				
Revenues	$11,847	$13,002	$15,816	$20,291
Income/(Loss) from operations	455	251	(181)	726
MUTH:				
Revenues	$13,466	$16,012	$16,830	$18,779
Income from operations	983	900	1,039	1,194
DANIEL:				
Revenues	$12,198	$12,049	$12,585	$18,409
Income/(Loss) from operations	219	(1,178)	988	2,575
AMBER:				
Revenues	$ 8,735	$ 9,728	$13,878	$16,386
Income from operations	281	136	503	1,592
HAYMAKER:				
Revenues	$ 5,736	$ 7,571	$ 7,634	$11,772
Income from operations	220	376	542	712
SUMMIT:				
Revenues	$ 9,243	$ 9,233	$10,565	$10,995
Income from operations	166	159	68	78
THURMAN & O'CONNELL:				
Revenues	$ 3,658	$ 4,729	$ 4,551	$ 4,049
Income from operations	502	908	989	1,365
RODGERS:				
Revenues	$ 1,820	$ 1,582	$ 3,325	$ 3,325
Income from operations	154	43	466	466
ALL OTHER FOUNDING COMPANIES(B):				
Revenues	$17,759	$20,418	$19,914	$20,602
Income from operations	996	1,391	840	519

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(a) The fiscal years presented above are the years ended December 31, 1994, 1995 and 1996, except for Pollock for which the fiscal years presented are the years ended October 31, 1994, 1995 and 1996; Summit for which the fiscal years presented are the years ended March 31, 1995, 1996 and 1997; and Rodgers for which the fiscal years presented are the years ended September 30, 1995, 1996 and 1997.

(b) The other Founding Companies are Ace, Hatfield, Popp and Reynolds, and the fiscal years presented for such other Founding Companies are for December 31, 1994, 1995 and 1996, in the case of Ace, Reynolds and Popp; and October 31, 1994, 1995 and 1996, in the case of Hatfield.

(c) Represents the year ended September 30, 1997 for all Founding Companies, except that the amounts included for Ace, Hatfield, Popp and Reynolds are

for the year ended June 30, 1997.

RISK FACTORS

Prospective investors should carefully consider the following factors as well as the other information contained in this Prospectus. This Prospectus contains forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including the risk factors set forth below and elsewhere in this Prospectus.

ABSENCE OF COMBINED OPERATING HISTORY

IES was founded in June 1997 but has conducted no operations and generated no revenue to date. IES has entered into agreements to acquire the Founding Companies simultaneously with the closing of the Offerings. The Founding Companies have been operating and will continue to operate as separate independent entities, and there can be no assurance that the Company will be able to integrate these businesses on an economic basis. In addition, there can be no assurance that the recently assembled management group will be able to oversee the combined entity and effectively implement the Company's operating or growth strategies. The pro forma combined financial results of the Founding Companies cover periods during which the Founding Companies and IES were not under common control or management and, therefore, may not be indicative of the Company's future financial or operating results. The success of the Company will depend on management's ability to integrate the Founding Companies and other future acquisitions into one organization in a profitable manner. The inability of the Company to successfully integrate the Founding Companies and to coordinate and integrate certain administrative, banking, insurance and accounting functions and computer systems would have a material adverse effect on the Company's financial condition and results of operations and would make it unlikely that the Company's acquisition program will be successful.

EXPOSURE TO DOWNTURNS IN COMMERCIAL CONSTRUCTION OR HOUSING STARTS

A substantial portion of the Company's business involves installation of electrical systems in newly constructed and renovated commercial buildings, plants and residences. The extent to which the Company is able to maintain or increase revenues from new installation services will depend on the levels of new construction starts from time to time in the geographic markets in which it operates and likely will reflect the cyclical nature of the construction industry. The level of new commercial installation services is affected by fluctuations in the level of new construction of commercial buildings in the markets in which the Company operates, due to local economic conditions, changes in interest rates and other related factors. The housing industry is similarly affected by changes in general and local economic conditions, such as employment and income levels, the availability and cost of financing for home buyers (including the continued deductibility of mortgage-linked interest expenses in determining federal income tax), consumer confidence and housing demand. Downturns in levels of commercial construction or housing starts would have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality and Quarterly Fluctuations."

RELIANCE ON ACQUISITIONS

One of the Company's principal growth strategies is to increase its revenues, geographic diversity and the scope of services offered and to diversify its business mix through the acquisition of electrical contracting companies. There can be no assurance that the Company will be able to acquire additional businesses or to integrate and manage such additional businesses successfully. Acquisitions may involve a number of risks, including: adverse short-term effects on the Company's reported operating results; diversion of management's attention; dependence on retention, hiring and training of key personnel; risks associated with unanticipated problems or legal liabilities and amortization of acquired intangible assets. Some or all of these risks could have a material adverse effect on the Company's financial condition or results of operations. In addition, to the extent that consolidation becomes more prevalent in the industry, the prices for attractive acquisition candidates may increase and the number of attractive acquisition candidates may decrease. The Company believes that the electrical contracting industry may experience consolidation on both a national and a regional level by other companies that have acquisition objectives similar to the Company's objectives. Other consolidators may have greater financial resources than the Company to finance acquisition and internal growth opportunities and might be willing to pay higher prices than the Company for the same acquisition opportunities. If such acquisitions can be made, there can be no assurance that the businesses acquired will achieve sales and profitability that justify the investment therein. See "Business -- Strategy."

MANAGEMENT OF GROWTH

The Company expects to grow internally and through acquisitions. Management expects to expend significant time and effort in evaluating, completing and integrating acquisitions and opening new facilities. There can be no assurance that the Company's systems, procedures and controls will be adequate to support the Company's operations as they expand. Any future growth also will impose significant added responsibilities on members of senior management, including the need to identify, recruit and integrate new senior level managers and executives. There can be no assurance that such additional management will be identified and retained by the Company. If the Company is unable to manage its growth efficiently and effectively, or is unable to attract and retain additional qualified management, there could be a material adverse effect on the Company's financial condition and results of operations. See "Business -- Strategy."

AVAILABILITY OF ELECTRICIANS

The Company's ability to provide high-quality electrical services on a timely basis is dependent upon an adequate supply of skilled electricians. Accordingly, the Company's ability to increase its productivity and profitability will be limited by its ability to employ, train and retain skilled electricians necessary to meet the Company's requirements. Many companies in the electrical contracting and maintenance service industry are currently experiencing shortages of qualified electricians, and there can be no assurance that the Company will be able to maintain an adequate skilled labor force necessary to operate efficiently, that the Company's labor expenses will not increase as a result of a shortage in the supply of skilled technicians or that the Company will not have to curtail its planned internal growth as a result of labor shortages. See "Business -- Company Operations -- Employee Screening, Training and Development."

COMPETITION

The electrical contracting industry is highly competitive and is served by small, owner-operated private companies, public companies and several large regional companies. Additionally, the Company could face competition in the future from other competitors entering the market, including public utilities. Certain of the Company's larger competitors offer a greater range of services, such as mechanical construction, plumbing and heating, ventilation and air conditioning services. In certain geographic regions, the Company may not be eligible to compete for certain contracts because its employees are not subject to collective bargaining arrangements. See "Business -- Industry Overview." Competition in the electrical contracting industry depends on a number of factors, including price. Certain of the Company's competitors may have lower overhead cost structures and may, therefore, be able to provide their services at lower rates than the Company. See "Business -- Competition."

ACQUISITION FINANCING

The Company intends to use its Common Stock for a portion of the consideration for future acquisitions. If the Common Stock does not maintain a sufficient valuation or potential acquisition candidates are unwilling to accept Common Stock as part of the consideration for the sale of their businesses, the Company may be required to utilize more of its cash resources, if available, in order to pursue its acquisition program. If the Company does not have sufficient cash resources, its growth could be limited unless it is able to obtain additional capital through future debt or equity financings.

The Company has reached an agreement to obtain a bank line of credit for $65 million for working capital, capital expenditures, other corporate purposes and acquisitions. The line of credit will be subject to customary drawing conditions and the execution of certain loan documentation. See "Management's

Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

SEASONALITY; FLUCTUATION OF QUARTERLY OPERATING RESULTS

The electrical contracting service business can be subject to seasonal variations in operations and demand that affect the construction business, particularly in residential construction, which is affected by weather conditions. Quarterly results may also be materially affected by the timing of acquisitions, the timing and magnitude of acquisition assimilation costs and regional economic conditions. Accordingly, the Company's performance in any particular quarter may not be indicative of the results which can be expected for any other quarter or for the entire year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality and Quarterly Fluctuations."

CONTROL BY EXISTING MANAGEMENT AND STOCKHOLDERS

Following the completion of the Acquisitions and the Offerings, the Company's executive officers, directors and affiliates will beneficially own approximately 41% of the total outstanding shares of Common Stock and Restricted Common Stock. These persons, if acting in concert, will be able to continue to exercise control over the Company's affairs, to elect the entire Board of Directors and to control the disposition of any matter submitted to a vote of stockholders. See "Principal Stockholders."

PROCEEDS OF OFFERINGS AND BENEFITS TO AFFILIATES

Approximately $57.5 million, or approximately 67%, of the net proceeds of the Offerings (net of estimated offering costs, including underwriting discounts and commissions and costs to be incurred by the Company which have been or will be funded by advances from Mr. Snyder), will be paid in cash to the owners of the Founding Companies (who will generally become officers, directors or employees of the Company). Approximately $2.7 million, or 3% of the net proceeds of the Offerings, will be used to pay a portion of the cash transfers related to the Owner Amounts of certain Founding Companies. In addition, approximately $6.4 million, or approximately 7% of the net proceeds of the Offerings, will be used to repay the estimated outstanding indebtedness of the Founding Companies at the closing of the Offerings. Net proceeds available for acquisitions, working capital and general corporate purposes will be approximately $19.7 million, or 23% of the net proceeds of the Offerings. In connection with the Acquisitions, the Company expects to incur approximately $13.3 million in indebtedness to fund a portion of the Owner Amounts which will be retired with new borrowings under the proposed credit facility. See "Use of Proceeds" and "Certain Transactions."

BENEFITS TO FOUNDER AND MANAGEMENT

In connection with services rendered, C. Byron Snyder, the founder of IES, and management received in the aggregate 4,052,311 shares of Common Stock for nominal consideration. These shares will represent, in the aggregate, approximately 17.3% of the total outstanding Common Stock following the consummation of the Offerings. Of these shares of Common Stock, the 2,655,709 shares held by Mr. Snyder and trusts for the benefit of his children were exchanged for Restricted Common Stock, holders of which are entitled to elect one member of the Company's Board of Directors and to one-half of one vote for each share held on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors and will control in the aggregate 5.7% of the votes of all shares of capital stock. See "Principal Stockholders." Mr. Snyder will also be reimbursed for advances made to the Company to fund expenses of the Offerings estimated to total approximately $4.8 million. Advances to the Company from Mr. Snyder amounted to approximately $1.6 million as of September 30, 1997. The initial $1 million of such advances bears interest at a stated rate (8.5% as of the date of this Prospectus), and additional advances bear interest at LIBOR plus 1.5%. See "Use of Proceeds."

NO PRIOR MARKET, POSSIBLE VOLATILITY OF STOCK

Prior to the Offerings, no public market for the Common Stock has existed, and the initial public offering price, which will be determined by negotiations between the Company and representatives of the Underwriters, may not be indicative of the price at which the Common Stock will trade after the Offerings. See "Underwriting" for the factors to be considered in determining the initial public offering price. The Common Stock has been approved for listing upon notice of issuance on the NYSE, but no assurance can be given that an active trading market for the Common Stock will develop or, if developed, continue after the Offerings. The market price of the Common Stock after the Offerings may be subject to significant fluctuations from time to time in response to numerous factors, including variations in the reported financial results of the Company and changing conditions in the economy in general or in the electrical contracting and maintenance service industry in particular. In addition, the stock markets experience significant price and volume volatility from time to time which may affect the market price of the Common Stock for reasons unrelated to the Company's performance.

DEPENDENCE ON KEY PERSONNEL

The Company's operations are dependent on the continued efforts of its executive officers and senior management of the Founding Companies. Furthermore, the Company will be dependent on the senior management of companies that may be acquired in the future. Although the Company will enter into an employment agreement with each of the Company's executive officers, there can be no assurance that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees could have an adverse effect on the Company's business, financial condition and results of operations. The Company does not maintain key man life insurance. See "Management."

SHARES ELIGIBLE FOR FUTURE SALE

As of the date of this Prospectus, 1,396,602 shares of Common Stock and 2,655,709 shares of Restricted Common Stock were issued and outstanding. Simultaneously with the closing of the Offerings, the owners of the Founding Companies will receive, in the aggregate, 12,313,025 shares of Common Stock as a portion of the Acquisitions Consideration. None of these 16,365,336 shares was or will be issued in a transaction registered under the Securities Act, and, accordingly, such shares may not be sold except in transactions registered under the Securities Act or pursuant to an exemption from registration, including the exemptions contained in Rules 144 and 701 under the Securities Act. In addition, the current stockholders of the Company and the owners of the Founding Companies have agreed with the Company not to sell, contract to sell or otherwise dispose of any shares of Common Stock owned as of the consummation of the Acquisitions, including shares received as consideration in the Acquisitions, for a period of two years following receipt thereof without the Company's consent. When these shares become saleable, the market price of the Common Stock could be adversely affected by the sale of substantial amounts of the shares in the public market. The current stockholders of the Company and the stockholders of the Founding Companies have certain piggy-back registration rights with respect to their shares of Common Stock, which may be exercised during the two-year period referred to above.

As of the closing of the Offerings, the Company also will have outstanding options to purchase up to a total of (i) approximately 2,628,600 shares of Common Stock issued pursuant to the Company's 1997 Stock Plan, and (ii) 15,000 shares of Common Stock issued pursuant to the Company's 1997 Directors Stock Plan. A total of 3,500,000 shares will be issuable pursuant to the 1997 Stock Plan, and a total of 250,000 shares will be issuable pursuant to the 1997 Directors Stock Plan. The Company intends to file a registration statement covering all such shares under the Securities Act. See "Management -- 1997 Stock Plan."

The Company currently intends to file a registration statement covering up to an additional 6,000,000 shares of Common Stock under the Securities Act for its use in connection with future acquisitions. These shares generally will be freely tradeable after their issuance by persons not affiliated with the Company unless the Company contractually restricts their resale.

There can be no assurance that the resale or the availability for sale of the shares of Common Stock eligible for future sale will not have an adverse effect on the prevailing market price of the Common Stock.

CERTAIN ANTI-TAKEOVER PROVISIONS

The Company's Amended and Restated Certificate of Incorporation, Bylaws, employment agreements and employee benefit plans contain provisions which may have the effect of delaying, deferring or preventing a change in control of the Company. For example, the Company's Amended and Restated Certificate of Incorporation and Bylaws provide for, among other things, a classified Board of Directors, the prohibition of stockholder action by written consent and the affirmative vote of at least 66 2/3% of all outstanding shares of Common Stock to approve the removal of directors from office. The Company's Board of Directors has the authority to issue shares of preferred stock in one or more series and to fix the rights and preferences of the shares of any such series without stockholder approval. Any series of preferred stock is likely to be senior to the Common Stock with respect to dividends, liquidation rights and, possibly, voting. In addition, the Board of Directors may issue certain rights pursuant to the rights plan authorized by the Amended and Restated Certificate of Incorporation. The ability to issue preferred stock or rights could have the effect of discouraging unsolicited acquisition proposals. The Company's 1997 Stock Plan contains provisions that allow for, among other things, the acceleration of vesting or payment of awards granted under such plan in the event of a "change of control," as defined in such plan. In addition, the Company has entered into employment agreements with certain executive officers and key employees allowing for cash payments under certain circumstances following a change in control, which is generally defined to occur upon (i) the acquisition by any person of 20% or more of the total voting power of the outstanding securities of the Company, (ii) the first purchase pursuant to a tender or exchange offer for Common Stock, (iii) the approval of certain mergers, sale of substantially all the assets, or dissolution of the Company or (iv) a change in a majority of the members of the Company's Board of Directors.

IMMEDIATE AND SUBSTANTIAL DILUTION

The purchasers of the shares of Common Stock offered hereby will experience immediate dilution in the net tangible book value of their shares of $12.18 per share (assuming an initial public offering price of $14.00 per share). See "Dilution." In the event the Company issues additional shares of Common Stock in the future, including shares which may be issued in connection with acquisitions or other public or private financings, purchasers of Common Stock in the Offerings may experience further dilution in the net tangible book value per share of the Common Stock. See "Dilution."

THE COMPANY

IES was founded in June 1997 to create a leading national provider of electrical contracting and maintenance services. Concurrently with and as a condition to the closing of the Offerings, IES will acquire the 16 Founding Companies. The Founding Companies, which have been in business for an average of 18 years, had pro forma combined year ended September 30, 1997 revenues of approximately $312.7 million. The Acquisitions Consideration to be paid by the Company consists of approximately $57.5 million in cash (subject to adjustment based on the initial public offering price of the Common Stock offered hereby) and 12,313,025 shares of Common Stock. The Acquisitions Consideration was determined by negotiations among the Company and representatives of the Founding Companies. See "Certain Transactions." A brief description of each of the Founding Companies is set forth below.

HOUSTON-STAFFORD. Houston-Stafford was founded in 1973 and is headquartered in Stafford, Texas, near Houston. Houston-Stafford operates primarily in Texas, with other significant operations in Georgia, Virginia, Tennessee and Maryland. Houston-Stafford had revenues of approximately $81.6 million for the year ended September 30, 1997, primarily from residential contracting and, to a lesser extent, from commercial and industrial contracting. Because Houston-Stafford has developed ongoing relationships with developers and homebuilders that have regional and national operations, Houston-Stafford has experience in establishing business operations in different locations to meet the demands of its national clientele for electrical contracting in various regions. Houston-Stafford has approximately 1,000 employees. In April 1997, Houston-Stafford financed the acquisition of an electrical supply company located in Houston. Ben Mueller, executive vice president of Houston-Stafford, will become Senior Vice President and Chief Operating Officer -- Residential and a director of the Company following consummation of the Offerings. Roy D. Brown, president of Houston-Stafford, will sign a five-year employment agreement with IES to continue in his position as president of Houston-Stafford following consummation of the Offerings. John Wagner, who is vice president of Houston-Stafford and president of the electrical supply company, will sign a five-year employment agreement with IES to continue in his position as president of the electrical supply company following consummation of the Offerings.

MILLS. Mills was founded in 1972 and conducts most of its business in the greater Dallas-Fort Worth, Texas area. Mills had revenues of approximately $74.4 million for the year ended September 30, 1997, primarily from commercial and industrial contracting and, to a lesser extent, from maintenance services. Mills has specialized expertise in data cabling, fire alarm systems and computer-aided-design for electrical contracting; and a significant portion of its revenues for the year ended September 30, 1997 was attributable to design-and-build projects. Mills has approximately 570 employees. Jerry Mills, president and founder of Mills, will become Senior Vice President and Chief Operating Officer -- Commercial and Industrial and a director of the Company following consummation of the Offerings.

BEXAR-CALHOUN. The predecessor entity of Bexar was founded in 1962 and operates primarily in the areas around the cities of San Antonio, New Braunfels and Laredo, Texas. The predecessor entity of Calhoun was founded in 1958 and operates in the counties around San Antonio. On a consolidated basis, Bexar-Calhoun had revenues of approximately $32.2 million for the year ended September 30, 1997, relatively balanced between commercial and industrial contracting, residential contracting and maintenance services. Bexar-Calhoun has approximately 450 employees. Bob Weik, president of BW Consolidated, Inc., will sign a five-year employment agreement with IES to continue in his present position with Bexar-Calhoun and will become a director of the Company following consummation of the Offerings.

POLLOCK. Pollock was founded in 1983 and is headquartered in Houston, Texas. Pollock had revenues of approximately $20.3 million for the year ended September 30, 1997, primarily from commercial and industrial contracting. For projects located outside of Houston, Pollock generally works with another electrical service contractor based near the project. Pollock has specialized design-and-build and computer-aided-design expertise, and, on certain projects, Pollock prefabricates materials to reduce costs and time required at the work site. Pollock has approximately 230 employees. Jon Pollock, founder and president of Pollock and a former president of the IEC, will become President and Chief Executive Officer and a director of the Company following consummation of the Offerings.

MUTH. The predecessor entity of Muth was founded in 1970 and has seven offices located in South Dakota, including its headquarters in Mitchell. Muth also operates from time to time in Wyoming, Montana, Nebraska and Minnesota. Muth had revenues of approximately $18.8 million for the year ended September 30, 1997, primarily from commercial and industrial contracting and, to a lesser extent, from residential contracting and maintenance services. Muth has expertise in design-and-build projects, computer-aided-design technology and prefabrication of electrical components. Muth has approximately 180 employees. Richard Muth, founder and president of Muth, will sign a five-year employment agreement with IES to continue in his present position with Muth and will become a director of the Company following consummation of the Offerings.

DANIEL. Daniel Electrical Contractors, Inc. was founded in 1986, is headquartered in Miami, Florida and operates primarily in South Florida. Daniel Electrical of Treasure Coast Inc. was founded in 1995 and is headquartered in Vero Beach, Florida. Daniel had combined revenues of approximately $18.4 million for the year ended September 30, 1997, primarily from commercial and industrial contracting (including high-rise condominiums). Because developers generally presell a certain percentage of condominiums prior to commencing construction, Daniel has experience in meeting the accelerated contracting schedules that are often required to meet mandated closing periods for condominium sales. Daniel has approximately 240 employees. Thomas Daniel, founder and president of Daniel, will sign a five-year employment agreement with IES to continue in his present position with Daniel following consummation of the Offerings.

AMBER. Amber was founded in 1979 and operates from its base near Orlando, Florida. Amber had revenues of approximately $16.4 million for the year ended September 30, 1997, primarily from commercial and industrial contracting. Amber has approximately 230 employees. Danniel J. Petro, founder and president of Amber, will sign a five-year employment agreement with IES to continue in his present position with Amber following consummation of the Offerings.

HAYMAKER. The predecessor entity of Haymaker was founded in 1978. Haymaker is headquartered in Birmingham, Alabama, and operates in Alabama, northwest Florida and North Carolina. Haymaker had revenues of approximately $11.8 million for the year ended September 30, 1997, primarily from commercial and industrial contracting. Haymaker has expertise in design-and-build projects, lightning protection and fire alarms, and its largest existing contracts involve new construction of high-rise office buildings. Haymaker has approximately 110 employees. Charles P. Bagby, founder and president of Charles P. Bagby, Co., Inc., will sign a five-year employment agreement with IES to continue in his present position with Charles P. Bagby, Co., Inc. following consummation of the Offerings.

SUMMIT. Summit was founded in 1987 and is located in Houston, Texas. Summit had revenues of approximately $11.0 million for the year ended September 30, 1997, primarily from commercial and industrial contracting and, to a lesser extent, from maintenance services. Summit has specialized expertise in data cable design and installation and lighting design. Summit has approximately 150 employees. Steve Jackson, president of Summit, will sign a five-year employment agreement with IES to continue his present position following consummation of the Offerings.

THURMAN & O'CONNELL. Thurman & O'Connell was founded in 1988. It is headquartered in Louisville, Kentucky, and operates primarily in Louisville and the surrounding areas. Thurman & O'Connell had revenues of approximately $4.0 million for the year ended September 30, 1997, primarily from commercial and industrial contracting. Thurman & O'Connell bids primarily on larger projects and out-of-budget projects to which it can apply in-house value engineering, lowering costs to its customers and typically increasing its margins. Thurman & O'Connell has approximately 70 employees. James Thurman, president of Thurman & O'Connell and a member of the executive committee of the IEC, will sign a five-year employment agreement with IES to continue in his present position with Thurman & O'Connell following consummation of the Offerings.

RODGERS. Rodgers was founded in 1977, is headquartered in Everett, Washington and operates in Everett and the north Puget Sound area. Rodgers had revenues of approximately $3.3 million for the year ended September 30, 1997, primarily from electrical maintenance and service work and commercial and industrial contracting. Rodgers has specialized expertise in computer-aided-design technology and focuses on design-and-build projects undertaken on negotiated rather than bid terms. Rodgers has approximately 32 employees. Terry Earnheart, president of Rodgers, will sign a five-year employment agreement with IES to continue in his present position with Rodgers following consummation of the Offerings.

HATFIELD. The predecessor entity of Hatfield was founded in 1984 and operates in the greater Phoenix, Arizona area from its offices in Scottsdale, Arizona. Hatfield had revenues of approximately $6.0 million for the year ended September 30, 1997, primarily from commercial and industrial contracting and, to a lesser extent, from commercial and industrial maintenance services. Hatfield has specialized expertise in electrical contracting for cellular telephone sites and maintains the necessary state licenses to perform such services in Arizona and four adjacent states. Hatfield has approximately 80 employees. Harvey Friedman, founder and president of Hatfield and a member of the executive committee of the IEC, will sign a five-year employment agreement with IES to continue in his present position with Hatfield following consummation of the Offerings.

ACE. Ace was founded in 1975 in Valdosta, Georgia. Ace had revenues of approximately $6.3 million for the year ended September 30, 1997, primarily from commercial and industrial contracting and, to a lesser extent, from commercial and industrial maintenance services. Ace has specialized expertise in prefabrication of electrical components, which it uses to accelerate the completion time for its construction projects. Ace has approximately 70 employees. Thomas Stalvey, founder and president of Ace, and Robert Stalvey, vice president of Ace, will sign five-year employment agreements with IES to continue in their present positions with Ace following consummation of the Offerings. Robert Stalvey will also become a director of the Company following consummation of the Offerings.

REYNOLDS. The predecessor entity of Reynolds was founded in 1973 in Phoenix, Arizona. Reynolds had revenues of approximately $6.4 million for the year ended September 30, 1997, primarily from commercial and industrial contracting. Reynolds has specialized expertise in value engineering for design-and-build projects. Reynolds has approximately 90 employees. Ernie Reynolds, president of Reynolds, will sign a five-year employment agreement with IES to continue in his present position with Reynolds following consummation of the Offerings.

POPP. Popp was founded in 1984 in Cincinnati, Ohio, and operates in Ohio and northern Kentucky. Popp had revenues of approximately $3.5 million for the year ended September 30, 1997, primarily from commercial and industrial contracting. Design-and-build projects accounted for a significant portion of revenues for the year ended September 30, 1997. Popp uses computer-aided-design technology and has also developed software enhancements for its design-and-build projects. Popp has approximately 50 employees. Thomas Popp, co-founder and president of Popp, and William Beischel, co-founder and vice president of Popp, will sign five-year employment agreements with IES to continue in their present positions with Popp following consummation of the Offerings.

Integrated Electrical Services, Inc. was incorporated in Delaware in June 1997. Its executive offices are located at 2301 Preston, Houston, Texas 77003, and its telephone number is (713) 222-1875.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby (assuming an initial public offering price of $14.00 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company which have been or will be funded by advances from Mr. Snyder) are estimated to be approximately $86.3 million (approximately $100.0 million if the Underwriters' over-allotment options are exercised in full).

Of the $86.3 million net proceeds, the Company estimates that approximately $57.5 million (subject to adjustment based on the initial public offering price of the Common Stock) will be used to pay the cash portion of the Acquisitions Consideration, all of which will be paid to former stockholders and other equity owners of the Founding Companies. Approximately $2.7 million of the net proceeds will be used to pay a portion of the cash transfers related to the Owner Amounts of certain Founding Companies. In addition, approximately $6.4 million of the net proceeds will be used to repay the estimated outstanding indebtedness of the Founding Companies at the closing of the Offerings. The estimated outstanding indebtedness to be repaid from the proceeds of the Offerings bears interest at a weighted average interest rate of approximately 8.9% and matures at various dates from December 1997 through October 2012. In connection with the Acquisitions, the Company expects to issue approximately $13.3 million of notes payable to fund a portion of the Owner Amounts. Following the consummation of the Offerings, such notes payable to owners of the Founding Companies will be repaid with borrowings under the proposed credit facility. The Company will use a portion of the proceeds received from the Offerings to repay Mr. Snyder for the $4.8 million estimated offering costs expected to be advanced by him to the Company. Such advances amounted to approximately $1.6 million as of September 30, 1997. The initial $1 million of such advances bears interest at a stated rate (8.5% as of the date of this Prospectus), and additional advances bear interest at LIBOR plus 1.5%. See "Certain Transactions."

The approximately $19.7 million of remaining net proceeds ($33.4 million if the Underwriters' over-allotment options are exercised in full) will be used for working capital and for general corporate purposes, which are expected to include future acquisitions. Pending such uses, the Company intends to invest the net proceeds of the Offerings in short-term, investment-grade, interest-bearing securities. While the Company is continuously considering possible acquisition prospects as part of its growth strategy, the Company is not presently engaged in active negotiations with respect to any particular acquisition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

The Company has reached an agreement to obtain a bank line of credit for $65 million for working capital and acquisitions. The line of credit will be subject to customary drawing conditions and the execution of certain loan documentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

DIVIDEND POLICY

The Company currently intends to retain its future earnings, if any, to finance the growth, development and expansion of its business and, accordingly, does not currently intend to declare or pay any dividends on the Common Stock for the foreseeable future. The declaration, payment and amount of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including, among others, the Company's financial condition, results of operations, cash flows from operations, current and anticipated capital requirements and expansion plans, the income tax laws then in effect and the requirements of Delaware law. In addition, the terms of the Company's proposed credit facility will prohibit the payment of dividends by the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

CAPITALIZATION

The following table sets forth the current maturities of long-term debt and the capitalization as of September 30, 1997 of (i) the Company on a pro forma combined basis after giving effect to the Acquisitions and related transactions, and (ii) the Company on a pro forma basis, as adjusted to give effect to the Offerings and the application of the estimated net proceeds therefrom. See "Use of Proceeds." This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources" and the Unaudited Pro Forma Financial Statements of the Company and the notes thereto, included elsewhere in this Prospectus.

	PRO FORMA AS OF SEPTEMBER 30, 1997	
	COMBINED(A)	AS ADJUSTED(B)
	(IN THOUSANDS)	
Current maturities of long-term debt	$ 62,366(c)	$ 365
Long-term debt, net of current maturities(d)	$ 18,541	$ 13,983
Stockholders' equity:		
Preferred Stock: $0.01 par value, 10,000,000 shares authorized; no shares issued and outstanding	--	--
Common Stock: $0.01 par value, 100,000,000 shares authorized; 13,709,627 issued and outstanding, pro forma combined; and 20,709,627 shares issued and outstanding, as adjusted(e)	137	207
Restricted Common Stock: $0.01 par value, 2,655,709 shares authorized, issued and outstanding(f)	26	26
Additional paid-in capital	137,064	223,284
Retained deficit	(16,346)	(16,346)
Total stockholders' equity	120,881	207,171
Total capitalization	$139,422	$221,154

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(a) Combines the respective accounts of IES and the Founding Companies as reflected in the Unaudited Pro Forma Combined Balance Sheet as of September 30, 1997 prior to the Offerings.

(b) Adjusted to reflect the sale of 7,000,000 shares of Common Stock offered hereby and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

(c) Includes $57.5 million of notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds of the Offerings. The cash portion of the Acquisitions Consideration will be adjusted based on the initial public offering price of the Common Stock offered hereby.

(d) Includes $13.3 million in notes payable incurred to fund a portion of the Owner Amounts to certain owners of the Founding Companies. Following the consummation of the Offerings, such notes payable to owners of the Founding Companies will be repaid with borrowings under the proposed credit facility. See "Certain Transactions."

(e) Excludes 300,000 shares related to stock options which are currently outstanding and shares related to approximately 2,343,600 stock options which are expected to be granted upon consummation of the Offerings.

(f) All of such shares of Restricted Common Stock have been issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children. See "Description of Common Stock."

DILUTION

At September 30, 1997, after giving effect to the Acquisitions as if they had occurred at such date, the deficit in pro forma combined net tangible book value of the Company would have been $43.8 million, or approximately $2.68 per share. The deficit in pro forma combined net tangible book value is equal to the aggregate net tangible book value (tangible assets less total liabilities) of the Company after giving effect to the Acquisitions. The number of shares used for the per share calculation includes the 16,365,336 shares outstanding after the Acquisitions but prior to the Offerings. After giving effect to the Acquisitions and the sale by the Company of the 7,000,000 shares of Common Stock offered hereby (assuming an initial public offering price of $14.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company which have been or will be funded by advances from Mr. Snyder), the pro forma combined net tangible book value of the Company would have been $42.4 million, or $1.82 per share. This represents an immediate increase in pro forma net tangible book value of $4.50 per share to existing stockholders and an immediate dilution in net tangible book value of $12.18 per share to new investors purchasing the shares of Common Stock in the Offerings. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$14.00
Pro forma combined net tangible book value per share prior to the Offerings	$(2.68)	
Increase in pro forma net tangible book value per share attributable to new investors	4.50	
Pro forma combined net tangible book value per share after the Offerings		1.82
Dilution in net tangible book value per share to new investors		$12.18

The following table sets forth on a pro forma basis, after giving effect to the Acquisitions as of September 30, 1997, the number of shares of Common Stock purchased from the Company, the total consideration to the Company and the average price per share paid to the Company by (i) existing stockholders and owners of the Founding Companies and (ii) the new investors purchasing Common Stock from the Company in the Offerings at the assumed initial offering price of $14.00 per share (before deducting underwriting discounts and commissions and estimated offering expenses):

	SHARES PURCHASED		TOTAL	AVERAGE PRICE
	NUMBER	PERCENT	CONSIDERATION	PER SHARE
Existing stockholders and owners of Founding Companies(a)(b)	16,365,336	70.0%	$(43,802,754)	$(2.68)
New investors	7,000,000	30.0	98,000,000	14.00
Total	23,365,336	100.0%	$ 54,197,246	

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(a) See "Certain Transactions" for a discussion of the issuance of Restricted Common Stock and Common Stock to the founder and Chairman of the Board of IES and trusts for the benefit of his children, and the owners of Founding Companies and certain management of IES, respectively.

(b) Total consideration paid by Founding Company owners represents the combined owners' equity of the Founding Companies before the Offerings, and has been adjusted to reflect: (i) the payment of the estimated $57.5 million in cash to the owners of the Founding Companies as part of the Acquisitions Consideration and (ii) the transfer of the Owner Amounts. See "Certain Transactions."

SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

IES will acquire the Founding Companies simultaneously with and as a condition to the consummation of the Offerings. For financial statement presentation purposes, however, Houston-Stafford has been designated as the "accounting acquirer." The following selected historical financial data for Houston-Stafford as of December 31, 1995 and 1996, and September 30, 1997, and for the years ended December 31, 1994, 1995 and 1996, and the year ended September 30, 1997, have been derived from audited financial statements of Houston-Stafford included elsewhere in this Prospectus and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such data. The selected historical financial data for the nine months ended September 30, 1996 and 1997, and as of December 31, 1992, 1993 and 1994, and for the years ended December 31, 1992 and 1993, have been derived from the unaudited financial statements of Houston-Stafford, which have been prepared on the same basis as the audited financial statements and, in the opinion of Company management, reflect all adjustments consisting of normal recurring adjustments, necessary for a fair presentation of such data. The results of operations for the nine months ended September 30, 1997 should not be regarded as indicative of the results that may be expected for the full year.

The summary unaudited pro forma combined financial data below present certain data for the Company, as adjusted for (i) the effects of the Acquisitions, (ii) the effects of certain other pro forma adjustments to the historical financial statements and (iii) the consummation of the Offerings and the application of the net proceeds therefrom. The unaudited pro forma combined income statement data assume that the Acquisitions, the Offerings and related transactions were closed on October 1, 1996, and are not necessarily indicative of the results that the Company would have obtained had these events actually occurred at that date or indicative of the Company's future results. During the periods presented below, the Founding Companies were not under common control or management and, therefore, the data presented may not be comparable to or indicative of post-combination results to be achieved by the Company. The unaudited pro forma combined income statement data are based on preliminary estimates, available information and certain assumptions that Company management deems appropriate. The unaudited pro forma combined financial data should be read in conjunction with the other financial information included elsewhere in this Prospectus. See the Unaudited Pro Forma Combined Financial Statements and the notes thereto, included elsewhere in this Prospectus.

	YEAR ENDED DECEMBER 31,					YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1995	1996	1997	1996	1997
HISTORICAL INCOME STATEMENT DATA (HOUSTON-STAFFORD):								
Revenues	$28,939	$32,363	$48,001	$54,082	$70,493	$81,575	$53,062	$64,144
Cost of services (including depreciation)	25,781	29,307	42,163	46,712	57,662	64,831	44,485	51,654
Gross profit	3,158	3,056	5,838	7,370	12,831	16,744	8,577	12,490
Selling, general and administrative expenses	2,892	2,720	5,319	6,027	7,810	11,474	4,404	8,068
Income from operations	266	336	519	1,343	5,021	5,270	4,173	4,422
Interest and other income (expense), net	(66)	(83)	(71)	(196)	(40)	238	(41)	237
Income before income taxes	200	253	448	1,147	4,981	5,508	4,132	4,659
Provision for income taxes	14	56	186	416	1,934	2,192	1,544	1,802
Net income	$ 186	$ 197	$ 262	$ 731	$ 3,047	$ 3,316	$ 2,588	$ 2,857

	YEAR ENDED SEPTEMBER 30, 1997
PRO FORMA COMBINED:	
Revenues	$ 312,747
Cost of services (including depreciation)	247,772
Gross profit	64,975
Selling, general and administrative expenses(a)	35,938
Goodwill amortization(b)	4,094
Income from operations	24,943
Interest and other income (expense), net(c)	249
Income before income taxes	25,192
Provision for income taxes	11,161
Net income(d)	$ 14,031
Net income per share	$ .64
Shares used in computing pro forma net income per share(e)	22,075,967

	HISTORICAL(F)						PRO FORMA	
	AS OF DECEMBER 31,					AS OF SEPTEMBER 30,	AS OF SEPTEMBER 30, 1997(G)(H)	
	1992	1993	1994	1995	1996	1997	COMBINED	AS ADJUSTED(I)
BALANCE SHEET DATA:								
Working capital	$1,845	$2,001	$2,134	$2,675	$ 4,671	$ 5,414	$(35,884)(j)	$ 45,848
Total assets	5,570	6,582	8,809	9,357	13,226	24,470	252,599	270,770
Long-term debt, net of current maturities	719	505	927	634	1,295	968	18,541	13,983
Total stockholders' equity	2,224	2,325	1,952	3,104	5,351	8,208	120,881	207,171

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(a) The unaudited pro forma combined income statement data reflect an aggregate of approximately $6.1 million in pro forma reductions in salary, bonus and benefits of the owners of the Founding Companies to which they have agreed prospectively, and the effect of revisions of certain lease agreements between the Founding Companies and certain stockholders of the Founding Companies. Additionally, excludes the $13.6 million non-recurring, non-cash compensation charge recognized by IES related to the issuance of Common Stock to management. See "Certain Transactions."

(b) Reflects amortization of the goodwill to be recorded as a result of the Acquisitions over a 40-year period and computed on the basis described in the notes to the Unaudited Pro Forma Combined Financial Statements.

(c) Reflects the reduction for interest expense of $0.7 million attributable to $8.1 million of historical debt which will be repaid with proceeds from the Offerings or distributed prior to the Acquisitions, net of additional interest expense of $1.0 million related to the debt discussed in (h) below. Additionally, reflects a $316,000 reduction in minority interest expense.

(d) Assumes all pretax income before non-deductible goodwill and other permanent items is subject to a 38% overall tax rate.

(e) Includes (i) 12,313,025 shares to be issued to the owners of the Founding Companies, (ii) 1,396,602 shares issued to the management of IES, (iii) 2,655,709 shares of Restricted Common Stock issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children and (iv) 5,590,631 of the 7,000,000 shares sold in the Offerings necessary to pay the cash portion of the Acquisitions Consideration and offering expenses. Also, includes 120,000 shares computed under the treasury stock method related to 300,000 options which are currently outstanding, but excludes any effects from options to purchase 2,343,600 shares which are expected to be granted at the initial public offering price upon consummation of the Offerings. See "Description of Capital Stock."

(f) Historical balance sheet data are for Houston-Stafford as of the applicable periods.

(g) Reflects the Acquisitions and related transactions as if they had occurred on September 30, 1997 as described in the notes to the Unaudited Pro Forma Combined Financial Statements. The unaudited pro forma combined balance sheet data are based upon preliminary estimates, available information and certain assumptions that management deems appropriate and should be read in conjunction with the other financial information and historical financial statements, and notes thereto, included elsewhere in this Prospectus.

(h) Reflects $30.6 million of Owner Amounts that will be transferred in connection with the Acquisitions to the owners of the Founding Companies. This amount will be funded through the following: (i) transfers of approximately $5.7 million of nonoperating assets, net of liabilities, (ii) transfers of approximately $11.6 million of cash (including $2.7 million of proceeds from the Offerings) and (iii) the issuance of approximately $13.3 million of notes payable to certain owners of the Founding Companies which will be retired with new borrowings under the proposed credit facility. See "Certain Transactions."

(i) Reflects the closing of the Offerings and the Company's application of the net proceeds therefrom to fund the cash portion of the Acquisitions Consideration and to repay certain indebtedness of the Founding Companies. See "Use of Proceeds" and "Certain Transactions."

(j) Includes the estimated $57.5 million in notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds from the Offerings. See "Pro Forma -- As Adjusted" amounts. The cash portion of the Acquisitions Consideration will be adjusted based on the initial public offering price of the Common Stock offered hereby.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion should be read in conjunction with the Founding Companies' Financial Statements, and related notes thereto, and "Selected Financial Data" appearing elsewhere in this Prospectus.

The Company's revenues are derived primarily from electrical construction and maintenance services provided to commercial, industrial and residential customers. Of the Company's pro forma combined year ended September 30, 1997 revenues of $312.7 million, approximately 63% was derived from commercial and industrial contracting, approximately 25% was derived from residential contracting and approximately 12% was derived from electrical maintenance work. Revenues from fixed-price construction and renovation contracts are generally accounted for on a percentage-of-completion basis, using the cost-to-cost method. The cost-to-cost method measures the percentage completion of a contract based on total costs incurred to date compared to total estimated costs at completion. Maintenance and other service revenues are recognized as the services are performed.

Cost of services consists primarily of salaries and benefits of employees, subcontracted services, materials, parts and supplies, depreciation, fuel and other vehicle expenses and equipment rentals. The Company's gross margin, which is gross profit expressed as a percentage of revenues, depends on the relative proportions of costs related to labor and materials. On jobs in which a higher percentage of the cost of services consists of labor costs, the Company typically achieves higher gross margins than on jobs where materials represent more of the cost of services. Materials costs can be calculated with relatively greater accuracy than labor costs, and the Company seeks to maintain higher margins on its labor-intensive projects to compensate for the potential variability of labor costs for these projects. Selling, general and administrative expenses consist primarily of compensation and related benefits for owners, administrative salaries and benefits, advertising, office rent and utilities, communications and professional fees. Certain owners and certain key employees of the Founding Companies have agreed to reductions in their compensation and related benefits totaling approximately $6.1 million in year ended September 30, 1997 in connection with the Acquisitions. Such reductions in salaries, bonuses and benefits have been reflected as a pro forma adjustment in the Unaudited Pro Forma Combined Statement of Operations and are reflected in the terms of employment agreements with the Company.

The Company believes that it will realize savings from (i) consolidation of insurance and bonding programs; (ii) reduction in other general and administrative expenses, such as training and advertising; (iii) the Company's ability to borrow at lower interest rates than the Founding Companies; (iv) consolidation of operations in certain locations and (v) greater volume discounts from suppliers of materials, parts and supplies. Offsetting these savings will be costs related to the Company's new corporate management, costs of being a public company and costs of integrating the companies acquired in the Acquisitions.

The Company has sold an aggregate of 1,396,602 shares of Common Stock to its management and has recorded (for financial statement presentation purposes) a non-recurring, non-cash compensation charge of $13.6 million relating to such sale. This non-recurring compensation charge has been excluded from the total pro forma combined amounts in the Unaudited Pro Forma Combined Financial Statements.

As a result of the Acquisitions, the excess of the consideration paid over the fair value of the net assets to be acquired, will be recorded as goodwill on the Company's balance sheet. Goodwill will be amortized as a non-cash charge to the income statement over a 40-year period. The pro forma impact of this amortization expense, which is non-deductible for tax purposes, is $4.1 million per year.

SUPPLEMENTAL UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION OF THE FOUNDING COMPANIES

The following supplemental unaudited pro forma combined financial information for the periods presented do not purport to present those of the combined Founding Companies in accordance with generally accepted accounting principles, but represent merely a summation of the revenues, cost of services (including depreciation), gross profit, selling, general and administrative expenses and income from operations of the individual Founding Companies on a historical basis and excludes the effects of the pro forma adjustments that are included in the Unaudited Pro Forma Combined Statements appearing elsewhere in this Prospectus. Selling, general and administrative expenses for periods prior to the Acquisitions reflect the effects of historical salary and bonus distributions to the owners of the Founding Companies. The data will not be comparable to, and may not be indicative of, the Company's post-combination results of operations because (i) the Founding Companies were not under common control or management and certain Founding Companies had different tax structures (generally, S corporations or partnerships) during the periods presented, (ii) the Company will use the purchase method to establish a new basis of accounting to record the Acquisitions, (iii) the Company will incur incremental costs for its corporate management and the costs of being a public company and (iv) the combined data do not reflect the potential benefits and cost savings the Company expects to realize when operating as a combined entity.

The following table sets forth certain supplemental unaudited pro forma combined financial information for the periods indicated:

	FISCAL YEARS ENDED(A)						YEAR ENDED SEPTEMBER 30,	
	1994		1995		1996		1997(B)	
	(IN THOUSANDS)							
Revenues	$181,205	100%	$211,626	100%	$272,236	100%	$312,747	100%
Cost of services	149,698	83	172,417	81	216,382	79	247,772	79
Gross profit	31,507	17	39,209	19	55,854	21	64,975	21
Selling, general and administrative expenses(c)	23,752	13	28,506	13	34,528	13	42,006	13
Income from operations	$ 7,755	4%	$ 10,703	6%	$ 21,326	8%	$ 22,969	8%

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(a) The fiscal years ended 1994, 1995 and 1996 are the years ended December 31, 1994, 1995 and 1996 for all Founding Companies, except for Pollock and Hatfield, for which the fiscal years presented are the years ended October 31, 1994, 1995 and 1996; Rodgers, for which the fiscal years presented are the years ended September 30, 1995, 1996 and 1997; and Summit, for which the fiscal years presented are the years ended March 31, 1995, 1996 and 1997.

(b) Represents the year ended September 30, 1997 for all Founding Companies, except that the amounts included for Ace, Hatfield, Popp and Reynolds are for the year ended June 30, 1997.

(c) The supplemental unaudited pro forma combined results for the year ended September 30, 1997 exclude the $13.6 million non-recurring, non-cash compensation charge recognized by IES in September 1997 related to the issuance of Common Stock to management.

Pro Forma Combined Results for the year ended September 30, 1997 compared to the fiscal year ended 1996

Revenues increased approximately $40.5 million, or 15%, from $272.2 million for the fiscal year ended 1996 to $312.7 million for the year ended September 30, 1997. The increase in combined revenues occurred primarily at Houston-Stafford, Mills, Daniel, Pollock and Haymaker. Houston-Stafford's revenues increased $11.1 million, or 16%, from fiscal 1996 to the year ended September 30, 1997, primarily due to an overall increase in market demand and the consolidation of an electrical supply company partially offset by the effects of unusually rainy weather in Texas. Mills' revenues increased $9.0 million, or 14%, from fiscal 1996 to the year ended September 30, 1997, primarily due to a full year of revenues in 1997 from the acquisition of Fort Worth Regional Electrical Systems, L.L.C. ("Regional Electric") in June 1996. Daniel's revenues increased $5.8 million, or 46%, from fiscal 1996 to the year ended September 30, 1997 primarily due to increased contract revenues on several large high rise condominium projects in south Florida. Pollock's revenues increased $4.5 million, or 28%, from fiscal 1996 to the year ended September 30, 1997, primarily due to an increase in large commercial contracts, increased data cabling work and higher revenues for service work. Haymaker's revenues increased $4.2 million, or 54%, from fiscal 1996 to the year ended September 30, 1997, primarily due to a large hospital contract and an overall increase in construction activity in Birmingham, Alabama. Of the remaining ten Founding Companies, five reported an increase in revenues and five recorded a decline in revenues between fiscal 1996 and the year ended September 30, 1997. The most significant decline in revenue of $0.8 million occurred at Bexar-Calhoun, primarily due to the completion in fiscal 1996 of an unusually large electrical construction contract for a state university in Laredo, Texas. The most significant increase in revenues among these other Founding Companies of $2.5 million or 18% occurred at Amber, primarily due to three large retail construction contracts in the year ended September 30, 1997.

Gross profit increased $9.1 million, or 16%, from $55.9 million for fiscal 1996, to $65.0 million for the year ended September 30, 1997. The increase in combined gross profit occurred primarily due to increases in gross profit of $3.9 million or 30% at Houston-Stafford, $2.0 million or 70% at Daniel, $1.4 million or 59% at Pollock and $1.3 million or 79% at Amber. Houston-Stafford's gross margin increased from 18% in fiscal 1996 to 20% in the year ended September 30, 1997, Daniel's gross margin increased from 23% to 27%, Pollock's gross margin increased from 14% to 18% and Amber's gross margin increased from 12% to 18%. The increases in Houston-Stafford's gross profit and gross margin are primarily attributable to favorable pricing associated with increased demand and higher discounts on certain long-term material purchase commitments. Daniel's gross profit and gross margin increases are primarily due to increased labor efficiencies and an increase in higher margin high-rise residential contracts. Pollock's gross margin increases are due to lower than expected margins and loss contracts in 1996 that did not recur in 1997. Amber's gross profit increased as a result of an increase in overall demand as well as demand for higher margin retail construction contracts.

Selling, general and administrative expenses increased $7.5 million from $34.5 million in fiscal 1996 to $42.0 million in the year ended September 30, 1997. This increase occurred primarily due to an increase in selling, general and administrative expenses of $3.7 million at Houston-Stafford and $1.2 million at Mills. The increase in Houston-Stafford's selling, general and administrative expenses was primarily attributable to increased bonuses for certain key employees and to a lesser degree higher insurance costs. Mills' increase in selling, general and administrative expenses was attributable to a full year of general and administrative expenses relating to the June 1996 acquisition of Regional Electric, and a $0.2 million severance payment to the former owner of Regional Electric.

Pro Forma Combined Results for the fiscal year ended 1996 compared to the fiscal year ended 1995

Revenues increased approximately $60.6 million, or 29%, from $211.6 million for the fiscal year ended 1995 to $272.2 million for the fiscal year ended 1996. The increase in combined revenues occurred primarily at Houston-Stafford, Mills and Bexar-Calhoun. Houston-Stafford's revenues increased $16.4 million, or 30% from 1995 to 1996, primarily due to an overall increase in market demand and new contractual arrangements for Houston-Stafford to be the sole or primary provider of electrical installation services for certain residential contractors. Mills' revenues increased $30.1 million, or 86%, from 1995 to 1996, primarily due to the acquisition of Regional Electric in June 1996 (which represents approximately $5.2 million of 1996 revenues), an increase in market demand for large industrial construction contracts for manufacturing and distribution facilities in the greater Dallas area, and a 30% increase in maintenance and service revenues. Bexar-Calhoun's revenues increased $5.3 million, or 19%, from 1995 to 1996, as certain personnel were reassigned to the growing markets around Laredo and New Braunfels, Texas, resulting in a $3.6 million increase in revenues in these two markets between 1995 and 1996. Of the remaining 12 Founding Companies, seven reported an increase in revenues, one reported relatively constant revenues and four recorded a decline in revenues between 1995 and 1996. The most significant decline in revenue of $2.0 million occurred at Ace, where an unusually high demand for design-and-build projects in Valdosta, Georgia in 1995 did not recur in 1996. The most significant increase in revenues among these other Founding Companies of $4.2 million or 43% occurred at Amber due to an increase in large commercial projects on shopping malls and grocery stores in central Florida.

Gross profit increased $16.6 million, or 42%, from $39.2 million for the fiscal year ended 1995, to $55.9 million for the fiscal year ended 1996. Gross margin increased to 21% in 1996 from 19% in 1995. The increase in combined gross profit occurred primarily due to increases in gross profit of $5.4 million or 74% at Houston-Stafford, $7.0 million or 89% at Mills, and $1.2 million or 18% at Bexar-Calhoun. Houston-Stafford's gross margin increased from 14% in 1995 to 18% in 1996, Mills' gross margin increased from 22% in 1995 to 23% in 1996, and Bexar-Calhoun's gross margin remained constant at 24% in 1995 and 1996. The increases in Houston-Stafford's gross profit and gross margin are primarily attributable to favorable pricing associated with increased demand and higher discounts on certain long-term material purchase commitments. Mills' gross profit and gross margin increases are primarily attributable to the acquisition of Regional Electric, increased demand for complex industrial contracts, and an increase in higher margin maintenance service revenues. Bexar-Calhoun's gross profit increased as a result of its overall increase in business volume.

Selling, general and administrative expenses increased 21% from $28.5 million in 1995 to $34.5 million in 1996. This increase occurred primarily due to increases in selling, general and administrative expenses of $1.8 million at Houston-Stafford and $2.9 million at Mills. The increase in Houston-Stafford's selling, general and administrative expenses was primarily attributable to the addition of infrastructure associated with its growth. Mills' increase in selling, general and administrative expenses was attributable to increased business volume, including that related to the acquisition of Regional Electric, and increases in discretionary bonus and savings plan distributions.

Pro Forma Combined Results for the fiscal year ended 1995 compared to the fiscal year ended 1994

Revenues increased $30.4 million, or 17%, from $181.2 million for the fiscal year ended 1994, to $211.6 million for the fiscal year ended 1995. The increase in combined revenues occurred primarily at Houston-Stafford, Mills and Bexar-Calhoun. Houston-Stafford's revenues increased $6.1 million, or 13%, from 1994 to 1995, primarily due to an overall increase in demand and a new contract under which Houston-Stafford is the sole or primary provider of electrical installation services for a multifamily residential contractor. Mills' revenues increased $9.8 million, or 38%, from 1994 to 1995, primarily due to increased demand for higher margin industrial contracting services and a 61% increase in maintenance and service revenues. Bexar-Calhoun's revenues increased $4.5 million, or 20%, from 1994 to 1995, due to an increase in retail construction activity in San Antonio.

Of the remaining 12 Founding Companies, seven reported an increase in revenues, two reported relatively constant revenues and three reported a decline in revenues between 1994 and 1995. The most significant decline in revenues of $1.3 million occurred at Hatfield, where an unusually large $2.0 million contract was completed in 1994 and no comparable contract was performed in 1995. The most significant increase in revenue among these other Founding Companies of $2.6 million occurred at Ace due to an unusually high demand for design-and-build commercial projects in 1995 as compared to 1994.

Gross profit increased $7.7 million, or 24%, from $31.5 million for the fiscal year ended 1994, to $39.2 million for the fiscal year ended 1995. Gross margin increased to 19% in 1995 from 17% in 1994. The increase in combined gross profit occurred primarily due to increases in gross profit of $1.6 million or 26% at Houston-Stafford, $3.3 million or 71% at Mills, and $1.6 million or 30% at Bexar-Calhoun. Houston-Stafford's gross margin increased from 12% in 1994 to 14% in 1995, Mills' gross margin increased from 18% in 1994 to 22% in 1995, and Bexar-Calhoun's gross margin increased from 22% in 1994 to 24% in 1995, respectively. The increase in Houston-Stafford's gross profit and gross margin are primarily attributable to favorable pricing related to increased demand. Mills' gross profit and gross margin increases are primarily attributable to increased market demand for complex industrial contracts, and an increase in higher margin maintenance and service revenues. Bexar-Calhoun's gross profit and gross margin increased as a result of higher margin retail construction contracts in San Antonio, Texas.

Selling, general and administrative expenses increased 20% from $23.8 million in 1994 to $28.5 million in 1995. The increase in combined selling, general and administrative expenses occurred primarily due to increases in selling, general and administrative expenses of $0.7 million at Houston-Stafford, $1.3 million at Mills and $0.5 million at Bexar-Calhoun. The increase in Houston-Stafford's selling, general and administrative expenses was attributable to the addition of administrative infrastructure associated with its growth. Mills' increase in selling, general and administrative expenses was attributable to increased business volume and increases in discretionary bonus and savings plan distributions. Bexar-Calhoun's increase in selling, general and administrative expenses was attributable to the addition of administrative infrastructure associated with Bexar-Calhoun's growth.

Combined Liquidity and Capital Resources

Upon consummation of the Acquisitions and after applying the estimated net proceeds of the Offerings as discussed under "Use of Proceeds," the Company anticipates that it will have up to approximately $21.5 million of pro forma cash and cash equivalents, $45.8 million of pro forma working capital and no outstanding indebtedness other than debt relating to Owner Amounts and capital lease obligations totaling $14.3 million. The Founding Companies' historical indebtedness of $8.1 million is anticipated to be transferred to the owners of the Founding Companies or otherwise repaid from the proceeds of the Offerings.

On a combined basis, the Founding Companies generated $12.4 million of cash from operating activities during the year ended September 30, 1997. Net cash used in investing activities was $5.7 million on a combined basis and was primarily used for capital expenditures. Net cash used in financing activities was $8.1 million on a combined basis and was primarily used for debt repayment and capital distributions.

The Company has entered into an agreement with a commercial bank under which it expects to enter into a credit facility effective following the closing of the Offerings. According to the terms of the agreement, the credit facility will be a three-year revolving credit facility of up to $65 million to be used for working capital and capital expenditures, to finance acquisitions and for general corporate purposes. The amounts borrowed under the proposed credit facility will bear interest at an annual rate equal to either (a) the London interbank offered rate ("LIBOR") plus 1.0% to 2.0%, as determined by the ratio of the Company's total funded debt to EBITDA (as defined in the credit facility) or (b) the higher of (i) the bank's prime rate and (ii) the Federal Funds rate plus 0.5%, plus up to an additional 0.5% as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.25% to 0.375%, as determined by the ratio of the Company's total funded debt to EBITDA, will be due on any unused borrowing capacity under the credit facility. The Company's existing and future subsidiaries will guarantee the repayment of all amounts due under the facility, and the facility will be secured by the capital and stock of the guarantors and the accounts receivable of the Company and the guarantors. The credit facility will require the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibit the payment of cash dividends by the Company, restrict the ability of the Company to incur other indebtedness and require the Company to comply with certain financial covenants. Availability of the credit facility will be subject to customary drawing conditions and execution of certain definitive loan documentation. Following the consummation of the Offerings, the $13.3 million of notes payable to owners of the Founding Companies issued in connection with the funding a portion of the Owner Amounts will be repaid with borrowings under the credit facility.

The Company anticipates that its cash flow from operations and proceeds from the Offerings will provide sufficient cash to enable the Company to meet its working capital needs, debt service requirements and planned capital expenditures for property and equipment through 1998.

The Company intends to continue pursuing attractive acquisition opportunities. The timing, size or success of any acquisition effort and the associated potential capital commitments cannot be predicted. The Company expects to fund future acquisitions primarily with a portion of the net proceeds of the Offerings, working capital, cash flow from operations and borrowings, including any unborrowed portion of the proposed credit facility, as well as issuances of additional equity.

Due to the relatively low levels of inflation experienced in fiscal 1994, 1995 and 1996, inflation did not have a significant effect on the results of the combined Founding Companies in those fiscal years, or any of the Founding Companies individually.

HOUSTON-STAFFORD RESULTS OF OPERATIONS

Houston-Stafford was founded in 1973 and is headquartered in Stafford, Texas near Houston. It operates primarily in Texas, with other significant operations in Georgia, Virginia, Tennessee and Maryland. In April 1997, Houston-Stafford financed the acquisition of an electrical supply company from a third party for $100,000 cash.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,						YEAR ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,			
	1994		1995		1996		1997		1996		1997	
					(IN THOUSANDS)				(UNAUDITED)			
Revenues	$48,001	100%	$54,082	100%	$70,493	100%	$81,575	100%	$53,062	100%	$64,144	100%
Cost of services	42,163	88	46,712	86	57,662	82	64,831	80	44,485	84	51,654	81
Gross profit	5,838	12	7,370	14	12,831	18	16,744	20	8,577	16	12,490	19
Selling, general and administrative expenses	5,319	11	6,027	11	7,810	11	11,474	14	4,404	8	8,068	13
Income from operations	$ 519	1%	$ 1,343	3%	$ 5,021	7%	$ 5,270	6%	$ 4,173	8%	$ 4,422	6%

Houston-Stafford results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $11.0 million, or 21%, from $53.1 million for the nine months ended September 30, 1996 to $64.1 million for the nine months ended September 30, 1997, primarily as a result of increased demand and the consolidation of an electrical supply company, partially offset by the effects of unusually rainy weather in Texas.

Gross profit increased $3.9 million, or 46%, during the first nine months of 1997 to $12.5 million, and gross margin increased to 19% in 1997 from 16% in 1996 as a result of favorable pricing related to the increase in demand and higher discounts on certain long-term material purchase commitments.

Selling, general and administrative expenses increased 83% from $4.4 million to $8.1 million. The increase was attributable to an increase in bonuses for certain key employees and to a lesser degree higher insurance costs.

Houston-Stafford results for the year ended September 30, 1997 compared to the year ended December 31, 1996.

Revenues increased $11.1 million, or 16%, from $70.5 million for the year ended December 31, 1996 to $81.6 million for the year ended September 30, 1997 primarily as a result of increased demand and the consolidation of an electrical supply company, partially offset by the effects of unusually rainy weather in Texas.

Gross profit increased $3.9 million, or 30%, during the year ended September 30, 1997 to $16.7 million, and gross margin increased to 20% during the year ended September 30, 1997 from 18% during the year ended December 31, 1996 as a result of favorable pricing related to the increase in demand and higher discounts on certain long-term material purchase commitments.

Selling, general and administrative expenses increased 47% from $7.8 million to $11.5 million. The increase was primarily attributable to an increase in bonuses for certain key employees and to a lesser degree higher insurance costs.

Houston-Stafford results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $16.4 million, or 30%, from $54.1 million for the year ended December 31, 1995, to $70.5 million for the year ended December 31, 1996, primarily due to an overall increase in demand and new contracts under which Houston-Stafford is the sole or primary provider of electrical installation services for certain significant residential contractors.

Gross profit increased $5.4 million, or 74%, from $7.4 million for the year ended December 31, 1995 to $12.8 million for the year ended December 31, 1996. Gross margin increased from 14% to 18% over these periods. The increase in gross profit amounts and percentages is primarily attributable to favorable pricing related to the increase in demand and higher discounts on certain long-term material purchase commitments.

Selling, general and administrative expenses increased 30% from $6.0 million to $7.8 million. The increase was attributable to the addition of administrative infrastructure necessary to support Houston-Stafford's growth and the establishment of a new merit bonus system. Selling, general and administrative expenses as a percentage of revenues remained constant during 1996 when compared to 1995.

Houston-Stafford results for the year ended December 31, 1995 compared to the year ended December 31, 1994

Revenues increased $6.1 million, or 13%, from $48.0 million for the year ended December 31, 1994, to $54.1 million for the year ended December 31, 1995, due to increased demand and a new contract where Houston-Stafford is the sole or primary provider of electrical contracting services for a significant multi-family residential contractor.

Gross profit increased $1.6 million, or 26%, from $5.8 million for the year ended December 31, 1994 to $7.4 million for the year ended December 31, 1995. Gross margin increased from 12% to 14% over these periods due to favorable pricing partially offset by lower profits from government projects in 1995.

Selling, general and administrative expenses increased 13% in 1995 when compared to 1994 as a result of the additional infrastructure necessary to support Houston-Stafford's growth. Selling, general and administrative expenses as a percentage of revenues remained constant during 1995 when compared to 1994.

HOUSTON-STAFFORD LIQUIDITY AND CAPITAL RESOURCES

Houston-Stafford generated $0.6 million of net cash from operating activities for the nine months ended September 30, 1997, which declined compared to fiscal 1996 as a result of an increase in accounts receivable and costs and estimated earnings in excess of billings on contracts in progress, both of which represented offsets to net income generated during the period. Net cash used in investing activities was approximately $0.3 million, primarily for the purchase of fixed assets. Net cash used in financing activities of $0.5 million resulted from advances on Houston-Stafford's line of credit. Houston-Stafford had a $3.1 million line of credit as of September 30, 1997 that expires in July 1998. At September 30, 1997, Houston-Stafford had $0.5 million outstanding under its line of credit. Additionally, in April 1997, Houston-Stafford financed the acquisition of an electrical supply company from a third party for $100,000 cash.

Houston-Stafford used $0.1 million of net cash from operating activities for the year ended September 30, 1997, which represents a decline compared to fiscal 1996 as a result of an increase in accounts receivable and costs and estimated earnings in excess of billings on contracts in progress, both of which represented offsets to net income generated during the period. Net cash used in investing activities was approximately $0.5 million, primarily for additional property and equipment. Net cash used in financing activities of $0.6 million resulted from the net effect of borrowings and payments of long-term debt.

At September 30, 1997, Houston-Stafford had working capital of $5.4 million and total debt of $1.7 million.

Days sales outstanding in accounts receivable increased from 35 days as of December 31, 1996 to 43 days as of September 30, 1997 (both calculated based on sales for the years then ended). Such change is attributable to the effects on receivables outstanding at September 30, 1997 of increased levels of sales during the second and third quarters of 1997 due to seasonality and the additional electrical supply company revenues.

Houston-Stafford generated $2.7 million in net cash from operating activities for the year ended December 31, 1996, primarily due to an increase in collections of accounts receivable and billings on contracts in progress. Net cash used in investing activities was approximately $0.6 million for the purchase of fixed assets. Net cash used in financing activities was $0.5 million for the year ended December 31, 1996 primarily as a result of the repayment of debt partially offset by additional borrowings.

At December 31, 1996 Houston-Stafford had working capital of $4.7 million and total debt of $1.7 million.

MILLS RESULTS OF OPERATIONS

Mills, headquartered in Dallas, Texas was founded in 1972 and operates primarily in the greater Dallas-Fort Worth area. Mills derives a significant portion of its revenues from higher margin design-and-build services and from data cabling and fire alarm systems.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,						YEAR ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,			
	1994		1995		1996		1997		1996		1997	
					(IN THOUSANDS)				(UNAUDITED)			
Revenues	$25,544	100%	$35,250	100%	$65,439	100%	$74,399	100%	$43,684	100%	$52,644	100%
Cost of services	20,937	82	27,372	78	50,535	77	60,572	81	33,998	78	44,035	84
Gross profit	4,607	18	7,878	22	14,904	23	13,827	19	9,686	22	8,609	16
Selling, general and administrative expenses	3,391	13	4,741	13	7,643	12	8,778	12	3,837	9	4,972	9
Income from operations	$ 1,216	5%	$ 3,137	9%	$ 7,261	11%	$ 5,049	7%	$ 5,849	13%	$ 3,637	7%

Mills results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $8.9 million, or 21%, from $43.7 million for the nine months ended September 30, 1996 to $52.6 million for the nine months ended September 30, 1997, primarily as a result of the acquisition of Regional Electric, which specializes in commercial and industrial electrical contracting and fire alarm, data cabling and control system installation in the greater Fort Worth area.

Gross profit decreased $1.1 million, or 11%, during the first nine months of 1997 as compared to the nine months ended September 30, 1996. Gross margin decreased from 22% to 16% due to a decrease in demand for higher margin, complex industrial work offset by an increase in demand for lower margin commercial work, as well as a planned increase in the operating infrastructure at Regional Electric to support Mill's growth strategy in the Fort Worth market.

Selling, general and administrative expenses increased 30% from $3.8 million to $5.0 million. The increase was attributable to a full year of general and administrative expenses relating to the June 1996 acquisition of Regional Electric, and a $0.2 million severance payment to the former owner of Regional Electric.

Mills results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $9.0 million, or 14%, from $65.4 million for the year ended December 31, 1996, to $74.4 million for the year ended September 30, 1997, primarily due to the acquisition of Regional Electric in June 1996 (which represents approximately $13 million of 1997 and $5.2 million of 1996 revenues).

Gross profit decreased $1.1 million, or 7%, from $14.9 million for the year ended December 31, 1996 to $13.8 million for the year ended September 30, 1997. Gross margin decreased from 23% to 19% due to a decrease in demand for higher margin, complex industrial work offset by an increase in demand for lower margin commercial work, as well as a planned increase in the operating infrastructure at Regional Electric to support Mill's growth strategy in the Fort Worth market.

Selling, general and administrative expenses increased 15% from $7.6 million to $8.8 million. The increase was attributable to a full year of general and administrative expenses relating to the June 1996 acquisition of Regional Electric, and a $0.2 million severance payment to the former owner of Regional Electric.

Mills results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $30.1 million, or 86%, from $35.3 million for the year ended December 31, 1995 to $65.4 million for the year ended December 31, 1996, primarily due to the acquisition of Regional Electric in June 1996 (which represents approximately $5.2 million of 1996 revenues), an increase in demand for large and complex industrial construction contracts for manufacturing and distribution facilities in the greater Dallas area for which only a select group of electrical contractors have the resources and expertise to bid and a 30% increase in maintenance and service revenues resulting from Mills' focus on increasing its maintenance and service revenues.

Gross profit increased $7.0 million, or 89%, from $7.9 million for the year ended December 31, 1995 to $14.9 million for the year ended December 31, 1996. Gross margin increased to 23% from 22% during this period due to an increase in higher margin maintenance and service work.

Selling, general and administrative expenses increased 61% from $4.7 million to $7.6 million. The increase was attributable to increased business volume, including that related to the acquisition of operations of Regional Electric and increases in discretionary bonus and savings plan distributions.

Mills results for the year ended December 31, 1995 compared to the year ended December 31, 1994

Revenues increased $9.8 million, or 38%, from $25.5 million for the year ended December 31, 1994 to $35.3 million for the year ended December 31, 1995, primarily due to increased demand for higher margin new industrial contracting services and a 61% increase in maintenance and service revenues.

Gross profit increased $3.3 million, or 71%, from $4.6 million for the year ended December 31, 1994 to $7.9 million for the year ended December 31, 1995. Gross margin increased to 22% from 18% due to the increases in higher margin industrial contracting and maintenance service revenues.

Selling, general and administrative expenses increased 40% from $3.4 million to $4.7 million. The increase was attributable to increased business volume and increases in discretionary bonus and savings plan distributions.

MILLS LIQUIDITY AND CAPITAL RESOURCES

Mills used approximately $2.9 million of net cash for operating activities for the nine months ended September 30, 1997, primarily for working capital. Net cash used in investing activities was approximately $1.2 million, primarily for the purchase of tools and equipment. Net cash used in financing activities was $0.3 million, primarily for stockholder distributions and long-term debt. At September 30, 1997, Mills had a $2.0 million revolving line of credit available that expires June 1, 1999. At September 30, 1997, there were outstanding draws against this line of credit in the amount of $400,000, which are due and payable within one year.

Mills generated $2.7 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was approximately $1.5 million, primarily for additions to property and equipment. Net cash used in financing activities of $3.7 million primarily resulted from distributions to stockholders.

At September 30, 1997, Mills had working capital of $7.8 million and total debt obligations of $0.8 million that relate to the acquisition of Regional Electric and certain capital leases.

Mills generated $7.9 million in net cash from operating activities for the year ended December 31, 1996, as a result of increased profitability. Net cash used in investing activities was approximately $0.6 million, representing $0.9 million used for the purchase of property and equipment, partly offset by $0.3 million, net, in collection of loans. Net cash used in financing activities was $3.9 million for the year ended December 31, 1996, primarily for distribution of dividends to stockholders. At December 31, 1996, Mills had a $2.0 million revolving line of credit that was originally scheduled to expire June 1, 1997 and was extended to June 1, 1999. At December 31, 1996, there were no outstanding draws against this line of credit.

At December 31, 1996, Mills had working capital of $5.5 million and total debt obligations of $0.6 million.

BEXAR-CALHOUN RESULTS OF OPERATIONS

Bexar was founded in 1966 and operates primarily in the areas around the cities of San Antonio, New Braunfels and Laredo, Texas. Calhoun was founded in 1958 and operates in the counties around San Antonio.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,						YEAR ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,			
	1994		1995		1996		1997		1996		1997	
					(IN THOUSANDS)				(UNAUDITED)			
Revenues....................	$23,168	100%	$27,730	100%	$33,023	100%	$32,165	100%	$24,994	100%	$24,136	100%
Cost of services...........	17,967	78	20,964	76	25,017	76	24,976	78	18,909	76	18,868	78
Gross profit.............	5,201	22	6,766	24	8,006	24	7,189	22	6,085	24	5,268	22
Selling, general and administrative expenses...	3,091	13	3,637	13	3,686	11	3,766	12	2,713	11	2,793	12
Income from operations....	$ 2,110	9%	$ 3,129	11%	$ 4,320	13%	$ 3,423	10%	$ 3,372	13%	$ 2,475	10%

Bexar-Calhoun results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues decreased $0.9 million, or 3%, from $25.0 million in 1996 to $24.1 million in 1997, primarily due to an increase in overall growth offset by the completion in 1996 of an unusually large electrical construction contract for a state university in Laredo, Texas.

Gross profit decreased $0.8 million, or 13%, from $6.1 million in 1996 to $5.3 million in 1997. Gross margin decreased from 24% in 1996 to 22% in 1997. The decrease in gross profit related to completion of the large state university contract in 1996 and gross margin declined due to a change in customer mix associated with a decrease in higher margin retail construction in San Antonio.

Selling, general and administrative expenses remained relatively constant from 1996 to 1997.

Bexar-Calhoun results of operations for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues decreased $0.8 million, or 3%, from $33.0 million for the year ended December 31, 1996, to $32.2 million for the year ended September 30, 1997, primarily due to the completion in 1996 of an unusually large electrical construction contract for a state university in Laredo, Texas.

Gross profit decreased $0.8 million, or 10%, from $8.0 million for the year ended December 31, 1996, to $7.2 million for the year ended September 30, 1997. Gross margins decreased to 22% from 24% over these periods. The decrease in gross profit related to completion of the large state university contract in 1996 and gross margin declined due to a change in customer mix associated with a decrease in higher margin retail construction in San Antonio.

Selling, general and administrative expenses remained relatively constant in 1997 as compared to 1996.

Bexar-Calhoun results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $5.3 million, or 19%, from $27.7 million in 1995 to $33.0 million in 1996, primarily due to reassignment of certain personnel to Laredo and New Braunfels, Texas. Bexar-Calhoun realized a $3.6 million increase in revenues in these two markets between 1995 and 1996, in part from an unusually large electrical construction contract for a university in Laredo, Texas.

Gross profit increased $1.2 million, or 18%, from $6.8 million in 1995 to $8.0 million in 1996. Gross margin remained stable over these periods. The increase in gross profit was attributable to higher revenues.

Selling, general and administrative expenses did not significantly change from 1995 to 1996. Selling, general and administrative expenses declined as a percentage of revenue from 13% in 1995 to 11% in 1996.

Bexar-Calhoun results for the year ended December 31, 1995 compared to the year ended December 31, 1994

Revenues increased $4.5 million, or 20%, from $23.2 million in 1994 to $27.7 million in 1995, primarily due to a significant increase in the volume of Bexar-Calhoun's retail construction business in the San Antonio, Texas market.

Gross profit increased $1.6 million, or 30%, from $5.2 million in 1994 to $6.8 million in 1995. Gross margin increased from 22% in 1994 to 24% in 1995. Gross profit increased due to the revenue increase, while gross margin increased due to higher margin retail construction.

Selling, general and administrative expenses increased 18% from $3.1 million in 1994 to $3.6 million in 1995. The increase was attributable to the addition of infrastructure associated with Bexar-Calhoun's growth.

BEXAR-CALHOUN LIQUIDITY AND CAPITAL RESOURCES

Bexar-Calhoun generated $3.1 million of net cash from operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was approximately $0.9 million, primarily for additions to property and equipment and loans to stockholders. Net cash used in financing activities of $1.5 million resulted from stockholder distributions net of debt repayments.

Bexar-Calhoun generated $3.3 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was approximately $1.1 million, primarily for additions of property and equipment. Net cash used in financing activities of $1.9 million primarily resulted from stockholder distributions and repayments of debt.

At September 30, 1997, Bexar-Calhoun had working capital of $4.2 million and total debt of $0.9 million.

Bexar-Calhoun generated $2.7 million in net cash from operating activities for the year ended December 31, 1996, primarily from net income offset by growth in working capital. Net cash used in investing activities was approximately $0.6 million for additions to property and equipment net of stockholder loan repayments. Net cash used by financing activities was $2.8 million for the year ended December 31, 1996 primarily as a result of stockholder distributions net of debt repayments.

At December 31, 1996 Bexar-Calhoun had working capital of $3.7 million and total debt of $1.0 million.

POLLOCK RESULTS OF OPERATIONS

Pollock was founded in 1983 and is headquartered in Houston, Texas. Pollock has specialized expertise in design-and-build projects for commercial and industrial customers.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED OCTOBER 31,				YEAR ENDED SEPTEMBER 30,		ELEVEN MONTHS ENDED SEPTEMBER 30,			
	1995		1996		1997		1996		1997	
					(IN THOUSANDS)		(UNAUDITED)			
Revenues	$13,002	100%	$15,816	100%	$20,291	100%	$13,305	100%	$17,780	100%
Cost of services	10,602	82	13,534	86	16,670	82	11,646	88	14,782	83
Gross profit	2,400	18	2,282	14	3,621	18	1,659	12	2,998	17
Selling, general and administrative expenses	2,149	16	2,463	15	2,895	14	2,083	16	2,515	14
Income/(loss) from operations	$ 251	2%	$ (181)	(1)%	$ 726	4%	$ (424)	(4)%	$ 483	3%

Pollock results for the eleven months ended September 30, 1997 compared to eleven months ended September 30, 1996

Revenues increased $4.5 million, or 34%, from $13.3 million for the eleven months ended September 30, 1996 to $17.8 million for the eleven months ended September 30, 1997, primarily due to an increase in large commercial contracts, increased data cabling work and higher revenues for service and small project work.

Gross profit increased $1.3 million, or 81%, from $1.7 million for the eleven months ended September 30, 1996 to $3.0 million for the eleven months ended September 30, 1997. Gross margin increased to 17% from 12% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are primarily attributable to specific low margin or loss contracts in 1996 that did not recur in 1997.

Selling, general and administrative expenses increased 21% from $2.1 million to $2.5 million due to the addition of certain strategic management personnel. As a percentage of revenues, selling, general and administrative expenses actually decreased in 1997 over 1996 by 2%.

Pollock results for the year ended September 30, 1997 compared to the year ended October 31, 1996

Revenues increased $4.5 million, or 28%, from $15.8 million for the year ended October 31, 1996 to $20.3 million for the year ended September 30, 1997, primarily due to an increase in large commercial contracts, increased data cabling work, and higher revenues from service work.

Gross profit increased $1.4 million, or 59%, from $2.2 million for the year ended October 31, 1996 to $3.6 million for the year ended September 30, 1997. Gross margin increased to 18% from 14% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are primarily attributable to specific low margin or loss contracts in 1996 that did not recur in 1997.

Selling, general and administrative expenses increased 18% from $2.5 million to $2.9 million due to the addition of certain strategic management personnel. As a percent of revenues, selling, general and administrative expenses decreased in 1997 over 1996 by 1%.

Pollock results for the year ended October 31, 1996 compared to the year ended October 31, 1995

Revenues increased $2.8 million, or 22%, from $13.0 million for the year ended October 31, 1995, to $15.8 million for the year ended October 31, 1996, primarily due to an increase in commercial construction and the addition of data cabling services.

Gross profit decreased $0.1 million, or 5%, from $2.4 million for the year ended October 31, 1995 to $2.3 million for the year ended October 31, 1996. Gross margin decreased to 14% from 18% over these periods. These decreases were due to specific low margin or loss contracts in 1996.

Selling, general and administrative expenses increased 15% from $2.1 million to $2.5 million. The increase was attributable to an increase in management staff necessary to support Pollock's growth strategy, including the addition of data cabling expertise.

POLLOCK LIQUIDITY AND CAPITAL RESOURCES

Pollock used $0.1 million of net cash for operating activities during the eleven months ended September 30, 1997. Net cash used in investing activities was approximately $0.1 million, primarily for increases in the leasing of capital assets. Net cash provided by financing activities of $0.3 million resulted from additional short-term line of credit borrowings.

Net cash from operating activities for the year ended September 30, 1997 was not material in amount. Net cash used in investing activities was approximately $0.2 million, primarily for increases in the leasing of capital assets. Net cash provided by financing activities of $0.5 million resulted from additional short-term line of credit borrowings.

At September 30, 1997, Pollock had working capital of $0.6 million and total debt of $1.8 million.

Pollock used $0.7 million in net cash from operating activities for the year ended October 31, 1996, primarily to fund working capital requirements. Net cash used in investing activities was approximately $0.2 million for additions to property and equipment. Net cash provided by financing activities was $0.7 million for the year ended October 31, 1996 primarily as a result of short-term line of credit borrowings.

At October 31, 1996 Pollock had working capital of $0.5 million and total debt of $1.5 million.

MUTH RESULTS OF OPERATIONS

Muth was founded in 1970 and has seven offices located in South Dakota, including its headquarters in Mitchell. Muth also from time to time operates in Wyoming, Montana, Nebraska and Minnesota.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,						YEAR ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,			
	1994		1995		1996		1997		1996		1997	
					(IN THOUSANDS)				(UNAUDITED)			
Revenues	$13,466	100%	$16,012	100%	$16,830	100%	$18,779	100%	$12,517	100%	$14,466	100%
Cost of services	9,805	73	12,189	76	12,834	76	14,511	77	9,751	78	11,428	79
Gross profit	3,661	27	3,823	24	3,996	24	4,268	23	2,766	22	3,038	21
Selling, general and administrative expenses	2,678	20	2,923	18	2,957	18	3,074	16	2,147	17	2,264	16
Income from operations	$ 983	7%	$ 900	6%	$ 1,039	6%	$ 1,194	7%	$ 619	5%	$ 774	5%

Muth results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $2.0 million, or 16%, from $12.5 million for the nine months ended September 30, 1996 to $14.5 million for the nine months ended September 30, 1997, due to a significant increase in market demand that was offset by work delays caused by the harsh winter, which lasted from November 1996 through early April 1997.

Gross profit increased $0.2 million, or 10%, from $2.8 million for the nine months ended September 30, 1996 to $3.0 million for the nine months ended September 30, 1997. Gross margin decreased to 21% from 22% over these periods. The decreases in the gross margin are solely attributable to the harsh winter and related work delays in early 1997.

Selling, general and administrative expenses increased 5% from $2.1 million to $2.3 million. The increase was attributable to the increase in market demand and related infrastructure costs.

Muth results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $2.0 million, or 12%, from $16.8 million for the fiscal period ended December 31, 1996 to $18.8 million for the fiscal year ended September 30, 1997, due to a significant increase in market demand that was offset by work delays caused by the harsh winter, which lasted from November 1996 through early April 1997.

Gross profit increased $0.3 million, or 7%, from $4.0 million for the fiscal period ended December 31, 1996 to $4.3 million for the fiscal year ended September 30, 1997. The increase in gross profit is attributable to increased market demand that was offset by work delays caused by the harsh winter, which lasted from November 1996 through early April 1997. Gross margin decreased to 23% from 24% over these periods.

Muth results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $0.8 million, or 5%, from $16.0 million for the year ended December 31, 1995 to $16.8 million for the year ended December 31, 1996, due to increased market demands for electrical contracting services, slightly offset by delays caused by the harsh winter, which started in November 1996 and continued through early April 1997.

Gross profit increased $0.2 million, or 5%, from $3.8 million for the year ended December 31, 1995 to $4.0 million for the year ended December 31, 1996. There was no significant change in gross margin. The gross profit and gross margin increases in 1996 when compared to 1995 were attributable to increased margins on service work in 1996 and increased revenues.

Selling, general and administrative expenses remained constant over these periods.

Muth results for the year ended December 31, 1995 compared to the year ended December 31, 1994

Revenues increased $2.5 million, or 19%, from $13.5 million for the year ended December 31, 1994 to $16.0 million for the year ended December 31, 1995, primarily due to increased overall demand.

Gross profit increased $0.1 million, or 4%, from $3.7 million for the year ended December 31, 1994, to $3.8 million for the year ended December 31, 1995. Gross margin decreased to 24% from 27% over these periods due to a lower and more normal mix of higher margin design-and-build projects in 1995.

Selling, general and administrative expenses increased 9% from $2.7 million to $2.9 million. The increase was due to an increase in administrative salaries attributable to the additional infrastructure associated with Muth's growth.

MUTH LIQUIDITY AND CAPITAL RESOURCES

Muth generated $0.5 million of net cash from operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was approximately $0.2 million, primarily for additions to property and equipment. Net cash used in financing activities of $0.4 million primarily related to distributions to stockholders.

Muth generated $0.5 million of net cash from operating activities for the fiscal year ended September 30, 1997. Net cash used in investing activities was approximately $0.2 million, primarily for additions to property and equipment. Net cash used in financing activities of $0.3 million primarily relates to payments of short-term debt.

At September 30, 1997, Muth had working capital of $2.3 million and total debt of $0.5 million. Muth currently has no long-term debt. Cash requirements increased for the fiscal year ended September 30, 1997 as a result of a higher proportion of government contracts, which typically have payment periods of 45 to 60 days rather than the 20-day period typical for private contracts.

Muth generated $0.5 million in net cash from operating activities for the year ended December 31, 1996, primarily from earnings net of investments in working capital. Net cash used in investing activities was approximately $0.4 million for additions to property and equipment. Net cash used by financing activities was

$0.1 million for the year ended December 31, 1996 primarily as a result of stockholder distributions in excess of borrowings.

At December 31, 1996, Muth had working capital of $1.9 million and total debt of $0.5 million.

DANIEL RESULTS OF OPERATIONS

Daniel Electrical Contractors, Inc. was founded in 1986, is headquartered in Miami, Florida, and operates primarily in South Florida. Daniel Electrical of Treasure Coast Inc. was founded in 1995 and is headquartered in Vero Beach, Florida. In addition to commercial and industrial contracting, Daniel services high-end residential construction and repairs on a time-and-material basis, from both its Miami and Vero Beach, Florida locations.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				YEAR ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,			
	1995		1996		1997		1996		1997	
					(IN THOUSANDS)		(UNAUDITED)			
Revenues	$12,049	100%	$12,585	100%	$18,409	100%	$8,846	100%	$14,670	100%
Cost of services	11,725	97	9,713	77	13,518	73	6,675	75	10,480	71
Gross profit	324	3	2,872	23	4,891	27	2,171	25	4,190	29
Selling, general and administrative expenses	1,502	13	1,884	15	2,316	13	1,360	15	1,792	12
Income/(loss) from operations	$(1,178)	(10)%	$ 988	8%	$ 2,575	14%	$ 811	10%	$ 2,398	17%

Daniel results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $5.9 million, or 66%, from $8.8 million for the nine months ended September 30, 1996 to $14.7 million for the nine months ended September 30, 1997, primarily due to favorable pricing for negotiated contracts in process during the nine months ended September 30, 1997.

Gross profit increased $2.0 million, or 93%, from $2.2 million for the nine months ended September 30, 1996 to $4.2 million for the nine months ended September 30, 1997. Gross margin increased from 25% to 29%, primarily due to increased labor efficiencies and an increase in higher margin high-rise residential contracts.

Selling, general and administrative expenses increased $0.4 million, or 32%, from $1.4 million for the nine months ended September 30, 1996 to $1.8 million for the nine months ended September 30, 1997, primarily due to increases in office salaries associated with increased revenues. As a percentage of revenues, selling, general and administrative expenses decreased from 15% to 12%.

Daniel results for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $5.8 million, or 46%, from $12.6 million for the year ended December 31, 1996 to $18.4 million for the year ended September 30, 1997, primarily due to increased contract revenues on several large high-rise condominium projects in South Florida during the year ended September 30, 1997.

Gross profit increased $2.0 million, or 70%, from $2.9 million for the year ended December 31, 1996 to $4.9 million for the year ended September 30, 1997. Gross margin increased from 23% to 27%, primarily due to increased labor efficiencies and an increase in higher margin high-rise residential contracts.

Selling, general and administrative expenses increased $0.4 million, or 23%, from $1.9 million for the year ended December 31, 1996 to $2.3 million for the year ended September 30, 1997, primarily due to increases in office salaries associated with increased revenues. As a percentage of revenues, selling, general and administrative expenses decreased from 15% to 13%.

Daniel results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $0.6 million, or 4%, from $12.0 million for the year ended December 31, 1995 to $12.6 million for the year ended December 31, 1996, primarily due to increased revenues from negotiated contracts in process during the year ended December 31, 1996.

Gross profit increased $2.6 million, or 786%, from $0.3 million for the year ended December 31, 1995 to $2.9 million for the year ended December 31, 1996. Gross margin increased from 3% to 23%, as a result of cost overruns incurred in 1995 on certain projects and an increase in labor efficiencies and an increase in higher margin high-rise residential contracts.

Selling, general and administrative expenses increased $0.4 million, or 25%, from $1.5 million for the year ended December 31, 1995 to $1.9 million for the year ended December 31, 1996, as a result of the increase in revenues.

DANIEL LIQUIDITY AND CAPITAL RESOURCES

Daniel generated $1.8 million in net cash from operating activities for the nine months ended September 30, 1997, primarily due to an increase in accounts receivable and accounts payable, both of which represented offsets to net income generated during the period. Net cash used in investing activities was approximately $0.9 million, principally for capital expenditures. Net cash used in financing activities was approximately $0.3 million, principally for shareholder distributions net of long-term borrowings.

Daniel generated $2.0 million in net cash from operating activities for the year ended September 30, 1997, primarily due to an increase in accounts receivable and accounts payable, both of which represented offsets to net income generated during the period. Net cash used in investing activities was approximately $1.3 million, principally for capital expenditures. Net cash used in financing activities was approximately $0.4 million, principally for shareholder distributions net of long-term borrowings.

Working capital as of September 30, 1997 was $4.5 million, and total debt outstanding was $0.7 million, of which $0.6 million was owed to a shareholder.

Days sales outstanding in accounts receivable increased from 42 days as of December 31, 1996, to 68 days as of September 30, 1997. Such increase is attributable to an increase in sales during the second and third quarters of 1997.

Daniel generated $1.2 million in net cash from operating activities for the year ended December 31, 1996, primarily due to an increase in collections of deposits and billings on contracts in progress. Net cash used in investing activities was approximately $0.5 million, principally for capital expenditures and increases in mutual fund investments. Net cash used in financing activities was approximately $0.4 million, principally for debt repayments.

Working capital as of December 31, 1996 was $2.4 million, and total debt outstanding was $0.6 million, all of which was owed to a shareholder.

AMBER RESULTS OF OPERATIONS

Amber was founded in 1979 and operates from its base near Orlando, Florida. Amber's revenues in fiscal 1996 were primarily from commercial and industrial contracting.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				YEAR ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,			
	1995		1996		1997		1996		1997	
					(IN THOUSANDS)		(UNAUDITED)			
Revenues........................	$9,728	100%	$13,878	100%	$16,386	100%	$10,572	100%	$13,080	100%
Cost of services................	8,635	89	12,215	88	13,415	82	8,710	82	9,910	76
Gross profit..................	1,093	11	1,663	12	2,971	18	1,862	18	3,170	24
Selling, general and administrative expenses.......	957	10	1,160	8	1,379	8	978	9	1,197	9
Income from operations........	$ 136	1%	$ 503	4%	$ 1,592	10%	$ 884	8%	$ 1,973	15%

Amber results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $2.5 million, or 24%, from $10.6 million for the nine months ended September 30, 1996 to $13.1 million for the nine months ended September 30, 1997, primarily from three large retail construction contracts in 1997.

Gross profit increased $1.3 million, or 70%, from $1.9 million in 1996 to $3.2 million in 1997. Gross margin increased from 18% to 24% over these periods. The improvement in gross margin was attributable to an increase in the number of commercial contracts with higher gross margins recognized.

Selling, general and administrative expenses increased 22% from $1.0 million to $1.2 million for the nine months ended September 30, 1996 compared to the nine months ended September 30, 1997.

Amber results of operations for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $2.5 million, or 18%, from $13.9 million for the year ended December 31, 1996 to $16.4 million for the year ended September 30, 1997, primarily due to three large retail construction contracts in 1997.

Gross profit increased $1.3 million, or 79%, from $1.7 million for the year ended December 31, 1996 to $3.0 million for the year ended September 30, 1997. Gross margins increased to 18% from 12% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are attributable to an increase in the overall demand, as well as demand for higher margin retail construction contracts.

Selling, general and administrative expenses increased 19% from $1.2 million to $1.4 million. As a percentage of revenues, selling, general and administrative expenses remained relatively constant in 1997 as compared to 1996.

Amber results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues increased $4.2 million, or 43%, from $9.7 million in 1995 to $13.9 million in 1996, primarily due to increased commercial construction of shopping malls and grocery stores in central Florida.

Gross profit increased $0.6 million, or 52%, from $1.1 million in 1995 to $1.7 million in 1996. Gross margin remained stable over these periods.

Selling, general and administrative expenses increased 21% from $1.0 million in 1995 to $1.2 million in 1996. The increase was attributable to increased management salaries associated with increased revenues.

AMBER LIQUIDITY AND CAPITAL RESOURCES

Amber generated $0.7 million of net cash from operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was approximately $0.3 million, primarily for additions to property and equipment. Net cash used in financing activities was not material in amount for the nine months ended September 30, 1997.

Amber generated $0.7 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was approximately $0.3 million, primarily for additions to property and equipment. Net cash provided by financing activities was not material for the year ended September 30, 1997.

At September 30, 1997, Amber had working capital of $1.8 million and total debt of $0.7 million.

Amber generated $0.7 million in net cash from operating activities for the year ended December 31, 1996, primarily for earnings and reductions in working capital. Net cash used in investing activities was approximately $0.2 million for additions of property and equipment. Net cash provided by financing activities was not material for the year ended December 31, 1996.

At December 31, 1996, Amber had working capital of $0.6 million and total debt of $0.7 million.

HAYMAKER RESULTS OF OPERATIONS

Haymaker was founded in 1981, is headquartered in Birmingham, Alabama, and operates in Alabama, northwest Florida and North Carolina. Haymaker's revenues in fiscal 1996 were primarily from commercial and industrial contracting services.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEAR ENDED DECEMBER 31, 1996		YEAR ENDED SEPTEMBER 30, 1997		NINE MONTHS ENDED SEPTEMBER 30, 1996		NINE MONTHS ENDED SEPTEMBER 30, 1997	
			(IN THOUSANDS)					
					(UNAUDITED)			
Revenues...................	$7,634	100%	$11,772	100%	$5,105	100%	$9,243	100%
Cost of services...........	6,412	84	9,920	84	4,419	87	7,927	86
Gross profit............	1,222	16	1,852	16	686	13	1,316	14
Selling, general and administrative expenses................	680	9	1,140	10	364	7	824	9
Income from operations...	$ 542	7%	$ 712	6%	$ 322	6%	$ 492	5%

Haymaker results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues increased $4.1 million, or 81%, from $5.1 million for the nine months ended September 30, 1996, to $9.2 million for the nine months ended September 30, 1997, primarily due to a large hospital contract and an overall increase in construction activity in Birmingham, Alabama.

Gross profit increased $0.6 million, or 92%, from $0.7 million for the nine months ended September 30, 1996 to $1.3 million for the same period in 1997. Gross margin increased to 14% in 1997 from 13% in 1996 over these periods. The increase in gross profit and gross margin was attributable to higher demand and lower than expected costs and certain fixed price contracts.

Selling, general and administrative expenses increased 126% from $0.4 million for the nine months ended September 30, 1996, to $0.8 million for the nine months ended September 30, 1997. The increase was attributable to higher bonus distributions under Haymaker's incentive compensation plan.

Haymaker results of operations for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues increased $4.2 million, or 54%, from $7.6 million for the year ended December 31, 1996 to $11.8 million for the year ended September 30, 1997, primarily due to a large hospital contract and an overall increase in construction activity in Birmingham, Alabama.

Gross profit increased $0.7 million, or 52%, from $1.2 million for the year ended December 31, 1996 to $1.9 million for the year ended September 30, 1997. Gross margins remained constant at 16%. The gross profit increase in 1997 when compared to 1996 was attributable to higher demand.

Selling, general and administrative expenses increased 68% from $0.7 million to $1.1 million due to higher bonus distributions under Haymaker's incentive compensation plan. As a percentage of revenues, selling, general and administrative expenses increased in 1997 as compared to 1996 by 1%.

HAYMAKER LIQUIDITY AND CAPITAL RESOURCES

Haymaker generated $0.4 million of net cash for operating activities for the nine months ended September 30, 1997. Net cash used in financing activities of $0.1 million resulted from repayments of short-term borrowings.

Haymaker generated $0.7 million of net cash from operating activities for the year ended September 30, 1997. Net cash used in investing activities was not material in amount. Net cash used by financing activities of $0.5 million resulted from distributions to owners of equity interests in consolidated entities.

At September 30, 1997, Haymaker had working capital of $1.6 million and no debt.

Haymaker used $0.1 million in net cash from operating activities for the year ended December 31, 1996. Net cash used by financing activities was $0.4 million for the year ended December 31, 1996 primarily as a result of distributions to owners of equity interests in consolidated entities.

At December 31, 1996 Haymaker had working capital of $1.3 million and no debt.

SUMMIT RESULTS OF OPERATIONS

Summit was founded in 1987 and is located in Houston, Texas. Summit's revenues in its fiscal year ended March 31, 1997 were primarily from commercial and industrial contracting. Summit has specialized expertise in data cable design and installation and lighting design.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEAR ENDED MARCH 31, 1997		YEAR ENDED SEPTEMBER 30, 1997		SIX MONTHS ENDED SEPTEMBER 30, 1996		SIX MONTHS ENDED SEPTEMBER 30, 1997	
				(IN THOUSANDS)	(UNAUDITED)			
Revenues	$10,565	100%	$10,995	100%	$5,735	100%	$6,165	100%
Cost of services	9,157	87	9,454	86	4,946	86	5,243	85
Gross profit	1,408	13	1,541	14	789	14	922	15
Selling, general and administrative expenses	1,340	12	1,463	13	699	12	822	13
Income from operations	$ 68	1%	$ 78	1%	$ 90	2%	$ 100	2%

Summit results for the six months ended September 30, 1997 compared to six months ended September 30, 1996

Revenues increased $0.5 million, or 7%, from $5.7 million for the six months ended September 30, 1996 to $6.2 million for the six months ended September 30, 1997, primarily due to the addition of large contracts with short construction periods.

Gross profit increased $0.1 million, or 17%, from $0.8 million for the six months ended September 30, 1996 to $0.9 million for the six months ended September 30, 1997. Gross margin increased from 14% to 15% from 1996 to 1997. The increase in gross profit was primarily attributable to high profitability on certain jobs with tight deadlines, partially offset by the write-off of a receivable from a contractor which went bankrupt.

Selling, general and administrative expenses increased 18% from $0.7 million to $0.8 million. The increase was attributable to management bonuses, higher insurance and business promotional expenses.

Summit results of operations for the year ended September 30, 1997 compared to the year ended March 31, 1997

Revenues increased $0.4 million, or 4%, from $10.6 million for the year ended March 31, 1997, to $11.0 million for the year ended September 30, 1997, primarily due to an increase in larger commercial contracts.

Gross profit increased $0.1 million, or 9%, from $1.4 million for the year ended March 31, 1997, to $1.5 million for the year ended September 30, 1997. Gross margins increased to 14% from 13% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are primarily attributable to the increase in larger commercial contracts.

Selling, general and administrative expenses increased 9% from $1.3 million to $1.5 million due to increases in management bonuses, higher insurance and business promotional expenses. As a percentage of revenues, selling, general and administrative expenses remained constant.

SUMMIT LIQUIDITY AND CAPITAL RESOURCES

Summit generated $0.1 million of net cash from operating activities for the six months ended September 30, 1997. Net cash provided by investing activities and net cash provided by financing activities were not material in amount for the six months ended September 30, 1997.

Summit generated near break-even levels of net cash from operating activities for the year ended September 30, 1997. Summit used $0.2 million of net cash from investing activities for the year ended September 30, 1997 primarily for the purchase of service trucks. Net cash provided by financing activities of $0.2 million resulted from borrowings of long-term debt.

At September 30, 1997, Summit had working capital of $0.6 million and total debt of $0.9 million.

Summit generated near break-even levels of net cash from operating activities for the year ended March 31, 1997. Net cash used in investing activities was approximately $0.2 million primarily for the purchase of service trucks. Net cash provided by financing activities was $0.2 million for the year ended March 31, 1997 primarily as a result of long-term borrowings.

At March 31, 1997 Summit had working capital of $0.6 million and total debt of $0.9 million.

THURMAN & O'CONNELL RESULTS OF OPERATIONS

Thurman & O'Connell was founded in 1988. It is headquartered in Louisville, Kentucky, and operates primarily in Louisville and the surrounding areas. Thurman & O'Connell's revenues in 1996 and 1997 were primarily from commercial and industrial contracting, with an emphasis on institutional and commercial properties.

The following table sets forth selected statement of operations data as a percentage of revenues for the periods indicated:

	YEARS ENDED DECEMBER 31,				YEAR ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,			
	1995		1996		1997		1996		1997	
					(IN THOUSANDS)		(UNAUDITED)			
Revenues......................	$4,729	100%	$4,551	100%	$4,049	100%	$3,741	100%	$3,239	100%
Cost of services.............	3,309	70	3,059	67	2,181	54	2,531	68	1,653	51
Gross profit................	1,420	30	1,492	33	1,868	46	1,210	32	1,586	49
Selling, general and administrative expenses.....	512	11	503	11	503	12	397	10	397	12
Income from operations......	$ 908	19%	$ 989	22%	$1,365	34%	$ 813	22%	$1,189	37%

Thurman & O'Connell results for the nine months ended September 30, 1997 compared to nine months ended September 30, 1996

Revenues decreased $0.5 million, or 13%, from $3.7 million in the nine months ended September 30, 1996 to $3.2 million in the nine months ended September 30, 1997, primarily due to the completion of a large multi-year hospital project in 1996.

Gross profit increased $0.4 million, or 31%, from $1.2 million in the nine months ended September 30, 1996 to $1.6 million in the nine months ended September 30, 1997, primarily due to favorable pricing on certain overbudget projects for which Thurman & O'Connell shares in the cost savings provided to its customers. Gross margin increased from 32% in the nine months ended September 30, 1996 to 49% in the nine months ended September 30, 1997 due to a large multi-year lower profit margin hospital project that was completed in 1996.

Selling, general and administrative expenses did not change significantly between the nine months ended September 30, 1997 and the nine months ended September 30, 1996.

Thurman & O'Connell results of operations for the year ended September 30, 1997 compared to the year ended December 31, 1996

Revenues decreased $0.6 million, or 11%, from $4.6 million for the year ended December 31, 1996, to $4.0 million for the year ended September 30 1997, primarily due to the completion of a large multi-year hospital project in 1996.

Gross profit increased $0.4 million, or 25%, from $1.5 million for the year ended December 31, 1996, to $1.9 million for the year ended September 30, 1997. Gross margin increased to 46% from 33% over these periods. The gross profit and gross margin increases in 1997 when compared to 1996 are attributable to favorable pricing on certain overbudget projects for which Thurman & O'Connell shared in the cost savings it provided to its customers.

Selling, general and administrative expenses did not change significantly between the year ended September 30, 1997 and the year ended December 31, 1996.

Thurman & O'Connell results for the year ended December 31, 1996 compared to the year ended December 31, 1995

Revenues decreased $0.1 million, or 4%, from $4.7 million in 1995 to $4.6 million in 1996, primarily due to the completion of a large multi-year hospital project in 1996.

Gross profit increased $0.1 million, or 5%, from $1.4 million in 1995 to $1.5 million in 1996. Gross margin increased 3% from 30% in 1995 to 33% in 1996.

Selling, general and administrative expenses remained relatively constant between 1995 and 1996.

THURMAN & O'CONNELL LIQUIDITY AND CAPITAL RESOURCES

Thurman & O'Connell generated $0.9 million of net cash for operating activities for the nine months ended September 30, 1997. Net cash used in investing activities was not material in amount. Net cash used by financing activities of $1.2 million primarily resulted from distributions to stockholders.

Thurman & O'Connell generated $0.9 million of net cash from operating activities for the year ended September 30, 1997. Net cash provided and used in investing activities was not material in amount. Net cash used in financing activities was $1.2 million, primarily for distributions to stockholders.

At September 30, 1997, Thurman & O'Connell had working capital of $1.5 million and total debt of $0.1 million.

Thurman & O'Connell generated $1.3 million in net cash from operating activities for the year ended December 31, 1996, primarily from earnings net of investments in working capital. Net cash used by financing activities was $0.6 million for the year ended December 31, 1996 primarily as a result of distributions to stockholders and payments on debt.

At December 31, 1996 Thurman & O'Connell had working capital of $1.3 million and total debt of $0.1 million.

SEASONALITY AND QUARTERLY FLUCTUATIONS

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

BUSINESS

IES was founded in June 1997 to create a leading national provider of electrical contracting and maintenance services to the commercial, industrial and residential markets. Concurrently with and as a condition to the closing of the Offerings, IES will acquire 15 electrical contracting and maintenance service companies and a related supply company with pro forma combined revenues of $312.7 million for the year ended September 30, 1997, making the Company one of the largest providers of electrical contracting and maintenance services in the United States. Of such pro forma revenues, approximately 63% was derived from commercial and industrial contracting, approximately 25% was derived from residential contracting and approximately 12% was derived from electrical maintenance work. Combined revenues of the Founding Companies, which have been in business an average of 18 years, increased at an average compound annual growth rate of approximately 23% from fiscal 1994 through 1996.

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

In certain markets the Company offers design-and-build expertise and specialized services, which typically require specific skills and equipment and provide higher margins than general electrical contracting and maintenance services. In a design-and-build project, the electrical contractor applies in-house electrical engineering expertise to design the most cost-effective electrical system for a given structure and purpose, taking into account local code requirements. Specialized services offered by the Company include installations of wiring or cabling for the following: data cabling for computer networks; fiber optic cable systems; telecommunications systems; energy management systems which control the amount of power used in facilities; fire alarm and security systems; cellular phone transmission sites; "smart houses" that integrate computer, energy management, security, safety, comfort and telecommunication systems; lightning protection systems; clean rooms for fabrication of microprocessors and similar devices; computer rooms; back-up electrical systems and uninterruptible power supplies; high voltage distribution and traffic signal systems.

INDUSTRY OVERVIEW

General. Virtually all construction and renovation in the United States generates demand for electrical contracting services. Depending upon the exact scope of work, electrical work generally accounts for approximately 8% to 12% of the total construction cost of the Company's commercial and industrial projects and 5% to 10% of the total construction cost of the Company's residential projects. In recent years, the Founding Companies have experienced a growing demand for electrical contracting services per project due to increased electrical code requirements, demand for additional electrical capacity, including increased capacity for computer systems, additional data cabling requirements and the construction of "smart houses" with integrated systems.

The overall electrical contracting industry, including commercial, industrial and residential markets, was estimated by the U.S. Census to have generated annual revenues in excess of $40 billion in 1992, the most recent available U.S. Census data. These Census data indicate that the electrical contracting industry is highly fragmented with more than 54,000 companies, most of which are small, owner-operated businesses, performing various types of electrical work. The Company believes there are significant opportunities for a well-capitalized national company to provide comprehensive electrical contracting and maintenance services and that the fragmented nature of the electrical contracting industry will provide significant opportunities to consolidate commercial and industrial and residential electrical contracting and maintenance service businesses.

Commercial and Industrial Market. Commercial and industrial consumers of electrical contracting and maintenance services include general contractors; developers; consulting engineers; architects; owners and managers of large retail establishments, office buildings, apartments and condominiums; theaters and restaurants; hotels and casinos; manufacturing and processing facilities; arenas and convention centers; hospitals; school districts; military and other government agencies; airports; prisons and car lots. High-rise residential projects are viewed as commercial rather than residential projects because the electrical wiring methods and field skills require similar techniques. Commercial and industrial electrical construction is most often performed by a subcontractor for a general contractor, although an electrical contractor may also perform services directly as a prime contractor. Generally, contracts are obtained through a competitive bid process or on negotiated terms through ongoing customer relationships.

Typically, electrical contracting services for the industrial and commercial market involve wiring a structure to specifications set by the customer, increasingly with design-and-build engineering expertise provided by the electrical contractor. The normal commercial or industrial job is wired through pipe or conduit, which is installed through metal or concrete structures. Some commercial and industrial contractors prefabricate certain components offsite, at the contractor's office or at the facilities of a subcontractor or manufacturer, and these items are transported to the job site ready to be installed.

From fiscal 1994 through 1996, the Founding Companies' revenues from electrical contracting for commercial and industrial customers have grown at an average compound annual rate of approximately 23% per year. The Company believes that growth in the commercial and industrial market reflects a number of factors, including (i) levels of construction and renovation activity; (ii) regulations imposed by electric codes, which establish minimum power and wiring requirements; (iii) safety codes mandating additional installation of smoke detectors and the use of ground fault circuit protection devices in more locations; (iv) revised national energy standards that dictate the use of more energy-efficient lighting fixtures and other equipment; (v) continuing demand to build out lease spaces in office buildings and to reconfigure space for new tenants; (vi) increases in use of electrical power, creating needs for increased capacity and outlets, as well as data cabling and fiber optics and (vii) requirements of building owners and developers to facilitate marketing their properties to tenants and buyers by installing electrical capacity in excess of minimum code requirements.

Residential Market. Contracting work for the residential market consists primarily of electrical installations in new single family and low-rise multifamily residence construction for customers such as large homebuilders and apartment developers. The Company also provides maintenance services to these customers as well as to individual property owners in some locations. The typical residential electrical wiring job is done with plastic-jacketed wiring installed through wood studs. As in the commercial and industrial market, the opportunities for design-and-build projects have grown recently for residential contractors. The residential market, with its repetitive floor plans, lends itself to prefabrication techniques. The use of prefabricated components increases productivity by reducing construction time, labor costs and skill requirements. The residential market is primarily dependent on the number of single family and multifamily home starts, which are in turn affected by interest rates, tax considerations and general economic conditions. Competitive factors particularly important in the residential market include a contractor's ability to build relationships with customers such as large homebuilders and apartment developers by providing services in diverse geographic markets as construction activity shifts to new locations. The Founding Companies' residential electrical contracting revenues have grown at an average compound annual rate of approximately 22% from fiscal 1994 through 1996.

Residential electrical contractors with specialized expertise and the necessary licenses are in a position to meet market demand for increasingly complex residential electrical systems. For example, some newly constructed homes have been designed as smart houses with integrated computer-controlled systems wired in during construction. In addition, more stringent building and fire codes have resulted in more complex wiring requirements for smoke detectors and alarms.

STRATEGY

The Company believes that its size, geographical diversity of operations, industry relationships, expertise in specialized markets, number of licensed electricians and access to design technology give the Company significant competitive advantages in the electrical contracting and maintenance services industry. Through increased size, the Company believes it will have greater ability to compete for larger jobs that require greater technical expertise, personnel availability and bonding capacity, to more effectively allocate and share resources in serving customers in each of its markets and to attract, train and retain qualified electricians. The Company also believes that increased size will provide increased efficiency in materials purchasing, computer system development, employee benefits, bonding, insurance and financing. The Company believes that the diversity of its operations will diminish the effects of regional and market downturns, offer opportunities to pursue growth in its existing markets and create a base of expertise to expand into new markets and serve new customers.

The Company plans to leverage its experienced management and extensive relationships within the electrical contracting industry to increase its revenues and reduce its cost infrastructure through internal growth as well as the acquisition of additional electrical contracting businesses. The Company's management includes a Chief Executive Officer and two Chief Operating Officers, each with 25 years or more of experience in the electrical contracting industry. The Company has extensive business relationships within the industry, in part through Founding Companies that are members of the IEC. The IEC is the second largest electrical trade organization in the U.S. and has nearly 3,000 contracting firms as members. The Company's Chief Executive Officer is a past president of the IEC, and two founders are members of the executive committee of the IEC. The IEC sponsors forum groups, which are discussion groups of members of the IEC that foster the sharing of best business practices. The Founding Companies are members of the IEC and other trade organizations, and the Company intends to expand the practice of sharing best practices among the Founding Companies and with future acquisitions.

The Company's goal is to become a leading national provider of electrical services by improving its operations, expanding its business and markets through internal growth and pursuing an aggressive acquisition strategy.

Operating Strategy. The Company believes there are significant opportunities to increase revenues and profitability of the Founding Companies and subsequently acquired businesses. The key elements of the Company's operating strategy are:

Share Information, Technical Capabilities and Best Practices. The Company believes it will be able to expand the services it offers in its local markets by leveraging the specialized technical and marketing strengths of individual Founding Companies. The Company will identify and share best practices that can be successfully implemented throughout its operations. The Company intends to use the computer-aided-design technology and expertise of certain of the Founding Companies to bid for more design-and-build projects and to assist customers in value engineering and creating project documents. The Company believes that its increased size, capital and workforce will permit it to pursue projects that require greater design and performance capabilities and the ability to meet accelerated timetables.

Expand Scope of Maintenance and Specialized Services. The Company intends to further develop its long-term and per call maintenance service operations, which generally realize higher gross margins and provide recurring revenues that are relatively independent of levels of construction activity. The Company also believes that certain specialized businesses currently offered by only a few of the Founding Companies can be expanded throughout the Company and in some cases can provide higher margins. Through sharing of expertise and specialized licenses and the ability to demonstrate a safety record in specialized markets served by the Founding Companies, the Company intends to expand its presence and profitability in markets where it previously relied on subcontractors.

Establish National Market Coverage. The Company believes that the growth of many of the Founding Companies has been restricted due to the geographic limitations of existing operations and that the Company's broad geographic coverage will increase internal growth opportunities. The Company intends to leverage its geographic diversity to bid for additional business from existing customers that operate on a regional and national basis, such as developers, contractors, homebuilders and owners of national chains. The Company believes that significant demand exists from such companies to utilize the services of a single electrical contracting and maintenance service provider and existing local and regional relationships can be expanded as the Company develops a nationwide network.

Operate on Decentralized Basis. The Company believes that, while maintaining strong operating and financial controls, a decentralized operating structure will retain the entrepreneurial spirit present in each of the Founding Companies. The Company also will be structured to allow it to capitalize on the considerable local and regional market knowledge and customer relationships possessed by each Founding Company, as well as companies that may be acquired in the future. By maintaining a local and regional focus in each of its markets, the Company believes it will be able to build relationships with general contractors and other customers, address design preferences and code requirements, respond quickly to customer demands for higher-margin renovation and upgrade projects and adjust to local conditions.

Attract and Retain Quality Employees. The Company believes that the ability to attract and retain qualified electricians is a critical competitive factor and that the Acquisitions and the Offerings will provide competitive advantages in this regard. The Company intends to attract and develop skilled employees by extending active recruiting and training programs, offering stock-based compensation for key employees, and offering expanded career paths and more stable income through the larger public company. The Company believes that this ability will allow it to increase efficiency and pursue additional customer relationships.

Achieve Operating Efficiencies. Certain administrative functions will be centralized following the Offerings. In addition, by combining overlapping operations of certain of the Founding Companies, the Company expects to realize savings in overhead and other expenses. The Company intends to use its increased purchasing power to gain volume discounts in areas such as electrical materials, vehicles, advertising, bonding, employee benefits and insurance. The Company will seek to realize cost savings and other benefits by the sharing of purchasing, pricing, bidding and other business practices and the sharing of licenses. The Company intends to further develop and extend the use of computer systems to facilitate communication among the Founding Companies. At some locations, the larger combined workforce will provide additional staffing flexibility.

Acquisition Strategy. The Company believes that, due to the highly fragmented nature of the electrical contracting and maintenance services industry, it has significant opportunities to pursue its acquisition strategy. The Company intends to focus on acquiring companies with management philosophies based on an entrepreneurial attitude as well as a willingness to learn and share improved business practices through open communications. The Company believes that many electrical contracting and maintenance service businesses that lack the capital necessary to expand operations will become acquisition candidates. For these acquisition candidates, the Company will provide (i) information on best practices, (ii) expertise to expand in specialized markets, (iii) the opportunity to focus on customers rather than administration, (iv) national name recognition, (v) increased liquidity and (vi) the opportunity for a continued role in management. The Founding Companies participate in professional associations such as the IEC and Associated Builders and Contractors, and the Company intends to continue these relationships, in part to assist in identifying attractive acquisition candidates. Other key elements of the Company's acquisition strategy are:

Enter New Geographic Markets. The Company will pursue acquisitions that are located in new geographic markets, are financially stable and have the customer base necessary to integrate with or complement its existing business. The Company also expects that increasing its geographic diversity will allow it to better serve an increasingly nationwide base of customers and further reduce the impact on the Company of local and regional economic cycles, as well as weather-related or seasonal variations in business.

Expand Within Existing Markets. Once the Company has entered a market, it will seek to acquire other well-established electrical contracting and maintenance businesses operating within that region, including "tuck-in" acquisitions of smaller companies. The Company believes that tuck-in acquisitions afford the opportunity to improve its overall cost structure through the integration of such acquisitions into existing operations as well as to increase revenues through access to additional specialized markets, such as heavy industrial markets. Despite the integration opportunities afforded by such tuck-in acquisitions, the Company intends to maintain existing business names and identities to retain goodwill for marketing purposes.

COMPANY OPERATIONS

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

In certain markets the Company offers design-and-build expertise and specialized services, which typically require specific skills and equipment and provide higher margins than general electrical contracting and maintenance services. The Company also acts as a subcontractor for a variety of national, regional and local builders in the installation of electrical and other systems.

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

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

Maintenance Services. The Company's maintenance services are supplied on a long-term and per call basis. The Company's long-term maintenance services are provided through service contracts that require the customer to pay an annual or semiannual fee for periodic diagnostic services at a specific discount from standard prices for repair and replacement services. The Company's per call maintenance services are initiated when a customer requests emergency repair service or the Company calls the client to schedule periodic maintenance work. Service technicians are scheduled for the call or routed to the customer's residence or business by the dispatcher. Service personnel work out of the Company's service vehicles, which carry an inventory of equipment, tools, parts and supplies needed to complete the typical variety of jobs. The technician assigned to a service call travels to the residence or business, interviews the customer, diagnoses the problem, prepares and discusses a price quotation, performs the work and often collects payment from the customer. Most work is warrantied for one year. During the year ended September 30, 1997, the Company had $35.8 million in revenues for periodic maintenance services provided under existing service contracts and for emergency or other routine service calls.

Major Customers. The Company has a diverse customer base, with no single customer accounting for more than 5% of the Company's pro forma combined revenues for the year ended September 30, 1997. As a result of emphasis on quality and worker reliability, management and a dedicated sales and work force at the Founding Companies have been responsible for developing and maintaining successful relationships with key customers. Customers of the Founding Companies generally include general contractors; developers; consulting engineers; architects; owners and managers of large retail establishments, office buildings, apartments and condominiums, theaters and restaurants; hotels and casinos; manufacturing and processing facilities; arenas and convention centers; hospitals; school districts; military and other government agencies; airports; prisons and car lots. The Company intends to continue its emphasis on developing and maintaining relationships with its customers by providing superior, high-quality service.

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

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

Purchasing. As a result of economies of scale derived through the Acquisitions and the Company's in-house supply operations, the Company believes it will be able to purchase equipment, parts and supplies at discounts to historical levels. In addition, as a result of the Company's size, it believes it will also lower its costs for (i) the purchase or lease and maintenance of vehicles; (ii) bonding, casualty and liability insurance; (iii) health insurance and related benefits; (iv) retirement benefits administration; (v) office and computer equipment; (vi) marketing and advertising; (vii) long distance services and (viii) a variety of accounting, financial management and legal services.

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

MANAGEMENT INFORMATION AND CONTROLS

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

PROPERTY AND EQUIPMENT

The Company operates a fleet of approximately 850 owned and leased service trucks, vans and support vehicles. It believes these vehicles generally are adequate for the Company's current operations.

At September 30, 1997, the Company maintained offices at 48 locations. All of the Company's facilities are leased. The Company's corporate headquarters are located in Houston, Texas. The paragraphs below summarize the Company's primary office and operating facilities.

The Company's primary warehouses, sales facilities and administrative offices are as follows, subject to consolidation of certain facilities to achieve operating efficiencies and subject to the execution of leases with certain owners of the Founding Companies in connection with the Acquisitions and the consummation of the Offerings:

LOCATION	APPROXIMATE SQUARE FT.	TYPE
Birmingham, AL	3,800	Offices
Phoenix, AZ	6,900	Offices
Scottsdale, AZ	6,400	Warehouse/Offices
Milford, CT	900	Warehouse/Offices
Miami, FL	19,000	Warehouse/Offices
Ocoee, FL	12,800	Warehouse/Offices
Vero Beach, FL	3,550	Warehouse/Offices
Aceworth, GA	5,256	Warehouse/Offices
Duluth, GA	3,875	Warehouse/Offices
Valdosta, GA	11,084	Warehouse/Offices
Louisville, KY	17,000	Warehouse/Offices
Monroe, NC	4,500	Warehouse/Offices
Henderson, NV	1,500	Warehouse/Offices
Cincinnati, OH	6,000	Warehouse/Offices
Deadwood, SD	2,650	Warehouse/Offices
Huron, SD	5,000	Warehouse/Offices/Showroom
Mitchell, SD	14,439	Warehouse/Offices
Mitchell, SD	8,000	Offices
Rapid City, SD	5,830	Warehouse/Offices
Sioux Falls, SD	5,000	Warehouse/Offices
Spearfish, SD	1,825	Warehouse/Offices
Watertown, SD	5,020	Warehouse/Offices
Austin, TX	3,465	Warehouse/Offices
Austin, TX	2,970	Warehouse/Offices
Austin, TX	1,200	Warehouse/Offices
Dallas, TX	32,424	Warehouse/Offices
Fort Worth, TX	18,000	Warehouse/Offices
Grapevine, TX	6,850	Warehouse/Offices
Houston, TX	23,040	Warehouse/Offices
Houston, TX	19,000	Warehouse
Houston, TX	8,722	Warehouse/Offices
Katy, TX	5,000	Warehouse/Offices
Laredo, TX	1,700	Warehouse/Offices
New Braunfels, TX	3,164	Warehouse/Offices
Rowlett, TX	4,000	Warehouse/Offices
Saginaw, TX	37,000	Warehouse/Offices
San Antonio, TX	16,692	Warehouse/Offices
San Antonio, TX	13,492	Warehouse/Offices
San Antonio, TX	6,535	Warehouse/Offices
San Antonio, TX	5,588	Warehouse/Offices
San Antonio, TX	5,000	Warehouse/Offices
Spring, TX	5,500	Warehouse/Offices
Stafford, TX	15,000	Warehouse/Offices
Stafford, TX	10,500	Warehouse/Offices
Stafford, TX	3,500	Warehouse/Offices
Stafford, TX	3,500	Warehouse/Offices
Stafford, TX	1,661	Office
Webster, TX	7,054	Warehouse/Offices
Everrett, WA	9,000	Lot
Everrett, WA	3,500	Warehouse/Offices

In addition to the facilities listed above, the Company may operate on a short-term basis in other locations as may be required from time to time to perform its contracts. Upon the consummation of the Offerings, the Company will lease its principal and administrative offices in Houston, Texas and is currently in the process of obtaining office space for this purpose.

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

COMPETITION

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

REGULATIONS

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

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

LITIGATION

Each of the Founding Companies has, from time to time, been a party to litigation arising in the normal course of its business, most of which involves claims for personal injury or property damage incurred in connection with its operations. Management believes that none of these actions will have a material adverse effect on the financial condition or results of operations of the Company.

EMPLOYEES

At September 30, 1997, the Company had approximately 3,550 employees. The Company is not a party to any collective bargaining agreements. The Company believes that its relationship with its employees is satisfactory.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information concerning the Company's directors and officers and those persons who will become directors, executive officers and certain key employees following the consummation of the Offerings:

NAME	AGE	POSITION
C. Byron Snyder	49	Chairman of the Board of Directors
Jon Pollock	51	President, Chief Executive Officer and Director*
Jerry Mills	57	Senior Vice President and Chief Operating Officer -- Commercial and Industrial and Director*
Ben L. Mueller	50	Senior Vice President and Chief Operating Officer -- Residential and Director*
Jim P. Wise	54	Senior Vice President and Chief Financial Officer
John F. Wombwell	36	Senior Vice President, General Counsel and Secretary*
John S. Stanfield	42	Vice President -- Mergers and Acquisitions
D. Merril Cummings	37	Vice President -- Mergers and Acquisitions
J. Paul Withrow	32	Vice President and Chief Accounting Officer
Richard Muth	50	President of Muth Electric, Inc., and Director*
Alan R. Sielbeck	44	Director*
Robert Stalvey	47	Vice President of Ace Electric, Inc., and Director*
Richard L. Tucker	62	Director*
Bob Weik	62	President of BW Consolidated, Inc., and Director*
Thomas E. White, Jr	53	Director*

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* Election as a director or officer of the Company effective upon the consummation of the Offerings.

Directors are elected at each annual meeting of stockholders. All officers serve at the discretion of the Board of Directors, subject to terms of their employment agreement terms. See "-- Employment Agreements."

C. Byron Snyder has been Chairman of the Board of Directors of the Company since its inception. Mr. Snyder is owner and President of Relco Refrigeration Co., a distributor of refrigerator equipment, which he acquired in 1992. Prior to 1992, Mr. Snyder was the owner and Chief Executive Officer of Southwestern Graphics International, Inc., a diversified holding company which owned Brandt & Lawson Printing Co., a Houston-based general printing business, and Acco Waste Paper Company, an independent recycling business. Brandt & Lawson Printing Co. was sold to Hart Graphics in 1989, and Acco Waste Paper Company was sold to Browning-Ferris Industries in 1991. Mr. Snyder is a director of Carriage Services, Inc., a publicly held death care company.

Jon Pollock will become President, Chief Executive Officer and a director of the Company upon consummation of the Offerings. Mr. Pollock has been the president of Pollock Electric Inc., one of the Founding Companies, since he founded that company in 1983. Mr. Pollock is a Registered Professional Engineer in Texas and several other states and holds Master Electrician licenses from 50 different jurisdictions. Mr. Pollock received a bachelor of science in electrical engineering from Washington University. Mr. Pollock is past National President of the Independent Electrical Contractors Association and received the IEC Electrical Man of the Year award in 1996. As National President of the IEC, Mr. Pollock was responsible for overseeing the IEC's activities relating to the development and execution of apprenticeship and safety training programs, industry lobbying activities and the development of national electrical code standards.

Jerry Mills will become Senior Vice President and Chief Operating Officer -- Commercial and Industrial and a director of the Company upon consummation of the Offerings. Mr. Mills has been the President of Mills Electrical Contractors, Inc., one of the founding companies, since he began that company in 1972. Mr. Mills is a past board member of the Independent Electrical Contractors, the Associated Builders and Contractors, the Associated General Contractors and the Richardson Electrical Board. Prior to 1972, Mr. Mills was an officer and part owner of Koegel Cash Consulting Engineers.

Ben L. Mueller will become Senior Vice President, Chief Operating Officer -- Residential and a director of the Company upon consummation of the Offerings. Mr. Mueller has been the Executive Vice President of Houston-Stafford since 1993 and has served as vice president of Houston-Stafford since 1975. Mr. Mueller is a past member of the board of the IEC, Houston Chapter, and has served on the Electrical Board for the City of Sugar Land, Texas.

Jim P. Wise joined the Company in September 1997 as Senior Vice President and Chief Financial Officer. From September 1994 to September 1997, he was Vice President -- Finance and Chief Financial Officer at Sterling Chemicals, Inc., a publicly held manufacturer of commodity petrochemicals and pulp chemicals. From July 1994 to September 1994, he was Senior Vice President and Chief Financial Officer of U.S. Delivery Systems, Inc., a delivery service consolidator. From September 1991 to July 1994, he was Chairman and Chief Executive Officer of Neostar Group, Inc., a private investment banking and financial advisory firm. Mr. Wise was employed by Transco Energy Company as Executive Vice President, Chief Financial Officer and was a member of the Board of Directors from November 1982 until September 1991.

John F. Wombwell will become Senior Vice President, General Counsel and Secretary of the Company upon consummation of the Offerings. Mr. Wombwell is currently a partner at Andrews & Kurth L.L.P., where he has practiced law in the area of corporate and securities matters for more than five years.

John S. Stanfield joined the Company as Vice President -- Mergers and Acquisitions in October 1997. From March 1996 to October 1997, he served as Controller of Pollock Electric, Inc., one of the Founding Companies. From April 1993 through March 1996, Mr. Stanfield was an independent financial consultant, specializing in acquisition, corporate reorganization, and accounting and financial control services. From 1988 through 1993, Mr. Stanfield served as Chief Financial Officer for companies in the distribution and manufacturing industries. Mr. Stanfield was employed in various positions by Arthur Andersen LLP from 1978 through 1988. Mr. Stanfield is a Certified Public Accountant.

D. Merril Cummings joined the Company as Vice President -- Mergers and Acquisitions in October 1997. Mr. Cummings has served as a consultant to the Company since its inception in June 1997. From February 1997 through June 1997 he served as a consultant to C. Byron Snyder and his privately owned corporations. From 1992 through 1996, Mr. Cummings served as Vice President and Chief Financial Officer for J A Interests, Inc., a private asset management company, and its commonly owned affiliates, including Southern Jet Management, Inc., a general aviation services and charter company. From 1982 through January 1992, Mr. Cummings held various positions with Arthur Andersen LLP. Mr. Cummings is a Certified Public Accountant.

J. Paul Withrow has served as Vice President and Chief Accounting Officer of the Company since October 1997. From 1987 to 1997, Mr. Withrow held various positions with Arthur Andersen LLP. Mr. Withrow is a Certified Public Accountant.

Richard Muth will become a director of the Company upon consummation of the Offerings. Mr. Muth founded Muth Electric, Inc. in 1970 and has been the owner and president since that time. Mr. Muth served on the South Dakota State Electrical Commission from 1980 to 1991 and the Associated General Contractors Associate Division Board. Mr. Muth also received the South Dakota Electrical Council "Man of the Year" award in 1993. Mr. Muth holds electrical contractors' licenses in South Dakota, Minnesota, Nebraska, Wyoming and Montana.

Alan R. Seilbeck will become a director of the Company upon consummation of the Offerings. Mr. Sielbeck has served as Chairman of the Board and Chief Executive Officer of Service Experts, Inc., a publicly traded heating, ventilation and air conditioning service company, since its inception in March 1996. Mr. Sielbeck has served as Chairman of the Board and President of AC Service and Installation Co. Inc. and Donelson Air Conditioning Company, Inc. since 1990 and 1991, respectively. From 1985 to 1990, Mr. Sielbeck served as President of RC Mathews Contractor, Inc., a commercial building general contractor, and Chief Financial Officer of RCM Interests, Inc., a commercial real estate development company.

Robert Stalvey will become a director of the Company upon consummation of the Offerings. Mr. Stalvey has served as Vice President of Ace since 1976. Mr. Stalvey will continue to serve in these positions following the consummation of the Offerings.

Richard L. Tucker will become a director of the Company upon consummation of the Offerings. Dr. Tucker holds the Joe C. Walter Jr. Chair in Engineering, is Director of the Construction Industry Institute, and is Director of the Sloan Program for the Construction Industry at the University of Texas at Austin. Dr. Tucker has been on the faculty at the University of Texas since 1976. Dr. Tucker is a registered engineer.

Bob Weik will become a director of the Company upon consummation of the Offerings. Mr. Weik has served as President, Treasurer and a director of the Bexar-Calhoun companies since their inception in 1958. Mr. Weik will continue to serve in those positions following the consummation of the Offerings.

Thomas E. White, Jr. will become a director of the Company upon consummation of the Offerings. Mr. White has served as Chairman and Chief Executive Officer of Enron Ventures Corp., a subsidiary of Enron Corp., since December 1996. Mr. White served as Chairman and Chief Executive Officer of Enron Operations Corp. from June 1993 until December 1996. Mr. White served as Chairman and Chief Executive Officer of Enron Power Corp. from June 1991 until June 1993. Mr. White joined Enron Corp. in 1990 as Vice President of Operations for Enron Power Corp., after a twenty-three year career in the United States Army, from which he retired in July 1990 with the rank of Brigadier General.

The Board of Directors will establish an Audit Committee and a Compensation Committee. The Audit Committee will recommend the appointment of auditors and oversee the accounting and audit functions of the Company. The Compensation Committee will determine the salaries and bonuses of executive officers and administer the 1997 Stock Plan. Messrs. Seilbeck, Tucker and White will serve as members of the Company's Compensation Committee and Audit Committee. Any future material transactions, including the issuance of securities other than through the 1997 Stock Plan and the 1997 Directors Stock Plan, between the Company and its management and affiliates will be subject to prior review and approval by the members of the Board of Directors without an interest in such transaction.

The Board of Directors is divided into three classes of directors, with directors serving staggered three-year terms, expiring at the annual meeting of stockholders following the 1998 fiscal year (Class I), 1999 fiscal year (Class II) and 2000 fiscal year (Class III), respectively. At each annual meeting of stockholders, one class of directors will be elected for a full term of three years to succeed that class of directors whose terms are expiring. Effective upon consummation of the Offerings, the Board of Directors will be classified as follows: Class I--C. Byron Snyder, Jon Pollock, Bob Weik and Alan R. Sielbeck; Class II--Jerry Mills, Richard Muth and Richard L. Tucker; Class III--Ben L. Mueller, Robert Stalvey and Thomas E. White, Jr.

C. Byron Snyder and trusts for the benefit of his children, as the holders of all of the outstanding Restricted Common Stock, will be entitled to elect one member of the Company's Board of Directors and to one-half of one vote for each share held on all other matters. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors. Only the holders of the Restricted Common Stock may remove the director such holders are entitled to elect. See "Description of Capital Stock."

DIRECTOR COMPENSATION

Directors who are employees of the Company or a subsidiary do not receive additional compensation for serving as directors. Each director who is not an employee of the Company or a subsidiary will receive a fee of $2,000 for attendance at each Board of Directors meeting and $1,000 for each committee meeting (unless held on the same day as a Board of Directors meeting). Directors of the Company will be reimbursed for reasonable out-of-pocket expenses incurred in attending meetings of the Board of Directors or committees thereof, and for other expenses reasonably incurred in their capacity as directors of the Company. Each non-employee director will receive stock options to purchase 5,000 shares of Common Stock upon initial election to the Board of Directors and thereafter an annual grant of 5,000 options on each September 30 on which the non-employee director continues to serve. See "-- 1997 Directors Stock Plan."

EXECUTIVE COMPENSATION

The Company was incorporated in June 1997 and, prior to the Offerings, has not conducted any operations other than activities related to the Acquisitions and the Offerings. During 1998 the annualized base salaries of its most highly compensated executive officers will be: Mr. Pollock -- $225,000, Mr. Mills -- $200,000, Mr. Mueller -- $200,000, Mr. Wise -- $190,000 and Mr. Wombwell -- $190,000.

EMPLOYMENT AGREEMENTS

The Company will enter into employment agreements with each executive officer of the Company which prohibits such officer from disclosing the Company's confidential information and trade secrets and generally restricts these individuals from competing with the Company for a period of two years after the date of the termination of employment with the Company. Each of the agreements has an initial term of five years and provides for annual extensions at the end of its initial term, subject to the parties' mutual agreement, and is terminable by the Company for "cause" upon ten days' written notice and without "cause" (i) by the employee upon thirty days' written notice or (ii) by the Company upon approval of 51% of the Board of Directors. The employment agreements provide that the Company shall pay each executive officer the annual salary set forth above under "-- Executive Compensation," which salary may be increased by the Board of Directors. Such agreements also provide that each executive officer will be reimbursed for out-of-pocket business expenses and shall be eligible to participate in all benefit plans and programs as are maintained from time to time by the Company. All employment agreements provide that if the officer's employment is terminated by the Company without "cause" or is terminated by the officer for "good reason," the officer will be entitled to receive a lump sum severance payment at the effective time of termination equal to the base salary (at the rate then in effect) for the greater of (i) the time period remaining under the term of the agreement or (ii) one year. In addition, the time period during which such officer is restricted from competing with the Company will be shortened from two years to one year.

The employment agreements contain certain provisions concerning a change-in-control of the Company, including the following: (i) in the event the officer's employment is terminated within two years following the change in control by the Company other than for "cause" or by the officer for "good reason," or the officer is terminated by the Company within three months prior to the change in control at the request of the acquirer in anticipation of the change in control, the officer will be entitled to receive a lump sum severance amount equal to the greater of (i) three years' base salary or (ii) the base salary for whatever period is then remaining on the initial term and the provisions which restrict competition with the Company shall not apply; (ii) in any change-of-control situation, the officer may elect to terminate his employment by giving five business days' written notice prior to the closing of the transaction giving rise to the change-in-control, which will be deemed a termination of employment by the Company without "cause," and the provisions of the employment agreement governing the same will apply, except that the severance amount otherwise payable shall be doubled (but not to exceed six times the officer's base pay) (if the successor does not give written notice of its acceptance of the Company's obligations under the employment agreement at least ten business days prior to the anticipated closing date, the severance amount shall be tripled, but not to exceed nine times base salary) and provisions which restrict competition with the Company shall not apply; and (iii) if any payment to the officer is subject to the 20% excise tax on excess parachute payments, the officer shall be made "whole" on a net aftertax basis. A change in control is generally defined to occur upon (i) the acquisition by any person of 20% or more of the total voting power of the outstanding securities of the Company, (ii) the first purchase pursuant to a tender or exchange offer for Common Stock, (iii) the approval of certain mergers, sale of substantially all the assets, or dissolution of the Company or (iv) a change in a majority of the members of the Company's Board of Directors.

In general, a "parachute payment" is any "payment" made by the Company in the nature of compensation that is contingent on a change in control of the Company and includes the present value of the accelerations of vesting and the payment of options and other deferred compensation amounts upon a change in control. If the aggregate present value of the parachute payments to certain individuals, including officers, equals or exceeds three times that individual's "base amount" (generally, the individual's average annual compensation from the Company for the five calendar years ending before the date of the change in control), then all parachute amounts in excess of the base amount are "excess" parachute payments. An individual will be subject to a 20% excise tax on excess parachute amounts and the Company will not be entitled to a tax deduction for such payments.

1997 STOCK PLAN

The Company's 1997 Stock Plan was adopted by the Board of Directors and stockholders in October 1997. The purpose of the 1997 Stock Plan is to provide officers, employees and consultants with additional incentives by increasing their ownership interests in the Company. Individual awards under the 1997 Stock Plan may take the form of one or more of: (i) either incentive stock options ("ISOs") or non-qualified stock options ("NQSOs"); (ii) stock appreciation rights; (iii) restricted or phantom stock; (iv) bonus stock awards; (v) awards not otherwise provided for, the value of which is based in whole or in part upon the value of the Common Stock and (vi) cash awards that may or may not be based on the achievement of performance goals, including goals related to one or more of the following: cash flow, return on equity, sales, profit margin, earnings per share and stock price.

The Compensation Committee or the Company's President, to the extent such duties are delegated to him by the Compensation Committee, will administer the 1997 Stock Plan and select the individuals who will receive awards and establish the terms and conditions of those awards. The Compensation Committee will not be eligible to receive awards under the plan, and the President will not have the authority to make grants to officers or directors of the Company. See "Management -- Directors and Executive Officers" for the composition of the Compensation Committee following the consummation of the Offerings. The maximum number of shares of Common Stock that may be subject to outstanding awards, determined immediately after the grant of any award, may not exceed the greater of 3,500,000 shares or 15% of the aggregate number of shares of Common Stock outstanding; provided, however, that ISOs may not be granted with respect to more than 1,000,000 shares. Shares of Common Stock which are attributable to awards which have expired, terminated or been canceled or forfeited are available for issuance or use in connection with future awards. The maximum number of shares of Common Stock with respect to which any person may receive options and stock appreciation rights in any year is 250,000 shares and the maximum value of any other amount may not exceed $4 million as of the date of its grant.

The 1997 Stock Plan will remain in effect for ten years, unless earlier terminated by the Board of Directors. The 1997 Stock Plan may be amended by the Board of Directors or the Compensation Committee without the consent of the stockholders of the Company, except that any amendment will be subject to stockholder approval if required by any federal or state law or regulation or by the rules of any stock exchange or automated quotation system on which the Common Stock may then be listed or quoted.

NQSOs to purchase 150,000 shares of Common Stock have been granted to each of Mr. Wise and Mr. Wombwell. In addition, at the consummation of the Offerings, NQSOs to purchase approximately 2,328,600 shares will be granted to other key employees of the Company and to employees of the Founding Companies. Each of the foregoing options will have an exercise price equal to the initial public offering price of the shares offered hereby, other than the options granted to Messrs. Wise and Wombwell, which have been granted with exercise price equal to 60% of the initial public offering price per share. Each of these options will vest at the rate of 20% per year, commencing on the first anniversary of grant and will expire at the earliest of (i) ten years from the date of grant, (ii) three months following termination of employment, other than due to death or disability or (iii) one year following a termination of employment due to death or disability.

1997 DIRECTORS STOCK PLAN

The Company's 1997 Directors Stock Plan was adopted by the Board of Directors and approved by the Company's stockholders in October 1997. The Directors Plan provides for (i) the automatic grant to each non-employee director serving at the consummation of the Offerings of an option to purchase 5,000 shares,

(ii) the automatic grant to each non-employee director of an option to purchase 5,000 shares upon such person's initial election as a director and (iii) an automatic annual grant to each non-employee director of an option to purchase 5,000 shares on each September 30th on which such director remains a non-employee director. All options will have an exercise price per share equal to the fair market value of the Common Stock on the date of grant, will vest over five years at the rate of 20% per year and will expire on the earliest of (i) ten years from the date of grant, (ii) three months after termination of service as a director, other than due to death or disability or (iii) one year following a termination of employment due to death or disability. In addition, options can be granted to a non-employee director upon such terms as the Board determines, whenever it believes such additional grant is appropriate. The maximum number of shares of Common Stock that may be subject to outstanding awards determined immediately after the grant of any award is 250,000.

CERTAIN TRANSACTIONS

ORGANIZATION OF THE COMPANY

The Company was founded in June 1997 by C. Byron Snyder. In connection with the formation of IES, IES issued to Mr. Snyder, the Snyder Children's Trust and D. Merril Cummings a total of 2,329,600 shares of Common Stock for nominal consideration. The shares issued to the Snyder Children's Trust were subsequently transferred to two separate trusts, each for the benefit of one of Mr. Snyder's children. Mr. Snyder is currently president and a director of the Company. The trustees of the trusts are independent third parties not subject to control by Mr. Snyder. In September 1997, IES issued an additional 442,589 shares to Mr. Snyder and such trusts. The total value of the shares (based upon a value of $10.50 per share) issued to Mr. Snyder and the trusts will be recognized as acquisition costs in connection with the Acquisitions. In October 1997, Mr. Snyder and the trusts exchanged 2,655,709 shares of Common Stock for an equal number of shares of Restricted Common Stock. Mr. Snyder has agreed to advance whatever funds are necessary to effect the Acquisitions and the Offerings. As of September 30, 1997, Mr. Snyder had outstanding advances to the Company in the aggregate amount of approximately $1.6 million at September 30, 1997. The initial $1 million of such advances bears interest at a stated rate (8.5% as of the date of this Prospectus), and additional advances bear interest at LIBOR plus 1.5%. All of Mr. Snyder's advances will be repaid from the net proceeds of the Offerings.

The Company has issued a total of 1,396,602 shares of Common Stock at $.01 per share to various members of management, including: Mr. Pollock -- 465,914 shares, Mr. Mills -- 232,957 shares, Mr. Mueller -- 232,957 shares, Mr. Wise -- 100,000 shares, Mr. Wombwell -- 100,000 shares and other key employees -- 264,774 shares. The Company also granted options to purchase 5,000 shares of Common Stock under the 1997 Directors Stock Plan, effective upon the consummation of the Offerings, to each of the non-employee directors of the Company.

Simultaneously with the closing of the Offerings, the Company will acquire by stock purchase all the issued and outstanding capital stock and other equity interests of the Founding Companies, at which time each Founding Company will become a wholly owned subsidiary of the Company. The Acquisitions Consideration was negotiated by the parties and was based primarily upon the pro forma adjusted net income of each Founding Company. The Acquisitions Consideration consists of (i) an estimated $57.5 million in cash (subject to adjustment based on the initial public offering price) and (ii) 12,313,025 shares of Common Stock. In addition, the Company intends to repay approximately $6.4 million of the historical indebtedness of the Founding Companies with proceeds from the Offerings. In connection with the Acquisitions, owners of certain of the Founding Companies will receive the Owner Amounts, as described below. The Company expects to issue approximately $13.3 million of notes payable to fund a portion of the Owner Amounts. Following the consummation of the Offerings, such notes payable will be repaid with borrowings under the proposed credit facility.

The consummation of each Acquisition is subject to customary conditions. These conditions include, among others, the accuracy of the representations and warranties by the Founding Companies, their stockholders and the Company; the performance by each of the parties of their respective covenants; and the nonexistence of a material adverse change in the results of operations, financial condition or business of each Founding Company. There can be no assurance that the conditions to closing of the Acquisitions will be satisfied or waived or that the acquisition agreements will not be terminated prior to consummation.

The following table sets forth for each Founding Company (i) the approximate portion of the Acquisitions Consideration to be paid to the stockholders of each of the Founding Companies in cash and in shares of Common Stock, which cash is subject to adjustments based on the initial public offering price of the Common Stock offered hereby and (ii) the total debt which would have been assumed by the Company as of September 30, 1997, which represents historical indebtedness, excluding (a) indebtedness transferred to owners of the Founding Companies, (b) capital lease obligations and (c) indebtedness incurred to fund a portion of the Owner Amounts:

	CASH	SHARES OF COMMON STOCK	TOTAL DEBT
	(DOLLARS IN THOUSANDS)		
Houston-Stafford	$15,643	3,352,039	$1,120
Mills	11,637	2,493,657	400
Bexar-Calhoun	8,696	1,863,397	179
Pollock	1,092	319,729	1,718
Muth	2,209	473,324	540
Daniel	3,975	851,823	--
Amber	2,486	532,728	747
Haymaker	2,029	434,735	--
Summit	1,900	321,506	794
Thurman & O'Connell	2,331	499,600	95
Rodgers	1,684	360,725	94
Hatfield	972	208,357	331
Ace	892	191,056	--
Reynolds	939	201,191	400
Popp	976	209,158	--
Total	$57,461	12,313,025	$6,418

The foregoing table does not include Owner Amounts (based on September 30, 1997 balances) having an aggregate net book value of $30.6 million, as follows: $5.9 million to be received by the owners of Houston-Stafford, $9.4 million to be received by the owners of Mills, $2.0 million to be received by the owners of Bexar-Calhoun, $383,000 to be received by the owner of Pollock, $1.8 million to be received by the owners of Muth, $4.3 million to be received by the owner of Daniel, $1.3 million to be received by the owners of Amber, $1.2 million to be received by the owners of Haymaker, $400,000 to be received by the owner of Summit, $1.6 million to be received by the owners of Thurman & O'Connell, $981,000 to be received by the owners of Rodgers, $46,000 to be received by the owners of Hatfield, $407,000 to be received by the owners of Ace, $261,000 to be received by the owners of Reynolds and $578,000 to be received by the owners of Popp. The Owner Amounts were determined on the basis of negotiations between the Founding Companies and IES in connection with entering into the various stock purchase agreements. The Owner Amounts consist of transfers of cash in excess of an agreed amount, nonoperating assets and liabilities, and net earnings of the Founding Companies from July 1, 1997, through the date of the closing of the Acquisitions.

Pursuant to the agreements relating to the Acquisitions, all stockholders of each of the Founding Companies have agreed not to compete with the Company for a period of two years after the termination of their affiliation with the Company. In connection with the Acquisitions, the Company and the owners of the Founding Companies have agreed to indemnify each other for breaches of representations and warranties and certain other matters, subject to certain limitations.

Individuals who are or will become executive officers or directors of the Company will receive the following portions of the Acquisitions Consideration for their interests in the Founding Companies, subject to adjustments as described above.

COMPANY	CASH	SHARES OF COMMON STOCK
Houston-Stafford		
Ben Mueller	$ 5,005,712	1,072,652
Mills		
Jerry Mills	10,022,624	2,147,705
Bexar-Calhoun		
Bob Weik(a)	6,649,695	1,424,935
Pollock		
Jon Pollock	1,092,069	319,729
Muth		
Richard Muth(b)	2,088,961	447,635
Ace		
Robert Stalvey	445,799	95,528
Total	$25,304,860	5,508,184

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(a) Excludes cash of $347,834 and 74,536 shares of Common Stock to be received by two related trusts in which Mr. Weik may be deemed to have an interest, as to which Mr. Weik disclaims beneficial ownership.

(b) Excludes cash of $119,883 and 25,689 shares of Common Stock to be received by Mr. Muth's wife, Darlene Muth, as to which he disclaims beneficial ownership.

The foregoing table does not include Owner Amounts that will be received by the named individuals.

TRANSACTIONS INVOLVING CERTAIN OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

During fiscal 1994, 1995 and 1996, Houston-Stafford made payments totaling $174,000, $124,000 and $187,000, respectively, to the Brown-Mueller Joint Venture, a general partnership of which Mr. Mueller is a member, for lease payments on certain real properties used as electrical shops. For the year ended September 30, 1997, such lease payments totaled $109,000. Mr. Mueller will become Senior Vice President, Chief Operating Officer -- Residential and a director the Company following the consummation of the Offerings.

At December 31, 1996, Houston-Stafford owed Mr. Mueller $185,985 on a promissory note, payable in monthly installments and maturing April 2001. Such note was prepaid by Houston-Stafford in October 1997.

At December 31, 1996, Houston-Stafford owed Mr. Mueller $766,400 related to a promissory note maturing August 2003 and secured by Mr. Mueller's stock in Houston-Stafford, and such obligation and any related obligations shall be terminated at the consummation of the Offerings. Mr. Mueller will receive approximately $5 million and 1.1 million shares of Common Stock in connection with the Acquisitions in exchange for such promissory note, as well as 0.2 million shares for his new role as a member of IES management. Houston-Stafford will recognize a non-cash, non-recurring compensation charge of approximately $18.0 million related to the transfer of such cash and shares of Common Stock to Mr. Mueller at the time of the Acquisitions.

Pursuant to a 5-year lease agreement effective November 1, 1997, Houston-Stafford agreed to lease certain facilities owned by Mr. Mueller in Spring, Texas. Such lease agreement provides for an annual rent of $20,000, which the Company believes is not in excess of fair rental value for such facilities.

During fiscal 1994, Mills derived contract revenues of $187,000 from CIMA Services, Inc. ("CIMA"), an electrical services company of which Mr. Mills was a part owner until October 1997. Additionally, during fiscal 1994, Mills paid $2,900,000 to CIMA for material purchases. At December 31, 1994, Mills had outstanding accounts receivable from CIMA of $145,000 and accounts payable to CIMA of $294,000. Mr. Mills will become Senior Vice President and Chief Operating Officer -- Commercial and Industrial and a director of the Company following the consummation of the Offerings.

During fiscal 1995, Mills derived contract revenues of $1.1 million from CIMA. Additionally, during fiscal 1995, Mills paid $812,000 to CIMA for material purchases. At December 31, 1995, Mills had outstanding accounts receivable from CIMA of $2,000 and accounts payable to CIMA of $23,000.

During fiscal 1996, Mills derived contract revenues of $1.3 million from CIMA. Additionally, during fiscal 1996, Mills paid $1.1 million to CIMA for material purchases. At December 31, 1996, Mills had outstanding accounts receivable from CIMA of $208,000 and accounts payable to CIMA of $633,000.

From January 1, 1997 to September 1, 1997, Mills derived contract revenues of $776,000 from CIMA. Additionally, during this period of time, Mills paid $1.1 million to CIMA for material purchases. At August 31, 1997, Mills had outstanding accounts receivable from CIMA of $314,000 and accounts payable to CIMA of $119,000.

Mills leases certain real property from Mr. Mills. Amounts paid pursuant to this lease were $26,000 for 1995, $156,000 for 1996 and $117,000 for the nine months ended September 30, 1997.

During 1995, Mr. Weik incurred indebtedness from Bexar-Calhoun of which the largest aggregate amount outstanding at any time was $647,000. All of such indebtedness was repaid as of April 18, 1997. Mr. Weik will become a director of the Company following the consummation of the Offerings.

During 1997, Mr. Weik incurred indebtedness from Bexar-Calhoun of which the largest aggregate amount outstanding at any time was $533,525. All of such indebtedness was repaid as of August 6, 1997.

Prior to the closing of the Acquisitions and the consummation of the Offerings, Bexar-Calhoun will distribute all interest it owns, directly or indirectly, in real property to Mr. Weik and his immediate family. It is anticipated that such real estate will be leased to the Company for an annual rent of approximately $150,000. The Company believes that such rent is not in excess of fair rental value for such facilities.

Pollock leases certain real property from Mr. Pollock. Amounts paid pursuant to this lease were $20,000 for fiscal 1995, $36,000 for fiscal 1996 and $36,000 for fiscal 1997.

Since January 1, 1996, Mr. Muth has from time to time incurred indebtedness from Muth, of which the largest aggregate amount outstanding at any time was $205,000. All amounts owed by Mr. Muth to Muth will be repaid prior to the closing of the Offerings. Mr. Muth will become a director of the Company following the consummation of the Offerings.

Prior to the closing of the Acquisitions and the consummation of the Offerings, certain assets of Muth will be purchased by Mr. Muth for $217,140.

From time to time in the past Muth has completed electrical contracts for Muth Properties, L.L.C., a limited liability company of which Mr. Muth is a member. Total electrical contracts completed by Muth for Muth Properties, L.L.C. were $82,731 for 1995, $82,032 for 1996 and $120,915 for the six months ended June 30, 1997. Prior to the closing of the Acquisitions and the consummation of the Offerings, a final payment of $162,900 will be made by Muth Properties, L.L.C. to Muth.

Prior to July 1, 1997, Muth leased certain real property from Mr. Muth, d/b/a D & D Properties. Lease payments made by Muth to Mr. Muth totaled $80,725 for 1994, $95,180 for 1995, $118,088 for 1996 and $56,906 for the six months ended June 30, 1997. Effective July 1, 1997, Muth Properties, L.L.C. became the lessor of these properties. It is anticipated that annual rentals paid to Muth Properties, L.L.C. by Muth will be approximately $120,000.

Stalvey Rentals, a general partnership of which Mr. Stalvey is a member, is presently constructing a new facility to lease to Ace in Valdosta, Georgia and an inducement letter has been executed regarding Ace's commitment to lease the new facility for a period of 20 years beginning as soon as a certificate of occupancy is obtained. Concurrently with the closing of the Acquisitions, Ace will enter into a five year lease, with a five year option period, with Mr. Stalvey and his brother. Initial annual rent on this facility will be $103,200, without respect to property taxes and insurance. Mr. Stalvey will become a director of the Company following the consummation of the Offerings.

In addition to the transactions described above, certain of the Founding Companies have entered into lease agreements with parties related to the Company, for rents that the Company believes are not in excess of fair rental value.

PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to beneficial ownership of the Company's Common Stock, after giving effect to the issuance of shares of Common Stock in connection with the Acquisitions and after giving effect to the Offerings, by (i) all persons known to the Company to be the beneficial owner of 5% or more thereof, (ii) each director and nominee for director, (iii) each executive officer and (iv) all officers and directors as a group. Unless otherwise indicated, the address of each such person is c/o Integrated Electrical Services, Inc., 2301 Preston, Houston, Texas 77003. All persons listed have sole voting and investment power with respect to their shares unless otherwise indicated.

	BENEFICIAL OWNERSHIP AFTER OFFERINGS	
	SHARES	PERCENT
C. Byron Snyder(a)	2,655,709	11.4%
Jon Pollock(b)	785,643	3.4
Jerry Mills	2,380,662	10.2
Ben L. Mueller	1,305,609	5.6
Jim P. Wise	100,000	*
John F. Wombwell	100,000	*
Richard Muth(c)	473,324	2.0
Alan R. Sielbeck(d)	--	*
Robert Stalvey	95,528	*
Richard L. Tucker(d)	--	*
Bob Weik(e)	1,499,469	6.4
Thomas E. White, Jr.(d)	--	*
Roy D. Brown(d)	1,608,979	6.9
All executive officers and directors as a group (15 persons)(f)	9,660,718	41.3%

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* Less than one percent.

(a) Includes 1,118,194 shares held by trusts for the benefit of Mr. Snyder's children, as to which Mr. Snyder disclaims beneficial ownership. Consists entirely of Restricted Common Stock, which represents all of the Restricted Common Stock outstanding. The holders of Restricted Common Stock, voting together as a single class, are entitled to elect one member of the Company's Board of Directors and to one-half of one vote for each share held on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors. Such shares may be converted to Common Stock in certain circumstances. See "Description of Capital Stock."

(b) Includes 465,914 shares of Common Stock held by the Pollock Family Partnership, Ltd.

(c) Includes 25,689 shares of Common Stock owned by Mr. Muth's wife, as to which Mr. Muth disclaims beneficial ownership.

(d) Mr. Seilbeck's address is Service Experts, Inc., 111 Westwood Place, Suite 420, Brentwood, TN 37027. Mr. Tucker's address is The University of Texas at Austin, 3208 Red River Street, Suite 300, Austin, TX 78705-2697. Mr. White's address is Enron Ventures Corp., 1400 Smith Street, Houston, TX 77002-7361. Mr. Brown's address is Houston-Stafford Electric, Inc., 10203 Mula Circle, Stafford, Texas 77477.

(e) Includes 74,536 shares of Common Stock owned by two related trusts, as to which Mr. Weik disclaims beneficial ownership.

(f) Includes 2,655,709 shares of Restricted Common Stock described in Note (a) above.

DESCRIPTION OF CAPITAL STOCK

GENERAL

The Company's authorized capital stock consists of 100,000,000 shares of Common Stock, par value $0.01 per share, 2,655,709 shares of Restricted Common Stock, par value $0.01 per share, and 10,000,000 shares of preferred stock, par value $0.01 per share. After giving effect to the Acquisitions, there will be 16,365,336 shares of Common Stock outstanding, including 2,655,709 shares of Restricted Common Stock, and no shares of preferred stock outstanding. After the closing of the Offerings, 23,365,336 shares of Common Stock and Restricted Common Stock will be issued and outstanding, assuming no exercise of the Underwriters' over-allotment options. The following summary of the terms and provisions of the Company's capital stock does not purport to be complete and is qualified in its entirety by reference to the Company's Amended and Restated Certificate of Incorporation and Bylaws, which have been filed as exhibits to the Company's registration statement, of which this Prospectus is a part, and applicable law.

COMMON STOCK AND RESTRICTED COMMON STOCK

The holders of Common Stock are entitled to one vote for each share on all matters voted upon by stockholders, including the election of directors. Such holders are not entitled to vote cumulatively for the election of directors. Holders of a majority of the shares of Common Stock entitled to vote in any election of directors may elect all of directors standing for election.

The holders of Restricted Common Stock, voting together as a single class, are entitled to elect one member of the Company's Board of Directors and to one-half of one vote for each share held on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors. Only the holder of the Restricted Common Stock may remove the director such holder is entitled to elect.

Subject to the rights of any then outstanding shares of preferred stock, holders of Common Stock and Restricted Common Stock are together entitled to participate pro rata in such dividends as may be declared in the discretion of the Board of Directors out of funds legally available therefor. Holders of Common Stock and Restricted Common Stock together are entitled to share ratably in the net assets of the Company upon liquidation after payment or provision for all liabilities and any preferential liquidation rights of any preferred stock then outstanding. Holders of Common Stock and holders of Restricted Common Stock have no preemptive rights to purchase shares of stock of the Company. Shares of Common Stock are not subject to any redemption provisions and are not convertible into any other securities of the Company. Shares of Restricted Common Stock are not subject to any redemption provisions and are convertible into Common Stock as described below. All outstanding shares of Common Stock and Restricted Common Stock are, and the shares of Common Stock to be issued pursuant to the Offering and the Acquisitions will be, upon payment therefor, fully paid and non-assessable.

Each share of Restricted Common Stock will automatically convert to Common Stock on a share-for-share basis in the event of a disposition of such share of Restricted Common Stock by the holder thereof (other than a distribution by a holder to its partners or beneficial owners, or a transfer to a related party of such holders (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)).

The Common Stock has been approved for listing upon notice of issuance on the NYSE under the symbol "IEE." The Restricted Common Stock will not be listed on any exchange.

PREFERRED STOCK

The preferred stock may be issued from time to time by the Board of Directors as shares of one or more classes or series. Subject to the provisions of the Company's Amended and Restated Certificate of Incorporation and limitations prescribed by law, the Board of Directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares and to change the number of shares constituting any series, and to provide for or change the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights and liquidation preferences of the shares constituting any class or series of the preferred stock, in each case without any further action or vote by the stockholders. The Company has no current plans to issue any shares of preferred stock of any class or series.

One of the effects of undesignated preferred stock may be to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of the Company's management. The issuance of shares of preferred stock pursuant to the Board of Directors' authority described above may adversely affect the rights of the holders of Common Stock. For example, preferred stock issued by the Company may rank prior to the Common Stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of Common Stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the Common Stock at a premium or may otherwise adversely affect the market price of the Common Stock.

STATUTORY BUSINESS COMBINATION PROVISION

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law ("Section 203"). Section 203 provides, with certain exceptions, that a Delaware corporation may not engage in any of a broad range of business combinations with a person or an affiliate, or associate of such person, who is an "interested stockholder" for a period of three years from the date that such person became an interested stockholder unless: (i) the transaction resulting in a person becoming an interested stockholder, or the business combination, is approved by the Board of Directors of the corporation before the person becomes an interested stockholder, (ii) the interested stockholder acquired 85% or more of the outstanding voting stock of the corporation in the same transaction that makes such person an interested stockholder (excluding shares owned by persons who are both officers and directors of the corporation, and shares held by certain employee stock ownership plans) or (iii) on or after the date the person becomes an interested stockholder, the business combination is approved by the corporation's board of directors and by the holders of at least 66% of the corporation's outstanding voting stock at an annual or special meeting, excluding shares owned by the interested stockholder. Under Section 203, an "interested stockholder" is defined as any person who is (i) the owner of 15% or more of the outstanding voting stock of the corporation or (ii) an affiliate or associate of the corporation and who was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder.

A corporation may, at its option, exclude itself from the coverage of Section 203 by including in its certificate of incorporation or bylaws by action of its stockholders to exempt itself from coverage. The Company has not adopted such an amendment to its Amended and Restated Certificate of Incorporation or Bylaws.

LIMITATION ON DIRECTORS' LIABILITIES

Pursuant to the Company's Amended and Restated Certificate of Incorporation and under Delaware law, directors of the Company are not liable to the Company or its stockholders for monetary damages for breach of fiduciary duty, except for liability in connection with a breach of the duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Delaware law or any transaction in which a director has derived an improper personal benefit. The Company has entered into indemnification agreements with its directors and executive officers which indemnify such person to the fullest extent permitted by its Amended and Restated Certificate of Incorporation, its Bylaws and the Delaware General Corporation Law. The Company also intends to obtain directors' and officers' liability insurance. The foregoing provisions may extend to liabilities arising due to violations of the federal securities laws. It is the position of the Securities and Exchange Commission (the "Commission") that indemnification for liabilities under the Securities Act is against public policy and is, therefore, unenforceable.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION AND BYLAW PROVISIONS

The Company's Amended and Restated Certificate of Incorporation and Bylaws include provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or an unsolicited acquisition proposal that a stockholder might consider favorable, including a proposal that might result in the payment of a premium over the market price for the shares held by stockholders. These provisions are summarized in the following paragraphs.

Classified Board of Directors. The Amended and Restated Certificate of Incorporation provides for the Board of Directors to be divided into three classes of directors serving staggered three-year terms. The classification of the Board of Directors has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of members of the Board of Directors.

Supermajority Voting. The Amended and Restated Certificate of Incorporation requires the approval of the holders of at least 75% of the then outstanding shares of the Company's capital stock entitled to vote thereon and the approval of the holders of at least 75% of the then outstanding shares of each class of stock of the Company voting separately as a class on, among other things, certain amendments to the Amended and Restated Certificate of Incorporation. The Board of Directors may amend, alter, change or repeal any bylaws without the assent or vote of the stockholders, but any such bylaws may be altered, amended or repealed upon the affirmative vote of at least 66 2/3% of the stock entitled to vote thereon.

Authorized but Unissued or Undesignated Capital Stock. The Company's authorized capital stock will consist of 100,000,000 shares of Common Stock, 2,655,709 shares of Restricted Common Stock, and 10,000,000 shares of preferred stock. After the Offerings, the Company will have outstanding 23,365,336 shares of Common Stock and Restricted Common Stock (assuming the Underwriters' over-allotment options are not exercised). The authorized but unissued (and in the case of preferred stock, undesignated) stock may be issued by the Board of Directors in one or more transactions. In this regard, the Company's Amended and Restated Certificate of Incorporation grants the Board of Directors broad power to establish the rights and preferences of authorized and unissued preferred stock. The issuance of shares of preferred stock pursuant to the Board of Directors' authority described above could decrease the amount of earnings and assets available for distribution to holders of Common Stock and adversely affect the rights and powers, including voting rights, of such holders and may also have the effect of delaying, deferring or preventing a change in control of the Company. The Board of Directors does not currently intend to seek stockholder approval prior to any issuance of preferred stock, unless otherwise required by law.

Special Meeting of Stockholders. The Bylaws provide that special meetings of stockholders of the Company may only be called by the Chairman of the Board of Directors upon the written request of the Board of Directors pursuant to a resolution approved by a majority of the Board of Directors.

Stockholder Action by Written Consent. The Amended and Restated Certificate of Incorporation and Bylaws generally provide that any action required or permitted by the stockholders of the Company must be effected at a duly called annual or special meeting of the stockholders and may not be effected by any written consent of the stockholders.

Notice Procedures. The Bylaws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as director, the removal of directors and amendments to the Amended and Restated Certificate of Incorporation or Bylaws to be brought before annual meetings of stockholders of the Company. These procedures provide that notice of such stockholder proposals must be timely given in writing to the Secretary of the Company prior to the annual meeting. Generally, to be timely, notice must be received at the principal executive offices of the Company not less than 80 days prior to an annual meeting (or if fewer than 90 days' notice or prior public disclosure of the date of the annual meeting is given or made by the Company, not later than the tenth day following the date on which the notice of the date of the annual meeting was mailed or such public disclosure was made). The notice must contain certain information specified in the Bylaws, including a brief description of the business desired to be brought before the annual meeting and certain information concerning the stockholder submitting the proposal.

Charter Provisions Relating to Rights Plan. The Amended and Restated Certificate of Incorporation authorizes the Board of Directors of the Company to create and issue rights (the "Rights") entitling the holders thereof to purchase from the Company shares of capital stock or other securities. The times at which, and the terms upon which, the Rights are to be issued may be determined by the Board of Directors and set forth in the contracts or instruments that evidence the Rights. The authority of the Board of Directors with respect to the Rights includes, but is not limited to, the determination of (i) the initial purchase price per share of the capital stock or other securities of the Company to be purchased upon exercise of the Rights, (ii) provisions relating to the times at which and the circumstances under which the Rights may be exercised or sold or otherwise transferred, either together with or separately from, any other securities of the Company, (iii) antidilutive provisions which adjust the number or exercise price of the Rights or amount or nature of the securities or other property receivable upon exercise of the Rights, (iv) provisions which deny the holder of a specified percentage of the outstanding securities of the Company the right to exercise the Rights and/or cause the Rights held by such holder to become void, (v) provisions which permit the Company to redeem the Rights and (vi) the appointment of a rights agent with respect to the Rights. If authorized by the Board of Directors, the Rights would be intended to protect the Company's stockholders from certain non-negotiated takeover attempts which present the risk of a change of control on terms which may be less favorable to the Company's stockholder than would be available in a transaction negotiated with and approved by the Board of Directors. The Board of Directors believes that the interests of the stockholders generally are best served if any acquisition of the Company or a substantial percentage of the Company's Common Stock results from arm's-length negotiations and reflects the Board of Directors' careful consideration of the proposed terms of a transaction. In particular, the Rights if issued would be intended to help (i) reduce the risk of coercive two-tiered, front-end loaded or partial offers which may not offer fair value to all stockholders of the Company, (ii) deter market accumulators who through open market or private purchases may achieve a position of substantial influence or control without paying to stockholders a fair control premium and (iii) deter market accumulators who are simply interested in putting the Company "in play."

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is Harris Trust and Savings Bank.

SHARES ELIGIBLE FOR FUTURE SALE

The market price of the Common Stock could be adversely affected by the sale of substantial amounts of Common Stock in the public market. All of the 7,000,000 shares sold in the Offerings, except for shares acquired by affiliates of the Company, will be freely tradeable. Simultaneously with the closing of the Offerings, the stockholders of the Founding Companies will receive, in the aggregate, 12,313,025 shares of Common Stock as a portion of the consideration for their businesses. Certain other stockholders of the Company will hold, in the aggregate, an additional 1,396,602 shares of Common Stock and 2,655,709 shares of Restricted Common Stock. None of these 16,365,336 shares was issued in a transaction registered under the Securities Act, and, accordingly, such shares may not be sold except in transactions registered under the Securities Act or pursuant to an exemption from registration, including the exemptions contained in Rules 144 and 701 under the Securities Act.

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned his or her shares for at least one year but not more than two years, or a person who may be deemed an "affiliate" of the Company who has beneficially owned shares for at least one year, would be entitled to sell within any three month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Common Stock or the average weekly trading volume of the Common Stock during the four calendar weeks preceding the date on which notice of the proposed sale is sent to the Commission. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. A person who is not deemed to have been an affiliate of the Company at any time for 90 days preceding a sale and who has beneficially owned his shares for at least two years would be entitled to sell such shares under Rule 144 without regard to the volume limitations, manner of sale provisions, notice requirements or the availability of current public information about the Company.

In general, under Rule 701 under the Securities Act, any employee, officer, or director of or consultant to the Company who purchased his or her shares pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701. Such provisions permit nonaffiliates to sell their Rule 701 shares without having to comply with the public information, holding period, volume limitation, or notice provisions of Rule 144 and permit affiliates to sell their Rule 701 shares without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the commencement of the Offerings.

The Company has authorized (i) the issuance of 3,500,000 shares of its Common Stock in accordance with the terms of the 1997 Stock Plan and (ii) the issuance of 250,000 shares of its Common Stock in accordance with the terms of the 1997 Directors Stock Plan. Options to purchase 300,000 shares have been granted under the 1997 Stock Plan and it is anticipated that approximately 2,343,600 shares of Common Stock will be granted upon the closing of the Offerings to certain other officers, directors and former stockholders of the Company and the Founding Companies. The Company intends to file a registration statement on Form S-8 under the Securities Act registering the issuance of shares upon exercise of options granted under the 1997 Stock Plan. As a result, such shares will be eligible for resale in the public market.

The Company currently intends to file a registration statement covering 6,000,000 additional shares of Common Stock under the Securities Act for its use in connection with future acquisitions. These shares generally will be freely tradeable after their issuance by persons not affiliated with the Company unless the Company contractually restricts their resale.

The Company and each of its directors and executive officers have agreed not to (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, for a period of 180 days from the date of this Prospectus without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the Underwriters, except for (i) shares issued in connection with acquisitions, provided that (except with respect to shares issued in transactions in which the issuance or resale of such shares is not registered under the Securities Act), the recipients of such shares agree to be bound by similar restrictions, (ii) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Company's benefit plans described herein or (iii) with respect to directors and executive officers, certain pledges of securities. In addition, the current stockholders of the Company and the owners of the Founding Companies have agreed with the Company not to sell, contract to sell or otherwise dispose of any shares of Common Stock owned as of the consummation of the Acquisitions, including shares received as consideration in the Acquisitions, for a period of two years following receipt thereof, subject to the rights of such holders to exercise their registration rights as described below.

Prior to the Offerings, there has been no established trading market for the Common Stock, and no predictions can be made as to the effect that sales of Common Stock under Rule 144, pursuant to a registration statement, or otherwise, or the availability of shares of Common Stock for sale, will have on the market price prevailing from time to time. Sales of substantial amounts of Common Stock in the public market, or the perception that such sales could occur, could depress the prevailing market price. Such sales may also make it more difficult for the Company to issue or sell equity securities or equity-related securities in the future at a time and price that it deems appropriate. See "Risk Factors -- Shares Eligible for Future Sale."

Former stockholders of the Founding Companies, certain executive officers and directors are entitled to certain rights with respect to the registration of their shares of Common Stock under the Securities Act. In the aggregate, these groups hold 16,365,336 shares of Common Stock and Restricted Common Stock. If the

Company proposes to register any of its securities under the Securities Act, such stockholders are entitled to notice of such registration and are entitled to include, at the Company's expense, all or a portion of their shares therein, subject to certain conditions. These registration rights will not apply to the registration statement the Company intends to file for use in future acquisitions or with respect to employee benefit plans.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a general summary of certain United States federal income and estate tax consequences expected to result under current law from the purchase, ownership and taxable disposition of Common Stock by Non-U.S. Holders of Common Stock. A "Non-U.S. Holder" is any person or entity other than (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any state thereof, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust. This summary is for general information only and does not address all of the United States federal income and estate tax considerations that may be relevant to Non-U.S. Holders in light of their particular circumstances or to Non-U.S. Holders that may be subject to special treatment under United States federal income tax laws. Furthermore, this summary does not discuss any aspect of state, local or foreign taxation. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations, judicial opinions, published positions of the United States Internal Revenue Service and other applicable authorities, all of which are subject to change, possibly with retroactive effect. Prospective purchasers of Common Stock are advised to consult their tax advisors regarding the federal, state and local and foreign income and other tax consequences of acquiring, holding and disposing of Common Stock.

DIVIDENDS

Dividends paid to a Non-U.S. Holder on shares of Common Stock will be subject to withholding of United States federal income tax at a 30 percent rate (or such lower rate as may be provided by an applicable income tax treaty between the United States and a foreign country) unless the dividends are effectively connected with the conduct of a trade or business of the Non-U.S. Holder within the United States (or in the case of an applicable tax treaty are attributable to a United States permanent establishment maintained by such Non-U.S. Holder). Dividends that are effectively connected with the conduct of a trade or business within the United States (or are attributable to a United States permanent establishment) will be subject to United States federal income tax on a net income basis (that is, after allowance for applicable deductions) which is not collected by withholding provided the Non-U.S. Holder files the appropriate certification with the Company or its agent. Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional "branch profits tax" at a 30 percent rate or such lower rate as may be specified by an applicable income tax treaty.

Under United States Treasury Regulations currently in effect, dividends paid to an address outside the United States will be presumed to be paid to a resident of the country of address (unless the payor has knowledge to the contrary) for purposes of the withholding tax rules discussed above and for purposes of determining the applicability of a tax treaty rate. Under recently-issued United States Treasury Regulations that are effective for payments made after December 31, 1998 ("Final Regulations"), a Non-U.S. Holder of Common Stock who wishes to claim the benefit of a tax treaty rate would be required to satisfy applicable certification requirements. In addition, under such Final Regulations, in the case of Common Stock held by a foreign partnership, (i) the certification requirement generally would be applied to the partners of the partnership, and (ii) the partnership would be required to provide certain information, including a United States taxpayer identification number.

A Non-U.S. Holder of Common Stock that is eligible for a reduced rate of United States withholding tax pursuant to a tax treaty may obtain a refund of any excess amounts currently withheld by filing an appropriate claim for refund with the Internal Revenue Service.

SALE OR DISPOSITION OF COMMON STOCK

A Non-U.S. Holder generally will not be subject to United States federal income tax in respect of any gain recognized on the sale or other taxable disposition of Common Stock so long as (i) the gain is not effectively connected with the conduct of a trade or business of the Non-U.S. Holder in the United States; (ii) in the case of a Non-U.S. Holder who is an individual and holds the Common Stock as a capital asset, either (a) such holder is not present in the United States for 183 or more days in the taxable year of the disposition or (b) such holder does not have a "tax home" in the United States for United States federal income tax purposes nor does such holder maintain an office or other fixed place of business in the United States to which such gain is attributable; (iii) such Non-U.S. Holder is not subject to tax pursuant to the provisions of United States federal income tax law applicable to certain United States expatriates or (iv) the Common Stock continues to be "regularly traded on an established securities market" for United States federal income tax purposes and the Non-U.S. Holder has not held, directly or indirectly, at any time during the five-year period ending on the date of disposition (or, if shorter, the Non-U.S. Holder's holding period) more than 5 percent of the outstanding Common Stock.

INFORMATION REPORTING AND BACKUP WITHHOLDING

The Company must report annually to the Internal Revenue Service and to each Non-U.S. Holder the amount of dividends paid to, and the tax withheld with respect to, each Non-U.S. Holder. These reporting requirements apply regardless of whether withholding was reduced by an applicable tax treaty. Copies of these information returns may also be made available under the provisions of a treaty or information exchange agreement with the tax authorities in the country in which the Non-U.S. Holder resides. Under current law, U.S. backup withholding tax (which is a withholding tax imposed at the rate of 31 percent on certain payments to persons who fail to furnish the information required under U.S. information reporting requirements) generally will not apply to dividends paid on Common Stock to a Non-U.S. Holder at an address outside the United States unless the payor has knowledge that the payee is a United States person. However, under the Final Regulations described above, dividends paid on Common Stock after December 31, 1998 may be subject to backup withholding unless applicable certification requirements are satisfied.

Payment of the proceeds from a sale of Common Stock to or through a U.S. office of a broker will be subject to information reporting and backup withholding unless the owner certifies as to its status as a Non-U.S. Holder under penalties of perjury or otherwise establishes an exemption. Payment of the proceeds from a sale of Common Stock to or through a non-U.S. office of a broker generally will not be subject to information reporting or backup withholding; however, if such broker is (i) a United States person, (ii) a "controlled foreign corporation", or (iii) a foreign person that derives 50 percent or more of its gross income from the conduct of a trade or business in the United States, such payment will be subject to information reporting (but currently not backup withholding, although the issue of whether backup withholding should apply is under consideration by the Internal Revenue Service) unless such broker has documentary evidence in its records that the owner is a Non-U.S. Holder and certain other conditions are met or the owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be credited against the Non-U.S. Holder's federal income tax liability, if any, or refunded, provided the required information is furnished to the Internal Revenue Service.

ESTATE TAX

The fair market value of Common Stock owned (or treated as owned) by an individual at the time of his death will be includible in his gross estate for U.S. federal estate tax purposes and thus may be subject to U.S. estate tax, even though the individual at the time of death is neither a citizen of nor domiciled in the United States, unless an applicable estate tax treaty provides otherwise.

UNDERWRITING

Subject to the terms and conditions set forth in the U.S. purchase agreement (the "U.S. Purchase Agreement") among the Company and each of the underwriters named below (the "U.S. Underwriters"), the Company has agreed to sell to each of the U.S. Underwriters, and each of the U.S. Underwriters, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation, Equitable Securities Corporation and Sanders Morris Mundy Inc. are acting as representatives (the "U.S. Representatives"), severally has agreed to purchase from the Company, the aggregate number of shares of Common Stock set forth opposite its name below.

U.S. UNDERWRITER	NUMBER OF SHARES
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Donaldson, Lufkin & Jenrette Securities Corporation	
SunTrust Equitable Securities Corporation	
Sanders Morris Mundy Inc	
Total	5,600,000

The Company has also entered into an international purchase agreement (the "International Purchase Agreement") with Merrill Lynch International, Donaldson, Lufkin & Jenrette International, SunTrust Equitable Securities Corporation and Sanders Morris Mundy Inc. outside the United States and Canada (the "International Managers" and, together with the U.S. Underwriters, the "Underwriters"), for whom Merrill Lynch International is acting as representative. Subject to the terms and conditions set forth in the International Purchase Agreement, and concurrently with the sale of 5,600,000 shares of Common Stock to the U.S. Underwriters pursuant to the U.S. Purchase Agreement, the Company has agreed to sell to the International Managers, and the International Managers severally have agreed to purchase from the Company, an aggregate of 1,400,000 shares of Common Stock. The public offering price per share and the total underwriting discount per share are identical under the U.S. Purchase Agreement and the International Purchase Agreement.

In the U.S. Purchase Agreement and the International Purchase Agreement, the several U.S. Underwriters and the several International Managers, respectively, have agreed, subject to the terms and conditions set forth therein, to purchase all of the shares of Common Stock being sold pursuant to each such Purchase Agreement if any of such shares being sold pursuant to each such Purchase Agreement are purchased. Under certain circumstances, the commitments of the non-defaulting U.S. Underwriters or the International Managers (as the case may be) may be increased as set forth in the U.S. Purchase Agreement and the International Purchase Agreement, respectively. The closing with respect to the sale of shares of Common Stock to be purchased by the International Managers and the U.S. Underwriters are conditioned upon one another.

The U.S. Underwriters and the International Managers have entered into an intersyndicate agreement (the "Intersyndicate Agreement") that provides for the coordination of their activities. Under the terms of the Intersyndicate Agreement, the Underwriters are permitted to sell shares of Common Stock to each other for purposes of resale at the public offering price, less an amount not greater than the selling concession. Under the terms of the Intersyndicate Agreement, the U.S. Underwriters and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are non-United States and non-Canadian persons, and the International Managers and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are United States or Canadian persons or to persons they believe intend to resell to United States or Canadian persons, except, in each case, for transactions pursuant to the Intersyndicate Agreement.

The U.S. Representatives have advised the Company that the U.S. Underwriters propose initially to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of $ per share. The U.S. Underwriters may allow, and such dealers may reallow, a discount not in excess of $ per share to certain other dealers. After the Offerings, the initial public offering price, concession and discount may be changed.

The Company has granted the U.S. Underwriters an option, exercisable for 30 days after the date of this Prospectus, to purchase up to an aggregate of 840,000 additional shares of Common Stock at the initial public offering price set forth on the cover page hereof, less the underwriting discount. The U.S. Underwriters may exercise this option to cover overallotments, if any, made on the sale of the shares of Common Stock offered hereby. If the U.S. Underwriters exercise this option, each U.S. Underwriter will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the foregoing table bears to the 5,600,000 shares of Common Stock initially offered hereby. The Company has also granted an option to the International Managers, which expires 30 days after the date of this Prospectus, to purchase up to 210,000 additional shares of Common Stock to cover over-allotments, if any, on terms similar to those granted to the U.S. Underwriters.

The Company and each of its directors and executive officers have agreed not to (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, for a period of 180 days from the date of this Prospectus without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the Underwriters, except for (i) shares issued in connection with acquisitions, provided that (except with respect to shares issued in transactions in which the issuance or resale of such shares is not registered under the Securities Act), the recipients of such shares agree to be bound by similar restrictions, (ii) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Company's benefit plans described herein or (iii) with respect to directors and executive officers, certain pledges of securities.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

Until the distribution of the Common Stock is completed, rules of the Commission may limit the ability of the Underwriters and certain selling group members to bid for and purchase the Common Stock. As an exception to these rules, the U.S. Underwriters are permitted to engage in certain transactions that stabilize the price of the Common Stock. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with the Offerings, (i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus), the U.S. Underwriters may reduce that short position by purchasing Common Stock in the open market. The U.S. Underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option described above.

The U.S. Underwriters may also impose a penalty bid on certain Underwriters and selling group members. This means that if the U.S. Underwriters purchase shares of Common Stock in the open market to reduce the Underwriters' short position or to stabilize the price of the Common Stock, they may reclaim the amount of the selling concession from the Underwriters and selling group members who sold those shares as part of the Offerings.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an affect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, neither the Company nor any of the Underwriters makes any representation that the U.S. Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Common Stock has been approved for listing upon notice of issuance on the NYSE under the symbol "IEE."

The U.S. Underwriters have reserved for sale, at the initial public offering price, up to 700,000 shares of Common Stock for certain employees, directors and business associates of, and certain other persons designated by, the Company who have expressed an interest in purchasing such shares of Common Stock. The number of shares available for sale to the general public in the Offerings will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered to the general public on the same basis as other shares offered hereby.

Prior to the Offerings, there has been no established trading market for the shares of Common Stock. The initial public offering price for the Common Stock offered hereby has been determined by negotiations between the Company and the Underwriters. Among the factors considered in making such determination were the history of and the prospects for the industry in which the Company competes, an assessment of the Company's management, the past and present operations of the Founding Companies and the Company, the historical results of operations of the Founding Companies and the Company and the trend of its revenues and earnings, the prospects for future earnings of the Company, the general condition of prices of similar securities of generally comparable companies and other relevant factors. There can be no assurance that an active trading market will develop for the Common Stock or that the Common Stock will trade in the public market subsequent to the Offerings at or above the initial public offering price.

The Underwriters have informed the Company that the Underwriters do not intend to confirm sales to any account over which they exercise discretionary authority.

LEGAL MATTERS

Certain legal matters in connection with the Common Stock being offered hereby will be passed upon for the Company by Andrews & Kurth L.L.P., Houston, Texas and for the Underwriters by Vinson & Elkins L.L.P., Houston, Texas. A partner in Andrews & Kurth L.L.P., will become Senior Vice President, General Counsel and Secretary of the Company upon completion of the Offerings. The partner owns 100,000 shares of Common Stock and options to purchase 150,000 shares of Common Stock, subject to vesting.

EXPERTS

The audited financial statements of IES and the Founding Companies included in this Prospectus and elsewhere in the Registration Statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

ADDITIONAL INFORMATION

The Company has filed with the Commission a Registration Statement on Form S-1 (together with all amendments, schedules and exhibits thereto the "Registration Statement") under the Securities Act with respect to the Common Stock offered hereby. This Prospectus, which is included as part of the Registration Statement, does not contain all the information contained in the Registration Statement, certain portions of which have been omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules thereto. Statements made in the Prospectus as to the contents of any contract, agreement or other document are not necessarily complete; with respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference. The Registration Statement and the exhibits thereto may be inspected, without charge, at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at Citicorp Center, 500 West Madison Street, Room 1400, Chicago, IL 60661, and 7 World Trade Center, Suite 1300, New York, NY 10048 or on the Internet at http://www.sec.gov. Copies of such material can also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

Prior to filing the Registration Statement of which this Prospectus is a part, the Company was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Upon effectiveness of the Registration Statement, the Company will become subject to the informational and periodic reporting requirements of the Exchange Act, and in accordance therewith, will file periodic reports, proxy statements, and other information with the Commission. Such periodic reports, proxy statements, and other information will be available for inspection and copying at the public reference facilities and other regional offices referred to above. The Company intends to register the securities offered by the Registration Statement under the Exchange Act simultaneously with the effectiveness of the Registration Statement and to furnish its stockholders with annual reports containing audited financial statements and such other reports as may be required from time to time by law or the New York Stock Exchange.

INDEX TO FINANCIAL STATEMENTS

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
BASIS OF PRESENTATION

The following unaudited pro forma combined financial statements give effect to (i) the acquisitions by Integrated Electrical Services, Inc. (IES), of the outstanding capital stock and other equity interests of Ace, Amber, Bexar-Calhoun, Daniel, Hatfield, Haymaker, Houston-Stafford, Mills, Muth, Pollock, Reynolds, Rodgers, Summit, Popp and Thurman & O'Connell (together, the Founding Companies), and related transactions, and (ii) IES's initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings). The acquisitions (the Acquisitions) will occur simultaneously with the closing of the Offerings and will be accounted for using the purchase method of accounting. Houston-Stafford has been reflected as the accounting acquirer for financial statement presentation purposes.

The unaudited pro forma combined balance sheet gives effect to the Acquisitions and related transactions, and the Offerings, as if they had occurred on September 30, 1997. The unaudited pro forma combined statement of operations gives effect to these transactions as if they had occurred on October 1, 1996.

IES has preliminarily analyzed the savings that it expects to be realized from reductions in salaries, bonuses and certain benefits to the owners. To the extent the owners of the Founding Companies have contractually agreed to prospective changes in salary, bonuses, benefits and lease payments, these changes have been reflected in the unaudited pro forma combined statement of operations. With respect to other potential cost savings, IES has not and cannot quantify these savings until completion of the Acquisitions. It is anticipated that these savings will be offset by costs related to IES's new corporate management and by the costs associated with being a public company. However, because these costs cannot be accurately quantified at this time, they have not been included in the pro forma combined financial information of IES.

The pro forma adjustments are based on preliminary estimates, available information and certain assumptions that Company management deems appropriate and may be revised as additional information becomes available. The pro forma financial data do not purport to represent what IES's combined financial position or results of operations would actually have been if such transactions in fact had occurred on those dates and are not necessarily representative of IES's combined financial position or results of operations for any future period. Since the Founding Companies were not under common control or management, historical combined results may not be comparable to, or indicative of, future performance. The unaudited pro forma combined financial statements should be read in conjunction with the historical financial statements and notes thereto included elsewhere in this Prospectus. See also "Risk Factors" included elsewhere herein.

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

UNAUDITED PRO FORMA COMBINED BALANCE SHEET
SEPTEMBER 30, 1997
(AMOUNTS IN THOUSANDS)

	AMBER	BEXAR-CALHOUN	DANIEL	HAYMAKER	HOUSTON-STAFFORD	MILLS	MUTH	POLLOCK	SUMMIT
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	$ 988	$1,275	$ 917	$ 851	$2,492	$ 833	$ 81	$ 347	$ 157
Accounts receivable	2,886	5,560	4,864	1,939	12,433	15,153	3,628	5,476	2,756
Less-Allowance	51	124	127	48	342	395	91	175	122
Accounts Receivable, net	2,835	5,436	4,737	1,891	12,091	14,758	3,537	5,301	2,634
Costs and profits recognized in excess of billings	119	224	510	755	934	1,584	675	767	178
Inventories	25	541	23	--	2,878	93	898	18	--
Prepaid expenses and other	244	100	1,700	338	1,162	779	381	554	170
Total current assets	4,211	7,576	7,887	3,835	19,557	18,047	5,572	6,987	3,139
PROPERTY AND EQUIPMENT, NET	516	5,206	541	246	2,125	2,397	1,133	379	180
OTHER ASSETS	--	49	--	--	1,830	443	--	--	318
GOODWILL, NET	--	--	--	--	958	173	--	--	--
Total assets	$4,727	$12,831	$8,428	$4,081	$24,470	$21,060	$6,705	$7,366	$3,637
LIABILITIES AND STOCKHOLDERS' EQUITY									
CURRENT LIABILITIES:									
Current maturities of long-term debt	$ 179	$ 96	$ 62	$ --	$ 721	$ 643	$ 540	$1,777	$ 808
Accounts payable and accrued expenses	1,276	2,400	1,840	1,821	9,549	7,672	2,177	3,335	1,494
Billings in excess of costs and profits recognized	196	840	1,370	366	2,417	1,966	543	889	182
Income taxes payable	676	--	--	--	1,234	--	--	231	--
Other	122	--	81	--	222	--	--	146	19
Total current liabilities	2,449	3,336	3,353	2,187	14,143	10,281	3,260	6,378	2,503
LONG-TERM LIABILITIES:									
Long-term debt, net of current maturities	568	842	102	--	968	169	--	71	88
Deferred income taxes	52	--	--	--	--	--	--	21	11
Other long-term liabilities and minority interest	--	1,302	483	--	1,151	75	--	--	--
Total long-term liabilities	620	2,144	585	--	2,119	244	--	92	99
COMMITMENTS AND CONTINGENCIES									
STOCKHOLDERS' EQUITY:									
Common stock	1	20	8	1	295	1	74	1	1
Restricted common stock	--	--	--	--	--	--	--	--	--
Receivable from stockholders	--	--	--	--	--	--	--	--	--
Additional paid-in capital	--	205	--	--	112	175	--	9	--
Retained earnings and unrealized gain/loss on stock	2,091	7,126	4,482	1,893	8,926	10,410	3,371	886	1,034
Treasury stock	(434)	--	--	--	(1,125)	(51)	--	--	--
Total stockholders' equity	1,658	7,351	4,490	1,894	8,208	10,535	3,445	896	1,035
Total liabilities and stockholders' equity	$4,727	$12,831	$8,428	$4,081	$24,470	$21,060	$6,705	$7,366	$3,637

	THURMAN & O'CONNELL	RODGERS	OTHER FOUNDING COMPANIES	IES	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	POST-MERGER ADJUSTMENTS
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$1,160	$ 818	$ 829	$ --	$ (8,952)	$ 1,796	$ 19,731
Accounts receivable	679	623	3,548	--	(1,620)	57,925	--
Less-Allowance	17	15	61	--	--	1,568	--
Accounts Receivable, net	662	608	3,487	--	(1,620)	56,357	--
Costs and profits recognized in excess of billings	52	20	1,088	--	--	6,906	--
Inventories	213	--	344	--	--	5,033	--
Prepaid expenses and other	24	73	213	1,560	(1,719)	5,579	(1,560)
Total current assets	2,111	1,519	5,961	1,560	(12,291)	75,671	18,171
PROPERTY AND EQUIPMENT, NET	301	393	1,057	6	(3,921)	10,559	--
OTHER ASSETS	--	175	--	--	(1,169)	1,646	--
GOODWILL, NET	--	--	--	--	163,592	164,723	--

Total assets	$2,412	$2,087	$7,018	$ 1,566	$146,211	$252,599	$ 18,171
LIABILITIES AND STOCKHOLDERS' EQUITY							
CURRENT LIABILITIES:							
Current maturities of long-term debt	$ 7	$ 36	$ 918	$ --	$ 56,579	$62,366	$(62,001)
Accounts payable and accrued expenses	262	488	2,218	1,565	--	36,097	(1,560)
Billings in excess of costs and profits recognized	361	109	430	--	--	9,669	--
Income taxes payable	--	213	--	--	--	2,354	--
Other	--	--	73	--	406	1,069	--
Total current liabilities	630	846	3,639	1,565	56,985	111,555	(63,561)
LONG-TERM LIABILITIES:							
Long-term debt, net of current maturities	88	58	398	--	15,189	18,541	(4,558)
Deferred income taxes	--	75	5	--	869	1,033	--
Other long-term liabilities and minority interest	--	--	6	--	(2,428)	589	--
Total long-term liabilities	88	133	409	--	13,630	20,163	(4,558)
COMMITMENTS AND CONTINGENCIES							
STOCKHOLDERS' EQUITY:							
Common stock	300	15	42	41	(663)	137	70
Restricted common stock	--	--	--	--	26	26	--
Receivable from stockholders	--	--	--	(40)	40	--	--
Additional paid-in capital	--	--	198	13,618	122,747	137,064	86,220
Retained earnings and unrealized gain/loss on stock	1,394	1,093	2,760	(13,618)	(48,194)	(16,346)	--
Treasury stock	--	--	(30)	--	1,640	--	--
Total stockholders' equity	1,694	1,108	2,970	1	75,596	120,881	86,290
Total liabilities and stockholders' equity	$2,412	$2,087	$7,018	$ 1,566	$146,211	$252,599	$ 18,171

	AS ADJUSTED
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 21,527
Accounts receivable	57,925
Less-Allowance	1,568
Accounts Receivable, net	56,357
Costs and profits recognized in excess of billings	6,906
Inventories	5,033
Prepaid expenses and other	4,019
Total current assets	93,842
PROPERTY AND EQUIPMENT, NET	10,559
OTHER ASSETS	1,646
GOODWILL, NET	164,723
Total assets	$270,770
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current maturities of long-term debt	$ 365
Accounts payable and accrued expenses	34,537
Billings in excess of costs and profits recognized	9,669
Income taxes payable	2,354
Other	1,069
Total current liabilities	47,994
LONG-TERM LIABILITIES:	
Long-term debt, net of current maturities	13,983
Deferred income taxes	1,033
Other long-term liabilities and minority interest	589
Total long-term liabilities	15,605
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock	207
Restricted common stock	26
Receivable from stockholders	--
Additional paid-in capital	223,284
Retained earnings and unrealized gain/loss on stock	(16,346)
Treasury stock	--
Total stockholders' equity	207,171

Total liabilities and stockholders' equity..............................	$270,770
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INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1997
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	AMBER	BEXAR-CALHOUN	DANIEL	HAYMAKER	HOUSTON-STAFFORD	MILLS	MUTH
REVENUES	$16,386	$32,165	$18,409	$11,772	$ 81,575	$74,399	$18,779
COST OF SERVICES	13,415	24,976	13,518	9,920	64,831	60,572	14,511
Gross profit	2,971	7,189	4,891	1,852	16,744	13,827	4,268
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,379	3,766	2,316	1,140	11,474	8,778	3,074
GOODWILL AMORTIZATION	--	--	--	--	--	--	--
INCOME (LOSS) FROM OPERATIONS	1,592	3,423	2,575	712	5,270	5,049	1,194
OTHER INCOME (EXPENSE):							
Interest expense	(45)	(108)	(60)	(2)	(187)	(46)	(27)
Other, net	69	(121)	100	--	425	279	1
Other income (expense), net	24	(229)	40	(2)	238	233	(26)
INCOME (LOSS) BEFORE INCOME TAXES	1,616	3,194	2,615	710	5,508	5,282	1,168
PROVISION (BENEFIT) FOR INCOME TAXES	632	72	--	--	2,192	274	--
NET INCOME (LOSS)	$ 984	$3,122	$ 2,615	$ 710	$ 3,316	$ 5,008	$ 1,168
NET INCOME PER SHARE							
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1)							

	POLLOCK	SUMMIT	THURMAN & O'CONNELL	RODGERS	OTHER FOUNDING COMPANIES	IES	PRO FORMA ADJUSTMENTS
REVENUES	$20,291	$10,995	$4,049	$3,325	$20,602	$ --	$ --
COST OF SERVICES	16,670	9,454	2,181	1,621	16,103	--	--
Gross profit	3,621	1,541	1,868	1,704	4,499	--	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,895	1,463	503	1,238	3,980	13,618	(19,686)
GOODWILL AMORTIZATION	--	--	--	--	--	--	4,094
INCOME (LOSS) FROM OPERATIONS	726	78	1,365	466	519	(13,618)	15,592
OTHER INCOME (EXPENSE):							
Interest expense	(172)	(79)	(6)	(7)	(87)	--	(255)
Other, net	3	23	70	36	129	--	316
Other income (expense), net	(169)	(56)	64	29	42	--	61
INCOME (LOSS) BEFORE INCOME TAXES	557	22	1,429	495	561	(13,618)	15,653
PROVISION (BENEFIT) FOR INCOME TAXES	214	21	46	178	(51)		7,583
NET INCOME (LOSS)	$ 343	$ 1	$1,383	$ 317	$ 612	$(13,618)	$ 8,070
NET INCOME PER SHARE							
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1)							

	PRO FORMA COMBINED
REVENUES	$ 312,747
COST OF SERVICES	247,772
Gross profit	64,975
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	35,938
GOODWILL AMORTIZATION	4,094
INCOME (LOSS) FROM OPERATIONS	24,943
OTHER INCOME (EXPENSE):	
Interest expense	(1,081)
Other, net	1,330
Other income (expense), net	249
INCOME (LOSS) BEFORE INCOME TAXES	25,192
PROVISION (BENEFIT) FOR INCOME TAXES	11,161
NET INCOME (LOSS)	$ 14,031
NET INCOME PER SHARE	$ .64

SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1)..	22,075,967
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(1) Includes (a) 2,655,709 shares issued to the IES founder and chairman of the board, (b) 1,396,602 shares issued to management of IES, (c) 12,313,025 shares issued to owners of the Founding Companies and (d) 5,590,631 of the 7,000,000 shares sold in the Offering necessary to pay the cash portion of the Acquisitions consideration and expenses of the Offerings. The 1,409,369 shares excluded reflect an equivalent number of shares related to the net cash proceeds to IES. Additionally, includes 120,000 shares computed under the treasury stock method related to 300,000 options which are currently outstanding.

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

1. GENERAL:

Integrated Electrical Services, Inc. (IES), was founded to create a leading national provider of electrical contracting and maintenance services to the commercial, industrial and residential markets. IES has conducted no operations to date and will acquire the Founding Companies (the Acquisitions) concurrently with and as a condition to the closing of the Offerings.

The historical financial statements reflect the financial position and results of operations of the Founding Companies and were derived from the respective Founding Companies' financial statements. The periods included in these financial statements for the individual Founding Companies are as of and for the year ended September 30, 1997, except for Ace, Hatfield, Reynolds, and Popp for which the period is as of and for the year ended June 30, 1997. The audited historical financial statements included elsewhere herein have been included in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 80.

2. ACQUISITION OF FOUNDING COMPANIES:

Concurrently with and as a condition to the closing of the Offerings, IES will acquire all of the outstanding capital stock and other equity interests of the Founding Companies. The acquisitions will be accounted for using the purchase method of accounting with Houston-Stafford being reflected as the accounting acquirer.

The following table sets forth the consideration to be paid (a) in cash and (b) in shares of Common Stock to the common stockholders of each of the Founding Companies, other than the accounting acquirer (Houston-Stafford). For purposes of computing the estimated purchase price for accounting purposes, the value of the shares (including 3.9 million of the 4.1 million shares issued to the corporate management of IES, the founder and Chairman of the Board of IES and the trusts for the benefit of his children, which are reflected as additional acquisition cost) was determined using an estimated fair value of $10.50 per share (or $134.2 million), which is less than the estimated initial public offering price of $14.00 per share due primarily to restrictions on the sale and transferability of the shares issued. The total estimated purchase price of $176.0 million for the Acquisitions is based upon preliminary estimates and is subject to certain purchase price adjustments at and following closing. The table does not reflect net transfers of $30.6 million which represents previously undistributed earnings and nonoperating assets and liabilities that will be transferred in connection with the Acquisitions to the owners of the Founding Companies.

	CASH	SHARES OF COMMON STOCK
	(IN THOUSANDS)	
Ace	$ 892	191
Amber	2,486	533
Bexar-Calhoun	8,696	1,863
Daniel	3,975	852
Hatfield	972	208
Haymaker	2,029	435
Mills	11,637	2,494
Muth	2,209	473
Pollock	1,092	320
Reynolds	939	201
Rodgers	1,684	361
Summit	1,900	321
Popp	976	209
Thurman & O'Connell	2,331	500
Total	$41,818	8,961

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

3. UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS:

(a) Records the transfer in connection with the Acquisitions of $30.6 million of previously undistributed earnings and nonoperating assets and liabilities to the owners of the Founding Companies, which is expected to be funded using $11.6 million of cash (including $2.7 million of Offerings proceeds), $5.7 million of nonoperating assets, net of liabilities, and notes payable to owners of $13.3 million which will be retired with new borrowings under the proposed credit facility.

(b) Records the liability for the cash portion of the consideration to be paid to Houston-Stafford, the accounting acquirer.

(c) Records the merger of IES with Houston-Stafford, the accounting acquirer, and the payment of the receivable from IES stockholders.

(d) Records the purchase of the Founding Companies by IES consisting of notes payable of $41.8 million and 12,780,340 shares of Common Stock valued at $10.50 per share (or $134.2 million) for a total estimated purchase price of $176.0 million resulting in excess purchase price of $163.8 million over the net assets acquired of $12.2 million (see Note 2).

The following reconciles the combined historical net assets of the Founding Companies to the net assets acquired (in thousands):

	TOTAL COMBINED	LESS: HOUSTON-STAFFORD	ACQUIRED FOUNDING COMPANIES
Historical net assets	$45,285	$(8,209)	$37,076
Transfer of Owner Amounts (as defined elsewhere herein)	(30,638)	5,879	(24,759)
Other purchase adjustments, net	(71)	--	(71)
Net assets after transfers and purchase adjustments	$14,576	$(2,330)	$12,246

(e) Records the noncash, non-recurring compensation charge related to the exchange of cash and shares of Common Stock for a note receivable from an officer of Houston-Stafford. The compensation charge has not been included in the accompanying unaudited pro forma combined statement of operations as it represents a non-recurring charge directly related to the Acquisitions.

(f) Records the net cash proceeds of $86.3 million from the issuance of shares of IES common stock (based on an initial public offering price of $14.00 per share and net of estimated offering costs, including underwriters commissions and discounts, accounting, legal and other estimated Offerings costs of $11.7 million).

(g) Records payment of the cash portion of the consideration to the stockholders of the Founding Companies of $57.5 million in connection with the Acquisitions (see (b) and (d) above), the expected repayment of remaining historical short- and long-term debt totaling $6.4 million and the payment of $2.7 million of the Owner Amounts.

The following tables summarize unaudited pro forma combined balance sheet adjustments (in thousands):

	ADJUSTMENT (A)	(B)	(C)	(D)	(E)	PRO FORMA ADJUSTMENTS
ASSETS						
Current assets --						
Cash and cash equivalents	$ (8,952)	$ --	$ --	$ --	$ --	$ (8,952)
Accounts receivable	(1,620)	--	--	--	--	(1,620)
Prepaid expenses and other	(1,719)	--	--	--	--	(1,719)
Total current assets	(12,291)	--	--	--	--	(12,291)
Property and equipment, net	(3,921)	--	--	--	--	(3,921)
Other assets	(1,169)	--	--	--	--	(1,169)
Goodwill, net	--	--	--	163,592	--	163,592
Total assets	$(17,381)	$ --	$ --	$163,592	$ --	$146,211
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities --						

Current maturities of long-term debt	$ (882)	$ 15,643	$ --	$ 41,818	$ --	$ 56,579
Other	--	--	--	406	--	406
Total current liabilities	(882)	15,643	--	42,224	--	56,985
Long-term debt, net of current maturities	15,189	--	--	--	--	15,189
Deferred income taxes	--	--	--	869	--	869
Other long-term liabilities	(1,051)	--	--	(1,377)	--	(2,428)
Total long-term liabilities	14,138	--	--	(508)	--	13,630
Stockholders' equity --						
Common stock	--	--	(262)	(401)	--	(663)
Restricted common stock	--	--	--	26	--	26
Receivable from stockholders	--	--	40	--	--	40
Additional paid-in capital	--	(15,643)	(14,521)	134,895	18,016	122,747
Retained earnings	(30,637)	--	13,618	(13,159)	(18,016)	(48,194)
Treasury stock	--	--	1,125	515	--	1,640
Total stockholders' equity	(30,637)	(15,643)	--	121,876	--	75,596
Total liabilities and stockholders' equity	$(17,381)	$ --	$ --	$163,592	$ --	$146,211

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

	ADJUSTMENT (F)	ADJUSTMENT (G)	POST-MERGER ADJUSTMENTS
ASSETS			
Current assets --			
Cash and cash equivalents	$86,290	$(66,559)	$ 19,731
Prepaid expenses and other	--	(1,560)	(1,560)
Total current assets	86,290	(68,119)	18,171
Total assets	$86,290	$(68,119)	$ 18,171
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities --			
Current maturities of long-term debt	$ --	$(62,001)	$(62,001)
Accounts payable and accrued expenses	--	(1,560)	(1,560)
Total current liabilities	--	(63,561)	(63,561)
Long-term debt, net of current maturities	--	(4,558)	(4,558)
Total long-term liabilities	--	(4,558)	(4,558)
Stockholders' equity --			
Common stock	70	--	70
Additional paid-in capital	86,220	--	86,220
Total stockholders' equity	86,290	--	86,290
Total liabilities and stockholders' equity	$86,290	$(68,119)	$ 18,171

4. UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS ADJUSTMENTS:

(a) Reflects the $6.1 million reduction in salaries, bonuses and benefits and lease payments to the owners of the Founding Companies. These reductions in salaries, bonuses and benefits and lease payments have been agreed prospectively in accordance with the terms of employment agreements executed as part of the Acquisitions. Such employment agreements are primarily for five years, contain restrictions related to competition and provide severance for termination of employment in certain circumstances.

(b) Reflects the amortization of goodwill to be recorded as a result of these Acquisitions over a 40-year estimated life, as well as a reduction in historical Founding Companies' minority interest expense attributable to minority interests that will be acquired as part of the transaction.

(c) Reflects the reversal of the non-recurring, non-cash compensation charge of $13.6 million recorded by IES for common stock issued to management for nominal consideration. Also, reflects interest expense of $1.0 million on borrowings of $13.3 million necessary to fund the transfers discussed in 3.(a) above, net of interest savings of $0.7 million on the $8.1 million of historical debt to be repaid using proceeds from the Offerings or to be transferred to the Founding Companies as discussed in 3.(a) above. The additional $1.0 million of interest expense was calculated utilizing an assumed annual effective interest rate of approximately 7.5%.

(d) Reflects the incremental provision for federal and state income taxes at a 38% overall tax rate, before non-deductible goodwill and other permanent items, relating to the other statements of operations adjustments and for income taxes on the pretax income of Founding Companies that have historically elected S Corporation tax status.

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes unaudited pro forma combined statement of operations adjustments (in thousands):

	ADJUSTMENT				PRO FORMA ADJUSTMENTS
	(A)	(B)	(C)	(D)	
Selling, general and administrative expenses	$(6,068)	$ --	$(13,618)	$ --	$(19,686)
Goodwill amortization	--	4,094	--	--	4,094
Income (loss) from operations	6,068	(4,094)	13,618	--	15,592
Other income (expense) --					
Interest expense	--	--	(255)	--	(255)
Other, net	--	316	--	--	316
Other income (expense), net	--	316	(255)	--	61
Income (loss) before income taxes	6,068	(3,778)	13,363	--	15,653
Provision for income taxes	--	--	--	7,583	7,583
Net income (loss)	$ 6,068	$(3,778)	$ 13,363	$(7,583)	$ 8,070

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Houston-Stafford Electric, Inc.:

We have audited the accompanying consolidated balance sheets of Houston-Stafford Electric, Inc., a Texas corporation, and consolidated entity (see Note 1) as of December 31, 1995 and 1996 and September 30, 1997, and the related consolidated statements of operations, cash flows and stockholder's equity for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston-Stafford Electric, Inc. and consolidated entity as of December 31, 1995 and 1996 and September 30, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY
(SEE NOTE 1)

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$1,048	$ 2,682	$ 2,492
Accounts receivable --			
Trade, net of allowance of $220, $264 and $342, respectively	4,605	5,445	9,580
Retainage	1,480	1,847	2,511
Inventories, net	337	346	2,878
Costs and estimated earnings in excess of billings on uncompleted contracts	259	247	934
Prepaid expenses and other current assets	560	663	1,162
Total current assets	8,289	11,230	19,557
RECEIVABLES FROM RELATED PARTIES	335	338	309
OTHER RECEIVABLES	210	166	264
GOODWILL AND OTHER INTANGIBLE ASSETS	--	23	2,008
OTHER NON-CURRENT ASSETS	38	41	207
PROPERTY AND EQUIPMENT, net	485	1,428	2,125
Total assets	$9,357	$13,226	$24,470

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 353	$ 428	$ 721
Accounts payable and accrued expenses	3,921	3,682	9,549
Income taxes payable	--	--	1,234
Billings in excess of costs and estimated earnings on uncompleted contracts	1,143	1,733	2,417
Other current liabilities	197	716	222
Total current liabilities	5,614	6,559	14,143
LONG-TERM DEBT, net of current maturities	634	1,295	968
OTHER NON-CURRENT LIABILITIES	5	21	1,151
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $5 par value, 500,000 shares authorized, 59,000 shares issued and 20,000 shares outstanding	295	295	295
Additional paid-in capital	112	112	112
Retained earnings	3,022	6,069	8,926
Treasury stock, 29,000 and 39,000 shares, at cost, respectively	(325)	(1,125)	(1,125)
Total stockholder's equity	3,104	5,351	8,208
Total liabilities and stockholder's equity	$9,357	$13,226	$24,470

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY
(SEE NOTE 1)

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
REVENUES	$48,001	$54,082	$70,493	$81,575	$ 53,062	$64,144
COST OF SERVICES (including depreciation)	42,163	46,712	57,662	64,831	44,485	51,654
Gross profit	5,838	7,370	12,831	16,744	8,577	12,490
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,319	6,027	7,810	11,474	4,404	8,068
Income from operations	519	1,343	5,021	5,270	4,173	4,422
OTHER INCOME (EXPENSE):						
Interest expense	(137)	(254)	(134)	(187)	(90)	(143)
Other	66	58	94	425	49	380
Other income (expense), net	(71)	(196)	(40)	238	(41)	237
INCOME BEFORE PROVISION FOR INCOME TAXES	448	1,147	4,981	5,508	4,132	4,659
PROVISION FOR INCOME TAXES	186	416	1,934	2,192	1,544	1,802
NET INCOME	$ 262	$ 731	$ 3,047	$ 3,316	$ 2,588	$ 2,857

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY
(SEE NOTE 1)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 262	$ 731	$ 3,047	$ 3,316	$ 2,588	$ 2,857
Adjustments to reconcile net income to net cash provided by (used in) operating activities --						
Depreciation and amortization	55	76	133	187	54	108
Loss (gain) on sale of property and equipment	(29)	(5)	2	(138)	--	(140)
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	(1,725)	(625)	(1,237)	(3,631)	(1,687)	(4,081)
Inventories	(331)	315	(9)	(1,409)	--	(1,400)
Costs and estimated earnings in excess of billings on uncompleted contracts	(298)	850	12	(988)	313	(687)
Prepaid expenses and other current assets	(31)	156	(85)	(287)	49	(153)
Increase (decrease) in --						
Accounts payable and accrued expenses	367	617	(239)	2,563	(202)	2,600
Billings in excess of costs and estimated earnings on uncompleted contracts	281	637	590	(10)	1,283	683
Other current liabilities	68	157	505	47	1,014	556
Other, net	28	(29)	(4)	216	30	250
Net cash provided by (used in) operating activities	(1,353)	2,880	2,715	(134)	3,442	593
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	48	49	12	47	--	35
Additions of property and equipment	(64)	(145)	(642)	(478)	(494)	(330)
Purchase of business	--	--	--	(100)	--	(100)
Collections of notes receivable	--	--	--	77	--	77
Net cash used in investing activities	(16)	(96)	(630)	(454)	(494)	(318)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	3,146	405	2,875	10,820	2,070	10,015
Payments of long-term debt	(1,543)	(2,397)	(3,326)	(11,431)	(2,375)	(10,480)
Distributions to stockholders	--	(15)	--	--	--	--
Net cash provided by (used in) financing activities	1,603	(2,007)	(451)	(611)	(305)	(465)
NET INCREASE IN CASH AND CASH EQUIVALENTS	234	777	1,634	(1,199)	2,643	(190)
CASH AND CASH EQUIVALENTS, beginning of period	37	271	1,048	3,691	1,048	2,682
CASH AND CASH EQUIVALENTS, end of period	$ 271	$ 1,048	$ 2,682	$ 2,492	$ 3,691	$ 2,492
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 137	$ 254	$ 134	$ 166	$ 111	$ 143
Income taxes	104	225	1,482	2,050	332	900

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY
(SEE NOTE 1)

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1993.........	59,000	$295	$112	$2,044	$ (325)	$2,126
Distributions to stockholders....	--	--	--	(15)	--	(15)
Net income.......................	--	--	--	262	--	262
BALANCE, December 31, 1994.........	59,000	295	112	2,291	(325)	2,373
Net income.......................	--	--	--	731	--	731
BALANCE, December 31, 1995.........	59,000	295	112	3,022	(325)	3,104
Purchase of treasury stock.......	--	--	--	--	(800)	(800)
Net income.......................	--	--	--	3,047	--	3,047
BALANCE, December 31, 1996.........	59,000	295	112	6,069	(1,125)	5,351
Net income (unaudited)...........	--	--	--	2,857	--	2,857
BALANCE, September 30, 1997........	59,000	$295	$112	$8,926	$(1,125)	$8,208

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION AND BASIS OF PRESENTATION:

Houston-Stafford Electric, Inc. (the Company), a Texas corporation, focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. Work on new structures is performed primarily under fixed-price contracts. The Company performs the majority of its contract work under fixed-price contracts with contract terms ranging from six to 18 months. The Company performs the majority of its work in Texas and has operations in other states.

In April 1997, the Company acquired an electrical supply company from a third party for $100,000. The purchase of such electrical supply company has been reflected as a purchase business combination. Consequently, the accompanying financial statements reflect the consolidated results of operations and financial position of the Company and the acquired electrical supply company for periods subsequent to April 1997. All significant intercompany transactions and balances have been eliminated for those periods.

In October 1997, the Company and its stockholder entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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.

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Supplemental Cash Flow Information (in thousands)

The Company had the following noncash investing and financing activities for the years ended December 31, 1996 and September 30, 1997 and the nine months ended September 30, 1996 and 1997 (in thousands):

	YEAR ENDED		NINE MONTHS ENDED SEPTEMBER 30,	
	DECEMBER 31, 1996	SEPTEMBER 30, 1997	1996	1997
			(UNAUDITED)	
Treasury stock purchased........................	$800	$ --	800	--
Debt assumed in treasury stock purchase transaction..................................	800	--	800	--
Purchase price of real property................	496	396	396	296
Debt assumed in connection with purchase of property.....................................	368	321	343	296
Receivables reduced in connection with purchase of property..................................	79	26	53	--
Debt assumed in connection with prepayments.....	--	31	--	31

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

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was approximately $55,000, $76,000 and $133,000 for the years ended December 31, 1994, 1995 and 1996 and $187,000 for the year ended September 30, 1997, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income. The effects of these revisions are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

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

Accounts Receivable and Provision for Doubtful Accounts

Accounts receivable at December 31, 1995, 1996 and September 30, 1997, include approved claims and change orders which were expected to be collected within the fiscal year.

The Company provides an allowance for doubtful accounts based on a specified percentage of outstanding receivables and the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the consolidated financial position or results of operations of the Company.

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Land	N/A	$ 236	$ 461	$ 569
Buildings	5-32	144	439	634
Transportation equipment	5	1,432	615	967
Machinery and equipment	3-10	329	370	479
Computer and telephone equipment	5-7	180	129	174
Building and Leasehold improvements	5-32	185	251	273
Furniture and fixtures	5-7	198	207	403
		2,704	2,472	3,499
Less -- Accumulated depreciation and amortization		(2,219)	(1,044)	(1,374)
Property and equipment, net		$ 485	$ 1,428	$ 2,125

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 395	$220	$264
Additions to costs and expenses	49	58	85
Deductions for uncollectible receivables written off and recoveries	(224)	(14)	(7)
Balance at end of period	$ 220	$264	$342

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$2,210	$1,748	$6,093
Accrued compensation and other expenses	1,711	1,934	3,456
	$3,921	$3,682	$9,549

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 15,370	$ 22,926	$ 22,201
Estimated earnings	2,193	4,269	3,286
	17,563	27,195	25,487
Less -- Billings to date	(18,447)	(28,681)	(26,970)
	$ (884)	$ (1,486)	$ (1,483)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 259	$ 247	$ 934
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(1,143)	(1,733)	(2,417)
	$ (884)	$ (1,486)	$ (1,483)

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note payable to an officer, dated August 1996, payable in monthly payments of $12 including interest at a rate of 8%, maturing August 2003 and secured by treasury stock	$ --	$ 766	$ 699
Note payable to a bank, dated October 1994, payable in monthly payments of $21 plus interest at prime plus .75%, maturing October 1998 and secured by trade receivables, inventory and equipment	729	458	--
Line of credit with a bank with total borrowing capacity of $3,100,000, bearing interest at prime plus 1/2 percent, maturing in July 1998 and secured by the Company's trade receivables, inventory and equipment. (Prime was 8.5 percent as of September 30, 1997)	--	--	507
Mortgage payable to an officer, dated April 1996, payable in monthly installments of $4 including interest at 10%, maturing April 2001 and secured by certain real property	--	186	159
Mortgage payable to an individual, dated September 1996, payable in monthly installments of $3 including interest at 9%, maturing October 2001 and secured by certain real property	--	130	115
Mortgage payable to a financial institution, dated December 1995, payable in monthly installments of $1 including interest at 7.426%, maturing October 2112 and secured by certain real property	113	110	108
Mortgage payable to a bank, renewed January 1996, payable in monthly installments of $2 plus interest at 9.25%, maturing January 1999 and secured by certain real property	70	48	30
Mortgage payable to a bank, assumed December 1996, payable in monthly installments of $.5 including interest at 9.875%, maturing October 2006 and secured by certain real property	--	25	--
Capital lease obligations	--	--	65
Other	75	--	6
	987	1,723	1,689
Less -- Current maturities	(353)	(428)	(721)
Total long-term debt	$ 634	$1,295	$ 968

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Principal payments due on long-term debt at September 30, 1997 are as follows (in thousands):

1997	$ 83
1998	718
1999	190
2000	198
2001	174
2002	141
Thereafter	185
Total	$1,689

6. LEASES:

The Company leases various facilities, at which it conducts some of its operations, under operating leases from third parties. Lease expiration dates and approximate lease payments for the years ending December 31, 1995 and 1996, and for the year ended September 30, 1997 are as follows (in thousands):

LOCATION	EXPIRATION	1995	1996	SEPTEMBER 30, 1997
Austin	October 31, 1997	$ 7	$ 2	$ 12
S.A. Com	August 15, 1999	--	3	25
Fort Worth	September 21, 2000	14	14	24
Acworth	November 30, 2002	7	7	10
Duluth	February 28, 1998	18	18	19
Nevada	January 31, 1998	--	13	15
Polaris	December 31, 1997	--	6	6
		$46	$63	$111

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

Year ending December 31 --	
1997	$ 51
1998	95
1999	76
2000	51
2001	24
2002	23
	$320

For a discussion of leases with certain related parties, see Note 8.

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. INCOME TAXES:

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

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,
	1994	1995	1996	1997
Federal --				
Current	$158	$372	$1,455	$2,155
Deferred	28	(9)	235	(240)
State --				
Current	--	54	210	311
Deferred	--	(1)	34	(34)
	$186	$416	$1,934	$2,192

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 DECEMBER 31,			YEAR ENDED SEPTEMBER 30,
	1994	1995	1996	1997
Provision at the statutory rate	$157	$401	$1,743	$1,928
Increase resulting from --				
Non-deductible expenses	29	(19)	32	84
State income tax, net of benefit for federal deduction	--	34	159	180
	$186	$416	$1,934	$2,192

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

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	1997
Deferred income tax assets --			
Bad debts	$ 148	$ 137	$ 162
Reserves and accrued expenses	386	365	564
Other	1	--	--
Total deferred income tax asset	535	502	726
Deferred income tax liabilities --			
Property and equipment	--	(21)	(81)
Deferred contract revenue	(138)	(353)	(220)
Accrued expenses	--	--	(40)
Total deferred income tax liability	(138)	(374)	(341)
Net deferred income tax asset	$ 397	$ 128	$ 385

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Current	$ 535	$ 502	$ 726
Long-term	--	--	--
Total	535	502	726
Deferred tax liabilities --			
Current	(138)	(353)	(260)
Long-term	--	(21)	(81)
Total	$(138)	$(374)	$(341)

8. RELATED-PARTY TRANSACTIONS:

The Company is owned by Roy D. Brown and conducts business with the following affiliated entities:

Houston-Stafford Plumbing, Inc.
HSC Building Co., Inc.
Brown-Mueller Joint Venture
Hospital Solutions, Inc.
T and R Development
Ten Ninety Two, Ltd.
Lite Management

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
		(IN THOUSANDS)	
RECEIVABLES:			
Lite Management	$ --	$ 23,000	$23,000
Hospital Solutions, Inc	--	25,000	73,396
T and R Development	98,717	106,638	106,637
Houston-Stafford Plumbing	74,495	--	--
Brown-Mueller Joint Venture	--	2,457	29,753
Houston-Stafford Bldg. Co	36,379	--	--
Principal, Houston-Stafford Electric, Inc	52,502	84,840	84,841
Ben Mueller, officer	--	25,943	25,943
PAYABLES:			
Houston-Stafford Plumbing, Inc	5,645	13,163	13,785

TRANSACTIONS

The Company leases certain real properties from certain related parties for use as electrical shops. These leases are open without binding contracts. The annual rentals for 1994, 1995, 1996 and for the year ended September 30, 1997, approximated $204,000, $154,000, $217,000 and $139,000 respectively, including payments to Brown-Mueller Joint Venture (co-owned by Roy Brown and Ben Mueller) of $174,000, $124,000, $187,000 and $109,000 respectively.

The Company has a mortgage payable to an officer of $159,000 which is payable in monthly installments of $4,000. This mortgage matures in April 2001 and is secured by certain real property. The Company has a mortgage payable to a related party of $115,000 which is payable in monthly installments of $3,000 (including interest at 9%). This mortgage matures in October 2001 and is secured by certain real property. See Note 5 for additional disclosure regarding these mortgages.

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company received two pieces of real property in exchange for the elimination of a balance due from HSC Building Company, of $79,449 and the assumption of a note due HSC Building Co., Inc., of $25,376.

At September 30, 1997, the company did not have a balance due to or from HSC Building Co., Inc.

In May 1996, the Company acquired a building and land at a cost of $220,115. The financing for the acquisition was provided by an officer of the Company, Ben Mueller. An installment promissory note of $208,123 was signed by the Company. The note is payable over five years at 10 percent interest.

In August 1996, the Company negotiated the purchase of the stock of Ben Mueller, a principal who had a one-third interest. The selling price of the shares totaled $800,000. The Company has signed an installment promissory note which will provide for the payout of $800,000 over seven years at 8 percent interest and is secured by the purchased stock. Subsequent to the August 1996 transaction, Mr. Mueller remained an officer of the Company and was paid cash compensation of approximately $372,000 during the last four months of 1996 and approximately $252,000 during the first nine months of 1997. These amounts have been reflected as compensation expense in the accompanying income statements for the applicable periods.

Pursuant to a 5-year lease agreement effective November 1, 1997, Houston-Stafford agreed to lease certain facilities owned by Mr. Mueller in Spring, Texas. Such lease agreement provides for an annual rent of $20,000, which the Company believes is not in excess of fair rental value for such facilities.

As a result of the acquisition of the electrical supply company, the Company assumed two non-compete agreements with certain related parties. The total amount due under these agreements at September 30, 1997 is $1,051,000, the majority of which is payable monthly and due August 2006.

9. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution benefit plan. The Company may make discretionary contributions. Through September 30, 1997, the Company has made no contributions to the plan.

10. FINANCIAL INSTRUMENTS:

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

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company also carries employment practices liability coverage. The Company has not incurred significant uninsured losses on any of these items.

Additionally, the Company provides workers' compensation coverage. The policy has no deductible and provides coverage in the amount of $500,000 per accident.

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During 1997, a general contractor with which the Company does business acquired a line of credit from a bank on which the Company agreed to act as second guarantor. This guaranty expires in December of 1997 and is in the amount of $750,000.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 15 percent, 11 percent and 10 percent of total sales to one major customer during the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors and home builders, located primarily in Texas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the Texas construction and home-building market. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize any potential credit risk.

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

13. SUBSEQUENT EVENT CONDITIONAL UPON IES TRANSACTION (UNAUDITED):

As a condition of the definitive agreement with IES discussed in Note 1, the Company will recognize a non-cash, non-recurring compensation charge of approximately $18.0 million related to the exchange of cash and 1.1 million shares of Common Stock for a note payable by the Company to an officer of the Company, and the issuance of 0.2 million shares to such officer for his new role as IES management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Integrated Electrical Services, Inc.:

We have audited the accompanying balance sheet of Integrated Electrical Services, Inc., a Delaware corporation, as of September 30, 1997, and the related statements of operations, cash flows and stockholders' equity for the period from inception (June 26, 1997) through September 30, 1997. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrated Electrical Services, Inc. as of September 30, 1997, and the results of its operations and its cash flows for the period from inception (June 26, 1997) through September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

INTEGRATED ELECTRICAL SERVICES, INC.

BALANCE SHEET -- SEPTEMBER 30, 1997
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

CASH AND CASH EQUIVALENTS	$ --
DEFERRED OFFERING COSTS	1,560
Total current assets	1,560
PROPERTY AND EQUIPMENT, NET	6
Total assets	$ 1,566
LIABILITIES AND STOCKHOLDERS' EQUITY	
AMOUNTS DUE TO STOCKHOLDER	$ 1,565
STOCKHOLDERS' EQUITY:	
Preferred stock, $.01 par value, 10,000,000 authorized, none issued and outstanding	--
Common stock, $.01 par value, 100,000,000 shares authorized, 4,052,311 shares issued and outstanding	41
Receivable from stockholders	(40)
Additional paid-in capital	13,618
Retained deficit	(13,618)
Total stockholders' equity	1
Total liabilities and stockholders' equity	$ 1,566

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Reflects a 2,329.6-for-one stock split effected in October 1997.

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

INTEGRATED ELECTRICAL SERVICES, INC.

STATEMENT OF OPERATIONS
FOR THE PERIOD FROM INCEPTION
(JUNE 26, 1997) THROUGH SEPTEMBER 30, 1997
(IN THOUSANDS)

REVENUES	$ --
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	13,618
LOSS BEFORE INCOME TAXES	(13,618)
PROVISION FOR INCOME TAXES	--
NET LOSS	$(13,618)

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

INTEGRATED ELECTRICAL SERVICES, INC.

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM INCEPTION
(JUNE 26, 1997) THROUGH SEPTEMBER 30, 1997
(IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(13,618)
Non-cash compensation charge	13,618
Adjustments to reconcile net loss to net cash used in operating activities --	
Changes in assets and liabilities --	
Increase in deferred offering costs	(1,560)
Increase in amounts due to stockholder	1,565
Net cash provided by operating activities	5
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital Expenditures	(6)
Net cash used in investing activities	(6)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Initial capitalization	1
Net cash provided by financing activities	1
NET INCREASE IN CASH AND CASH EQUIVALENTS	--
CASH AND CASH EQUIVALENTS, beginning of period	--
CASH AND CASH EQUIVALENTS, end of period	$ --

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

INTEGRATED ELECTRICAL SERVICES, INC.

STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION
(JUNE 26, 1997) THROUGH SEPTEMBER 30, 1997
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RECEIVABLE FROM STOCKHOLDERS	ADDITIONAL PAID-IN CAPITAL	RETAINED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT				
INITIAL CAPITALIZATION, June 26, 1997	2,329,600	$23	$ --	$ --	$ --	$23
ISSUANCE OF ADDITIONAL SHARES TO MANAGEMENT	1,722,711	18	--	--	--	18
NET INCOME (LOSS)	--	--	--	13,618	(13,618)	--
RECEIVABLE FROM STOCKHOLDERS FOR STOCK ISSUED	--	--	(40)	--	--	(40)
BALANCE, September 30, 1997	4,052,311	$41	$(40)	$13,618	$(13,618)	$ 1

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Reflects a 2,329.6-for-one stock split effected in October 1997.

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

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Integrated Electrical Services, Inc., a Delaware corporation (IES or the Company), was founded in June 1997 to create a leading national provider of electrical contracting and maintenance services, focusing primarily on the residential, commercial and industrial markets. IES intends to acquire certain U.S. businesses (the Acquisitions), complete the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of its common stock and, subsequent to the Offerings, continue to acquire through merger or purchase similar companies to expand its national and regional operations.

IES has not conducted any operations, and all activities to date have related to the Offerings and the Acquisitions. All expenditures of the Company to date have been funded by its founder and current primary stockholder, on behalf of the Company. The Company's founder and primary stockholder has also committed to fund future organization expenses and offering costs. As of September 30, 1997, costs of approximately $1,560,000 have been incurred in connection with the Offerings, and such costs will be a reduction of the proceeds from the Offerings. IES has treated these costs as deferred offering costs in the accompanying balance sheet. IES is dependent upon the Offerings to execute the pending Acquisitions and to repay its current primary stockholder for funding deferred offering costs. There is no assurance that the pending Acquisitions will be completed. The ability of IES to generate future operating revenues is dependent upon the ability of the Company to manage the effect on the combined companies of changes in demand for commercial and residential construction, the effect of business growth, including the availability of electricians, and the need for other key personnel. These risk factors are discussed in more detail in "Risk Factors".

2. STOCKHOLDERS' EQUITY:

Common Stock and Preferred Stock

In connection with the organization and initial capitalization of IES, the Company issued 2,329,600 shares (as restated for the 2,329.6-for-one stock split discussed below) of common stock at $.01 par value (Common Stock). IES subsequently issued another 1,722,711 shares (as restated for the 2,329.6-for-one stock split discussed below) of Common Stock at $.01 par value to certain management of IES. Consequently, as restated for the 2,329.6-for-one stock split discussed below, the Company had issued a total of 2,655,709 shares to its founder and Chairman of the Board, and certain trusts established for the benefit of his children, and an aggregate of 1,396,602 shares to other executive management of the Company. As a result of the issuance of shares to management for nominal consideration, the Company recorded for financial statement presentation purposes, a nonrecurring, noncash compensation charge of $13.6 million, calculated based on the fair value of such shares which has been determined to be $9.10 and $9.80 per share (a discount of 35% and 30%, respectively, from the estimated initial public offering price) for the shares issued in June 1997 and September 1997, respectively. The fair value of such shares was based on specific factors related to the Company and the transaction including restrictions on transferability and sale, the time value of money during the holding period and the substantive progress of the transaction at each issuance date. The nonrecurring compensation charge discussed above does not include any of the shares issued to the founder and chairman of the board, and certain trusts established for the benefit of his children. The shares issued to the founder and Chairman of the Board, and such trusts, will be reflected as acquisition costs in connection with the Acquisitions.

IES effected a 2,329.6-for-one stock split in October 1997, for each share of common stock of the Company then outstanding. In addition, the Company increased the number of authorized shares of common stock to 100,000,000 and increased the number of authorized shares of $.01 par value preferred stock to 10,000,000. The effects of the Common Stock split and the increase in the shares of authorized common stock have been retroactively reflected on the balance sheet, statement of stockholders' equity and in the accompanying notes. Additionally, the difference between the initial capitalization and the par value of

Common Stock outstanding subsequent to the stock split has been reflected as a receivable from stockholders, which is presented as a reduction in stockholders' equity in the accompanying financial statements.

Restricted Common Stock

In October 1997, the 2,655,709 shares of Common Stock held by the founder of IES were converted into 2,655,709 shares of restricted common stock. The shares of restricted common stock have rights similar to shares of Common Stock, except that such shares are entitled to elect one member of the board of directors and are entitled to one-half of one vote for each share held on all other matters. Each share of restricted common stock will convert into Common Stock upon disposition by the holder of such shares.

Stock Plan

In September 1997, the Company's board of directors and stockholders approved the Company's 1997 Stock Plan (the Plan), which provides for the granting or awarding of incentive or nonqualified stock options, stock appreciation rights, restricted or phantom stock, and other incentive awards to directors, officers, key employees and consultants of the Company. The number of shares authorized and reserved for issuance under the Plan is the greater of 3.5 million shares or 15% of the aggregate number of shares of Common Stock outstanding. The terms of the option awards will be established by the Compensation Committee of the Company's board of directors. The Company intends to file a registration statement on Form S-8 under the Securities Act of 1933 registering the issuance of shares upon exercise of options granted under this Plan. The Company expects to grant nonqualified stock options to purchase a total of approximately 2.3 million shares of Common Stock to key employees of the Company at the initial public offering price upon consummation of the Offerings. These options will vest at the rate of 20 percent per year, commencing on the first anniversary of the grant date and will expire ten years from the date of grant, three months following termination of employment due to death or disability, or one year following termination of employment by means other than death or disability. In September 1997, 300,000 options were granted to certain key employees under the Plan with an exercise price equal to 60% of the initial public offering price. These options vest at a rate of 20 percent per year, commencing on the date of grant. The compensation expense recognized for these options prior to September 30, 1997 was not material as they were not granted until September 1997.

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. The number of shares authorized and reserved for issuance under the Directors' Plan is 250,000 shares. The Directors' Plan provides for the automatic grant of options to purchase 5,000 shares to each nonemployee director serving in such capacity at the commencement of the Offerings.

Each nonemployee director will be granted options to purchase an additional 5,000 shares at the time of an initial election of such director. In addition, each director will be automatically granted options to purchase 5,000 shares annually at each September 30 on which such director remains a director. All options will have an exercise price based on the fair market value at the date of grant and have vesting terms similar to options granted under the Stock Plan discussed above.

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

3. STOCK-BASED COMPENSATION:

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," allows entities to choose between a new fair value method of accounting for employee stock options or similar equity instruments and the current method of accounting prescribed by Accounting Principles Board

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

(APB) Opinion No. 25 under which compensation expense is recorded to the extent that the fair market value of the related stock is in excess of the options exercise price at date of grant. Entities electing to remain with the accounting in APB Opinion No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value method of accounting prescribed in SFAS No. 123 had been applied. The Company will measure compensation expense attributable to stock options based on the method prescribed in APB Opinion No. 25 and will provide the required pro forma disclosure of net income and earnings per share, as applicable, in the notes to future consolidated annual financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS:

SFAS No. 128 requires the presentation of basic earnings per share and diluted earnings per share in financial statements of public enterprises rather than primary and fully diluted earnings per share as previously required. Under the provisions of this statement, basic earnings per share will be computed based on weighted average shares outstanding and will exclude dilutive securities such as options and warrants. Diluted earnings per share will be computed including the impacts of all potentially dilutive securities. The Company will adopt this statement in December 1997, but does not anticipate that the statement will have a material impact on the Company.

SFAS No. 129 will require additional disclosure of information about an entity's capital structure, including information about dividend and liquidation preferences, voting rights, contracts to issue additional shares, and conversion and exercise prices. The Company will adopt this statement in December 1997.

SFAS No. 130 requires the presentation of comprehensive income in an entity's financial statements. Comprehensive income represents all changes in equity of an entity during the reporting period, including net income and charges directly to equity which are excluded from net income. This statement is not anticipated to have a material impact on the Company or its financial disclosures, as the Company currently does not plan to enter into any material transactions which result in charges (or credits) directly to equity (such as additional minimum pension liability changes, currency translation adjustments, and unrealized gains and losses on available for sale securities).

5. FOUNDING COMPANY ACQUISITIONS:

IES has signed definitive agreements to acquire the following entities (the Founding Companies) to be effective contemporaneously with the Offerings. The entities to be acquired are:

Ace Electric, Inc.
Amber Electric, Inc.
BW Consolidated, Inc. and Subsidiaries
Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc.
Hatfield Electric, Inc.
Charles P. Bagby, Co., Inc. and General Partner, Inc.
Houston-Stafford Electric, Inc. and Stark Investments, Inc.
Mills Electrical Contractors, Inc.
Muth Electric, Inc.
Pollock Electric Inc.
Reynolds Electric Corp.
Rodgers Electric Company, Inc.
Summit Electric of Texas, Incorporated
Thomas Popp & Company
Thurman & O'Connell Corporation

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

The aggregate consideration that will be paid by IES to acquire the Founding Companies is estimated to be approximately $57.5 million in cash and will be 12.3 million shares of Common Stock. Additionally, approximately 3.9 million of the 4.1 million shares issued to the IES founder and Chairman of the Board and certain trusts, and certain other management, will be reflected as acquisition costs as part of the acquisition transactions.

In addition, the Company has entered into employment agreements with certain key executives of the Founding Companies and the executive officers of IES. These employment agreements generally prohibit such individuals from disclosing confidential information and trade secrets, and restrict such individuals from competing with the Company for a period of two years following termination of employment. The initial term of these employment agreements is five years with provisions for annual extensions at the end of the initial term.

6. EVENTS SUBSEQUENT TO THE DATE OF THE REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED)

The Company expects to enter into a credit facility effective following the closing of the Offerings. The credit facility will be a three-year revolving credit facility of up to $65 million to be used for working capital, capital expenditures, to finance acquisitions and for other general corporate purposes. Amounts borrowed under the proposed credit facility will bear interest at an annual rate equal to either (a) the London interbank offered rate ("LIBOR") plus 1.0% to 2.0%, as determined by the ratio of the Company's total funded debt to EBITDA (as defined in the credit facility) or (b) the higher of (i) the bank's prime rate and (ii) the Federal Funds rate plus 0.5%, plus up to 0.5%, as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.25% to 0.375%, as determined by the ratio of the Company's total funded debt to EBITDA, will be due on any unused borrowing capacity under the credit facility. The Company's existing and future subsidiaries will guarantee the repayment of all amounts due under the facility and the facility will be secured by the capital stock of those subsidiaries and the accounts receivable of the Company and those subsidiaries. The credit facility will require the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibit the payment of cash dividends by the Company, restrict the ability of the Company to incur other indebtedness and require the Company to comply with certain financial covenants. Availability of the credit facility will be subject to customary drawing conditions and execution of certain definitive loan documentation.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Mills Electrical Contractors, Inc.:

We have audited the accompanying consolidated balance sheets of Mills Electrical Contractors, Inc., a Texas corporation, and Subsidiary as of December 31, 1995 and 1996 and September 30, 1997, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mills Electrical Contractors, Inc. and Subsidiary as of December 31, 1995 and 1996 and September 30, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,808	$ 5,239	$ 833
Accounts receivable --			
Trade, net of allowance of $148, $252 and $353, respectively	6,251	10,121	13,137
Retainage, net of allowance of $20, $74 and $42, respectively	796	2,669	1,621
Related parties	3	208	632
Other receivables	307	1,055	27
Inventories, net	69	49	93
Costs and estimated earnings in excess of billings on uncompleted contracts	131	329	1,584
Prepaid expenses and other current assets	29	118	120
Total current assets	9,394	19,788	18,047
PROPERTY AND EQUIPMENT, net	912	1,675	2,397
GOODWILL, net	--	180	173
OTHER ASSETS	340	394	443
Total assets	$10,646	$22,037	$21,060
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Line-of-Credit and current maturities of long-term debt	$ 131	$ 294	$ 643
Accounts payable and accrued expenses --			
Trade	4,439	8,886	7,672
Related parties	23	633	--
Billings in excess of costs and estimated earnings on uncompleted contracts	1,746	4,523	1,966
Unearned revenue and other current liabilities	98	--	--
Total current liabilities	6,437	14,336	10,281
LONG-TERM DEBT, net of current maturities	260	333	169
MINORITY INTEREST	--	3	75
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, $1 par value, 1,000 shares authorized, 855 shares issued and 727 shares outstanding	1	1	1
Additional paid-in capital	175	175	175
Retained earnings	3,824	7,240	10,410
Treasury stock, 128 shares, at cost	(51)	(51)	(51)
Total stockholders' equity	3,949	7,365	10,535
Total liabilities and stockholders' equity	$10,646	$22,037	$21,060

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
REVENUES	$25,544	$35,250	$65,439	$74,399	$43,684	$52,644
COST OF SERVICES (including depreciation and amortization)	20,937	27,372	50,535	60,572	33,998	44,035
Gross profit	4,607	7,878	14,904	13,827	9,686	8,609
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,391	4,741	7,643	8,778	3,837	4,972
Income from operations	1,216	3,137	7,261	5,049	5,849	3,637
OTHER INCOME (EXPENSE):						
Interest expense	(22)	(56)	(61)	(46)	(34)	(19)
Other	92	195	215	277	153	215
Other income (expense), net	70	139	154	231	119	196
INCOME BEFORE MINORITY INTEREST AND PROVISION FOR STATE INCOME TAXES	1,286	3,276	7,415	5,280	5,968	3,833
Minority interest in net (income) loss of subsidiary	--	--	(3)	2	(5)	--
INCOME BEFORE PROVISION FOR STATE INCOME TAXES	1,286	3,276	7,412	5,282	5,963	3,833
Provision for state income taxes	52	131	309	274	182	147
NET INCOME	$ 1,234	$ 3,145	$ 7,103	$ 5,008	$ 5,781	$ 3,686

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 1,234	$ 3,145	$ 7,103	$ 5,008	$ 5,781	$ 3,686
Adjustments to reconcile net income to net cash provided by (used in) operating activities --						
Depreciation and amortization	179	253	385	637	197	449
Loss (gain) on sale of property and equipment	(2)	--	(20)	6	(21)	5
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	(2,107)	(1,894)	(6,997)	1,637	(9,998)	(1,364)
Inventories, net	10	1	20	(27)	2	(45)
Costs and estimated earnings in excess of billings on uncompleted contracts	(402)	386	(198)	(1,146)	(307)	(1,255)
Prepaid expenses and other current assets	(46)	105	(89)	58	(149)	(2)
Increase (decrease) in --						
Accounts payable and accrued expenses	1,780	1,178	5,057	121	3,090	(1,846)
Billings in excess of costs and estimated earnings on uncompleted contracts	(353)	1,159	2,777	(3,705)	3,926	(2,556)
Unearned revenue and other current liabilities	--	98	(98)	--	(98)	--
Other, net	(64)	(29)	(52)	100	(130)	22
Net cash provided by (used in) operating activities	229	4,402	7,888	2,689	2,293	(2,906)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Increase in notes receivable	(12)	(291)	(75)	--	(75)	--
Collection of notes receivable	140	141	377	--	377	--
Proceeds from sale of property and equipment	8	15	44	8	44	8
Additions of property and equipment	(279)	(255)	(912)	(1,551)	(538)	(1,177)
Net cash used in investing activities	(143)	(390)	(566)	(1,543)	(192)	(1,169)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	--	--	--	1,000	--	1,000
Payments of long-term debt	(19)	(136)	(204)	(902)	(117)	(815)
Distributions to stockholders	(147)	(2,216)	(3,687)	(3,777)	(426)	(516)
Sale of treasury stock	181	--	--	--	--	--
Net cash provided by (used in) financing activities	15	(2,352)	(3,891)	(3,679)	(543)	(331)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	101	1,660	3,431	(2,533)	1,558	(4,406)
CASH AND CASH EQUIVALENTS, beginning of period	47	148	1,808	3,366	1,808	5,239
CASH AND CASH EQUIVALENTS, end of period	$ 148	$ 1,808	$ 5,239	$ 833	$ 3,366	$ 833
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 22	$ 56	$ 61	46	$ 34	$ 19
Income Taxes	$ --	$ 55	$ 93	$ 105	$ 93	$ 105

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

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

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINED	TREASURY	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	CAPITAL	EARNINGS	STOCK	EQUITY
BALANCE, December 31, 1993..........	855	$ 1	$ 11	$ 1,808	$(68)	$ 1,752
Sale of 42 shares of treasury stock........................	--	--	164	--	17	181
Distributions to stockholders.................	--	--	--	(147)	--	(147)
Net income.....................	--	--	--	1,234	--	1,234
BALANCE, December 31, 1994..........	855	1	175	2,895	(51)	3,020
Distributions to stockholders.................	--	--	--	(2,216)	--	(2,216)
Net income.....................	--	--	--	3,145	--	3,145
BALANCE, December 31, 1995..........	855	1	175	3,824	(51)	3,949
Distributions to stockholders.................	--	--	--	(3,687)	--	(3,687)
Net income.....................	--	--	--	7,103	--	7,103
BALANCE, December 31, 1996..........	855	1	175	7,240	(51)	7,365
Distributions to stockholders (unaudited)..................	--	--	--	(516)	--	(516)
Net income (unaudited).........	--	--	--	3,686	--	3,686
BALANCE, September 30, 1997.........	855	$ 1	$175	$10,410	$(51)	$10,535

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

The accompanying consolidated financial statements include the accounts of Mills Electrical Contractors, Inc. (Mills), a Texas corporation, and its 89% owned subsidiary, Fort Worth Regional Electrical Systems, L.L.C. (RES), a Texas limited liability company (collectively, the Company). The subsidiary was formed during 1996. In September 1997, Mills sold 10% of the capital stock of RES to an officer of RES at net book value per share resulting in proceeds to the Company of $71,000. Financial statements prior to 1996 reflect only the accounts of Mills. All significant intercompany transactions have been eliminated in consolidation.

The Company focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities as well as residential facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from 12 to 36 months. The Company performs the majority of its work in the Dallas-Fort Worth, Texas, area.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim consolidated financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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.

Supplemental Cash Flow Information (in thousands)

The Company had the following noncash investing and financing activities for the years ended December 31, 1994, 1995, 1996 and September 1997 and the nine months ended September 30, 1996 and 1997:

	1994	1995	1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
Property acquired in capital lease transactions	$290	$195	$254	$17	$237	$ --
Goodwill recognized in purchase transactions	$ --	$ --	$185	--	185	--

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost, net of an allowance for obsolescence, or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation and amortization expense was $179,000, $253,000 and $385,000 and $637,000 for the years ended December 31, 1994, 1995 and 1996 and September 30, 1997, respectively.

In June 1996, RES agreed to purchase a business, consisting of equipment in a capital lease transaction and an agreement to lease a building under an operating lease, as well as the purchase of the rights to the name "Regional Electric Systems" from an individual who became an officer of RES. The acquired assets were recorded at their estimated fair market value using the purchase method of accounting. The transaction resulted in the recognition of goodwill of approximately $185,000 which is being amortized over a 20 year period.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable and a general reserve based upon the total trade and retainage accounts receivable balances.

Income Taxes

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying consolidated financial statements of the Company include only a provision for state income taxes and do not include a provision for current or deferred federal income taxes. The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's consolidated financial statements.

New Accounting Pronouncement

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the consolidated financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	3-5	$ 788	$ 1,031	$ 1,346
Machinery and equipment	5	785	1,071	1,266
Leasehold improvements	5-10	170	330	421
Furniture and fixtures	5	591	901	1,439
Less -- Accumulated depreciation and amortization		(1,422)	(1,658)	(2,075)
Property and equipment, net		$ 912	$ 1,675	$ 2,397

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	YEAR ENDED			
	DECEMBER 31,			SEPTEMBER 30,
	1994	1995	1996	1997
Balance at beginning of period	$ 77	$128	$168	$432
Additions to/(reduction of) costs and expenses	51	40	158	(37)
Balance at end of period	$128	$168	$326	$395

Included as a component of other receivables at December 31, 1995, is a note receivable from a corporation of $291,000 with interest at 10 percent per annum. This note was collected during 1996.

Accounts payable and accrued expenses, trade consist of the following:

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	1997
Accounts payable, trade	$2,236	$4,922	$6,275
Accrued compensation and benefits	1,608	3,423	1,017
Other accrued expenses	595	541	380
	$4,439	$8,886	$7,672

Electrical system installation contracts in progress are as follows:

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	1997
Costs incurred on contracts in progress	$33,016	$ 55,954	$ 80,236
Estimated earnings, net of losses	7,090	15,879	16,534
	40,106	71,833	96,770
Less -- Billings to date	(41,721)	(76,027)	(97,152)
	$(1,615)	$ (4,194)	$ (382)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 131	$ 329	$ 1,584
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(1,746)	(4,523)	(1,966)
	$(1,615)	$ (4,194)	$ (382)

5. LINE-OF-CREDIT DEBT:

The Company has a $2,000,000 line-of-credit agreement with a bank to be drawn upon as needed, with variable interest at the bank's prime rate, as defined, secured by accounts receivable, furniture, fixtures and equipment, an assignment of a $500,000 life insurance policy on the president and the president's personal guaranty. In June 1997, the line-of-credit agreement was extended to June of 1999. At September 30, 1997, there was an outstanding draw against this line of credit in the amount of $400,000, which is due and payable within one year.

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The line-of-credit agreement with the bank contains various covenants pertaining to working capital, certain financial ratios and net worth. At September 30, 1997, the Company was in compliance with all such covenants.

LONG-TERM DEBT

Long-term debt consists primarily of capital leases for the purchase of vehicles and construction equipment as discussed in Note 6.

The Company has a term note payable with a bank, secured by a Company vehicle. The principal is payable monthly in the amount of $1,000 plus interest at 9.75 percent. At December 31, 1996 and September 30, 1997, a balance of $5,000 and $0 was due and payable within one year, respectively.

The Company has an obligation to a related party for the purchase of the rights to the name "Regional Electric Systems" requiring monthly payments of principal and interest, at 8.25 percent, of $6,000 through May 1999. At December 31, 1996 and September 30, 1997, a balance of $60,000 and $63,000 was due and payable within one year, respectively.

The maturities of the line of credit and long-term debt as of September 30, 1997, are as follows (in thousands):

Year ending September 30 --	
1998	$643
1999	143
2000	26
	$812

6. LEASES:

Obligations Under Capital Leases

The Company leases certain vehicles and construction equipment under leases classified as capital leases. The construction equipment lease is with an officer of the Company. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of September 30, 1997 (in thousands):

Year ending September 30 --	
1998	$212
1999	103
2000	5
Total minimum lease payments	320
Less -- Amounts representing interest	17
Present value of minimum lease payments	$303

Operating Leases

The Company leases a building which is owned by the principal stockholder of the Company. The lease is classified as an operating lease and expires on October 31, 1997. The rent paid under this related-party lease was approximately $156,000, $156,000 and $156,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively. The Company also leases a building which is owned by an officer of the Company. This lease commenced during 1996. The lease is classified as an operating lease and expires on May 31, 1999. The Company has an option to renew the lease for one additional two-year term at a reduced

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

lease rate. The rent paid under this related-party lease was approximately $60,000 for the year ended September 30, 1997. The Company also rents certain office equipment and warehouse space under several operating lease agreements which vary in length and terms. The rent paid under these lease agreements was approximately $8,000, $45,000 and $49,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

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

Year Ended September 30 --	
1998	$138
1999	67
2000	38
Thereafter	71
	$314

7. RELATED-PARTY TRANSACTIONS:

The Company has entered into operating and capital lease transactions with related parties as discussed in Note 6.

CIMA Services, Inc. (CIMA) and RES are related parties due to the ownership by the Company's president of 49% and 1%, respectively, of these companies' capital stock.

The related-party transactions and balances are as follows (in thousands):

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	1997
Accounts receivable from CIMA	$ 2	$ 208	$ 632
Accounts receivable from sale of subsidiary stock	--	--	71
Interest receivable from CIMA and officer	1	--	--
Accounts payable to CIMA	23	633	--
Contract revenues from CIMA	1,116	1,257	1,368
Purchases of material from CIMA	812	1,080	2,062
Interest income received from CIMA and officers	38	14	1
Minority interest in net income of RES	--	3	(2)
Liability attributable to minority interest	--	3	75
Capital lease obligation to an officer of RES	--	116	82
Payments under capital lease obligation with an officer of RES	--	31	54
Payments under operating leases with officers of the Company	26	232	270

Additionally, the Company has guaranteed an officer note at a bank with an outstanding balance of approximately $125,000 at September 30, 1997. The Company's property and equipment has been cross-pledged as collateral.

8. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan that covers all employees meeting certain age and service requirements. Company contributions to the plan are at the discretion of the board of directors. Contributions to the plan charged to operations in 1994, 1995, 1996 and the year ended September 30, 1997 were $186,000, $450,000, $789,000 and $789,000, respectively.

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. FINANCIAL INSTRUMENTS:

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

10. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's consolidated financial position or results of operations.

Insurance

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

11. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales greater than 10 percent of total sales to three major customers (comprising approximately 20%, 12% and 11% of total sales), two major customers (comprising approximately 15% and 13% of total sales), two major customers (comprising approximately 20% and 18% of total sales) and one major customer (comprising approximately 32% of total sales) during the years ended December 31, 1994, 1995, 1996 and September 1997, respectively.

In addition, the Company grants credit, generally without collateral, to its customers, which are usually general contractors located primarily in the Dallas-Fort Worth, Texas area. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the Dallas-Fort Worth, Texas, area. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

Cash and Cash Equivalents

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

12. BACKCHARGE CLAIMS:

It is the Company's policy to recognize income from backcharge claims only when a definitive agreement has been reached and collection is reasonably assured. In December 1996, the Company reached a settlement on one of its backcharge claims related to prior periods for approximately $856,000 which is reflected in the accompanying consolidated statement of operations for the year ended December 31, 1996, as an increase in revenues and as a component of other receivables in the accompanying consolidated balance sheet at December 31, 1996. This amount was collected in 1997.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To BW Consolidated, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of BW Consolidated, Inc., a Texas corporation, and Subsidiaries as of December 31, 1995 and 1996 and September 30, 1997, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BW Consolidated, Inc. and Subsidiaries as of December 31, 1995 and 1996 and September 30, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,180	$ 507	$ 1,275
Accounts receivable --			
Trade, net of allowance of $82, $119 and $124, respectively	3,178	4,718	4,835
Retainage	471	768	601
Other receivables	62	53	71
Notes receivable from stockholders	42	--	--
Inventories, net of allowance of $24, $29 and $28, respectively	461	557	541
Costs and estimated earnings in excess of billings	186	182	224
Prepaid expenses and other current assets	5	10	29
Total current assets	5,585	6,795	7,576
PROPERTY AND EQUIPMENT, net	3,925	4,609	5,206
NOTE RECEIVABLE FROM STOCKHOLDERS, net of current portion	470	--	--
OTHER ASSETS	21	27	49
Total assets	$10,001	$11,431	$12,831
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 214	$ 94	$ 96
Accounts payable and accrued expenses	2,318	2,131	2,400
Income taxes payable	130	166	--
Billings in excess of costs and estimated earnings	606	749	840
Total current liabilities	3,268	3,140	3,336
LONG-TERM DEBT, net of current maturities	951	861	842
DEFERRED TAXES	180	--	--
COMMITMENTS AND CONTINGENCIES			
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	--	209	1,302
STOCKHOLDERS' EQUITY:			
Common stock, $1 par value, 2,000,000, 500,000 and 500,000 shares authorized, respectively; 31,598, 20,000 and 20,000 shares issued and outstanding, respectively	32	20	20
Additional paid-in capital	566	205	205
Retained earnings	5,965	6,996	7,126
Treasury stock, 5,088 shares, at cost	(961)	--	--
Total stockholders' equity	5,602	7,221	7,351
Total liabilities and stockholders' equity	$10,001	$11,431	$12,831

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
REVENUES	$23,168	$27,730	$33,023	$32,165	$24,994	$24,136
COST OF SERVICES (including depreciation)	17,967	20,964	25,017	24,976	18,909	18,868
Gross profit	5,201	6,766	8,006	7,189	6,085	5,268
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,091	3,637	3,686	3,766	2,713	2,793
Income from operations	2,110	3,129	4,320	3,423	3,372	2,475
OTHER INCOME (EXPENSE):						
Interest expense	(135)	(120)	(97)	(108)	(73)	(84)
Other	97	263	174	195	137	158
Other income (expense), net	(38)	143	77	87	64	74
NET INCOME BEFORE INCOME TAX AND MINORITY INTEREST	2,072	3,272	4,397	3,510	3,436	2,549
INCOME TAX EXPENSE (BENEFIT)	772	1,238	(28)	72	(67)	33
NET INCOME BEFORE MINORITY INTEREST	1,300	2,034	4,425	3,438	3,503	2,516
MINORITY INTEREST EXPENSE	--	--	250	316	203	269
NET INCOME	$ 1,300	$ 2,034	$ 4,175	$ 3,122	$ 3,300	$ 2,247

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$1,300	$ 2,034	$ 4,175	$ 3,122	$ 3,300	$ 2,247
Adjustments to reconcile net income to net cash provided by operating activities --						
Depreciation and amortization	292	329	426	534	296	404
Loss (gain) on sale of property and equipment	9	(54)	(17)	(3)	(19)	(5)
Deferred tax benefit	--	--	(180)	--	(180)	--
Minority interest expense	--	--	250	316	203	269
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	(459)	(244)	(1,828)	(663)	(1,115)	50
Inventories	(7)	131	(96)	29	(109)	16
Costs and estimated earnings in excess of billings on uncompleted contracts	80	(13)	4	156	(194)	(42)
Prepaid expenses and other current assets	(3)	4	(5)	(19)	(5)	(19)
Increase (decrease) in --						
Accounts payable and accrued expenses	(153)	141	(187)	(140)	222	269
Billings in excess of costs and estimated earnings on uncompleted contracts	(51)	282	143	34	200	91
Other current liabilities	34	41	36	(112)	(18)	(166)
Net cash provided by operating activities	1,042	2,651	2,721	3,254	2,581	3,114
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	4	141	66	23	63	20
Stockholder receivable	--	(512)	512	--	512	--
Other assets	1	(3)	(6)	(31)	3	(22)
Additions of property and equipment	(485)	(1,001)	(1,160)	(1,068)	(984)	(892)
Net cash used in investing activities	(480)	(1,375)	(588)	(1,076)	(406)	(894)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of short-term debt	643	515	1,832	2,000	632	800
Borrowings of long-term debt	--	--	10	25	24	39
Repayments of short-term debt	(643)	(515)	(1,832)	(2,000)	(632)	(800)
Repayments of long-term debt	(377)	(310)	(219)	(217)	(200)	(198)
Stockholder distributions	--	(32)	(2,556)	(2,451)	(2,222)	(2,117)
Minority interest contributions	--	--	85	935	85	935
Minority interest distributions	--	--	(126)	(165)	(72)	(111)
Purchase of treasury stock	--	(961)	--	--	--	--
Net cash used in financing activities	(377)	(1,303)	(2,806)	(1,873)	(2,385)	(1,452)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	185	(27)	(673)	305	(210)	768
CASH AND CASH EQUIVALENTS, beginning of period	1,022	1,207	1,180	970	1,180	507
CASH AND CASH EQUIVALENTS, end of period	$1,207	$ 1,180	$ 507	$ 1,275	$ 970	$ 1,275
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 137	$ 119	$ 97	$ 108	$ 73	$ 84
Income taxes	744	1,197	132	202	128	198

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
BALANCE, December 31, 1993........	31,151	$ 31	$ 512	$ 2,663	$ --	$ 3,206
Sale of common stock............	261	1	30	--	--	31
Net income......................	--	--	--	1,300	--	1,300
BALANCE, December 31, 1994........	31,412	32	542	3,963	--	4,537
Sale of common stock............	186	--	24	--	--	24
Net income......................	--	--	--	2,034	--	2,034
Dividends paid..................	--	--	--	(32)	--	(32)
Purchase of treasury stock......	--	--	--	--	(961)	(961)
BALANCE, December 31, 1995........	31,598	32	566	5,965	(961)	5,602
Shares retired upon merger......	(26,510)	(27)	154	(127)	--	--
Treasury stock canceled.........	(5,088)	(5)	(515)	(441)	961	--
Shares issued...................	1,000	10	--	(10)	--	--
Stock split 20 to 1 and recapitalization (Note 1)....	19,000	10	--	(10)	--	--
Distributions to stockholders...	--	--	--	(2,556)	--	(2,556)
Net income......................	--	--	--	4,175	--	4,175
BALANCE, December 31, 1996........	20,000	20	205	6,996	--	7,221
Distributions to stockholders (unaudited)..................	--	--	--	(2,117)	--	(2,117)
Net income (unaudited)..........	--	--	--	2,247	--	2,247
BALANCE, September 30, 1997.......	20,000	$ 20	$ 205	$ 7,126	$ --	$ 7,351

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS, ORGANIZATION AND BASIS OF PRESENTATION:

BW Consolidated, Inc. (the Company), a Nevada S Corporation, and Subsidiaries, two of which are Texas limited partnerships, focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed-price contracts with contract terms generally ranging from three to 24 months. The Company performs the majority of its work in Texas.

In January 1996, the original parent company, Bexar Enterprises, Inc., a Nevada C Corporation, was merged with BW Investments, Inc., Bexar Electric Company, Inc., and Calhoun Electric Company, Inc., all wholly owned subsidiaries. The survivor of the merger was Calhoun Electric Company, Inc., a Texas S Corporation, and its 90 percent owned subsidiary, Bexar Electric Company, Ltd. (BEC), a Texas limited partnership. The 10 percent minority interest in the partnership was purchased by employees of Bexar Electric Company, Ltd. An additional 10 percent minority interest in Bexar Electric Company, Ltd. (a Texas limited partnership), was purchased by employees of the Company in January 1997.

In May 1997, Calhoun Electric Company, Inc., a Texas S Corporation, transferred its assets and liabilities to Calhoun Electric Company, Ltd. (CEC), a Texas limited partnership. Subsequent to this transfer, Calhoun Electric Company, Inc., a Texas S Corporation, reorganized as a Nevada S Corporation and changed its name to BW Consolidated, Inc.

The accompanying financial statements present BW Consolidated, Inc. (and its predecessors), together with its majority-owned subsidiaries on a consolidated basis. All significant intercompany activity has been eliminated in consolidation. Additionally, minority interests in subsidiaries of BW Consolidated, Inc. have been reflected as "Minority Interest in Consolidated Subsidiary" in the accompanying consolidated financial statements.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. Additionally, in October 1997, the majority shareholder of the Company transferred 15 percent of its interest in CEC to a former shareholder of Calhoun Electric Company, Inc. and current employee of CEC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Cash and Cash Equivalents

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

Supplemental Cash Flow Information (in thousands)

The Company had the following noncash investing and financing activities for the years ended December 31, 1994, 1995 and 1996, for the year ended September 30, 1997, and the nine months ended September 30, 1996 and 1997.

				YEAR ENDED SEPTEMBER 30,	NINE MONTHS SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
Property and equipment purchased with direct financing	$--	$25	$--	$141	$--	$141
Like-kind exchange of equipment	--	15	6	6	--	6
Employee Stock Option Plan contribution through stock distribution	30	25	--	--	--	--
Exchange of property and equipment for note receivable	--	--	--	18	--	18

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the average cost method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

Warranty Costs

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

Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company has elected S Corporation status effective January 1, 1996, as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes (see Note 7). The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings (see Note 1).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncements

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the consolidated financial position or results of operations of the Company.

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	10	$ 2,783	$ 3,446	$ 3,953
Machinery and equipment	5-10	709	673	684
Land and buildings	40	2,592	2,592	2,941
Furniture, fixtures and office equipment	3-15	680	926	965
		6,764	7,637	8,543
Less -- Accumulated depreciation and amortization		(2,839)	(3,028)	(3,337)
Property and equipment, net		$ 3,925	$ 4,609	$ 5,206

4. DETAIL OF CERTAIN CONSOLIDATED BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 80	$ 82	$105
Additions to costs and expenses	27	127	49
Deductions for uncollectible receivables written off and recoveries	(25)	(90)	(30)
Balance at end of period	$ 82	$119	$124

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$1,134	$1,191	$1,441
Wages	700	407	470
Insurance	238	146	83
Contract costs	141	207	208
Warranty reserve	83	99	97
Other	22	81	101
Total accounts payable and accrued expenses	$2,318	$2,131	$2,400

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Amended contract amount	$15,945	$18,918	$16,983
Revenue recognized to date	7,953	11,105	8,663
Unearned contract amount, backlog	$ 7,992	$ 7,813	8,320
Costs incurred on uncompleted contracts	$ 5,647	$ 8,298	6,433
Estimated earnings	2,306	2,807	2,230
Total contract revenue earned to date	7,953	11,105	8,663
Less -- Billings to date	8,403	11,711	9,278
Net overbilled open contracts	(450)	(606)	(615)
Unbilled completed contracts	30	39	(1)
	$ (420)	$ (567)	$ (616)
Costs and estimated earnings in excess of billings	$ 186	$ 182	$ 224
Billings in excess of costs and estimated earnings	(606)	(749)	(840)
	$ (420)	$ (567)	$ (616)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note payable to a bank, interest at prime plus .75 percent (prime rate at 8.50 percent at September 30, 1997, principal and interest due monthly of $10 maturing in March 2004, secured by certain real estate	$ 678	$632	$586
Note payable to a corporation, interest at 7 percent, principal and interest due monthly of $2 maturing in July 2004, secured by certain real estate	140	128	--
Note payable to a bank, interest at prime, principal and interest due monthly of $3, maturing in November 2003, secured by certain real estate	205	190	179
Note payable to a bank, interest at prime plus .75 percent, principal and interest due monthly of $2 maturing in February 2007, secured by real estate	--	--	$173
Notes payable to manufacturers, interest at 7.9 percent, principal and interest due monthly of $3, maturing in December 1996 and May 1997, secured by certain equipment	43	5	--
Notes payable to a bank, interest at 8.25 percent, principal and interest due monthly of $6, maturing in July and October 1996, secured by certain vehicles and equipment	50	--	--
Various notes payable to a bank, interest ranging from 7.9 percent to 8.25 percent, principal and interest due monthly of $7, maturing in July through November 1996, secured by certain vehicles, machinery and office equipment	49	--	--
Total debt	1,165	955	938
Less -- current maturities	214	94	96
Long-term debt less current maturities	$ 951	$861	$842

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The maturities of long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 96
1999	112
2000	116
2001	126
2002	138
Thereafter	350
	$938

The Company currently has two lines of credit established. The first line of credit for $750,000, secured by BEC accounts receivable, inventory and equipment, requires monthly payments of interest at 1 percent over the prime rate. At December 31, 1995 and 1996 and at September 30, 1997, respectively, there were no advances outstanding against the line and the full $750,000 was available. The note maturity date is April 1998. The second line of credit for $500,000, secured by CEC accounts receivable, inventory, equipment and trucks, requires monthly payments of interest at 1/2 percent over the prime rate. During the 1997, this line of credit agreement was renewed and was increased from $300,000 to $500,000. At December 31, 1995 and 1996, respectively, there were no advances outstanding against the line and the full $300,000 was available. At September 30, 1997, there was no advance outstanding against the line and the full $500,000 was available. The note maturity date is May 1998.

The Company had an irrevocable letter of credit from a bank in the amount of $199,000 in favor of the Company's workers' compensation carrier. The expiration date was July 1, 1997. Security for this letter of credit consisted of the assignment of $125,000 in certificates of deposit and a second lien on real estate of the Company, and the personal guarantee of the major stockholder.

6. LEASES:

The Company leased undeveloped property from the majority stockholder for storage of equipment and trailers. The lease was entered into on July 1, 1994, and expired on June 30, 1997, and was on a month-to-month basis. The consideration for this lease was $8,000, $17,000, $19,000 and $10,000 in 1994, 1995, 1996 and the year ended September 30, 1997 respectively.

7. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Federal --		
Current	$663	$1,118
Deferred	26	(45)
State --		
Current	83	157
Deferred	--	8
	$772	$1,238

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 34% to income before provision for income taxes as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Provision at the statutory rate	$704	$1,112
State income tax, net of benefit for federal deduction	54	107
Other	14	19
	$772	$1,238

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

	DECEMBER 31, 1995
Deferred income tax assets --	
Allowance for bad debt	$ 4
Accrued liabilities and expenses	122
Total deferred income tax asset	126
Deferred income tax liabilities --	
Property and equipment	(306)
Total deferred income tax liability	(306)
Net deferred income tax liability	$ (180)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31, 1995
Deferred tax assets --	
Current	$ 126
Long-term	--
Total	$ 126
Deferred tax liabilities --	
Current	$ --
Long-term	(306)
Total	$(306)

Effective January 1, 1996, the Company elected S Corporation status for Calhoun Electric and partnership status for Bexar Electric. The Company will no longer be directly responsible for any deferred tax liability which might exist. The removal of the deferred tax liability which existed as of December 31, 1995, is recognized in the 1996 consolidated statement of operations (see Note 2).

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

8. RELATED-PARTY TRANSACTIONS:

Notes receivable from a stockholder consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note receivable, secured by a second lien on real estate, interest at 7.5 percent, payable in 60 quarterly installments of $3	$107	$ --	$ --
Note receivable, unsecured, interest at 7.45 percent, payments due annually in January of 15 percent of principal plus accrued interest, balance due in January 2000	405	--	--
Total notes receivable from a stockholder	512	--	--
Current portion	42	--	--
Noncurrent portion	$470	$ --	$ --

The Company recognized interest income from a stockholder of $--, $30,000, $13,000 and $5,000 in 1994, 1995, 1996 and for the year ended September 30, 1997, respectively.

9. EQUITY:

In 1991, the Company adopted an employee stock ownership plan (ESOP) for the benefit of the Company's employees. The plan covered substantially all employees of the Company. The Company's contributions to the plan are at the discretion of the board of directors, but may not exceed the maximum allowable deduction permitted under the Internal Revenue Code at the time of the contribution. Under this ESOP plan, employees cannot make contributions to the plan. The Company made a contribution of $35,000 and $25,000 in 1994 and 1995, respectively. Effective December 8, 1995, the Company has requested and received approval from the Internal Revenue Service to terminate the ESOP plan. In accordance with the termination of the ESOP, the Company repurchased as treasury stock 5,088 shares for $961,000.

In 1996, the Company sold a minority interest in the limited partnership of Bexar Electric to certain employees of the Company. The minority interest is considered a limited partner; the minority interest held 10 percent and 20 percent at December 31, 1996 and September 30, 1997, respectively.

10. FINANCIAL INSTRUMENTS:

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

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's consolidated financial position or results of operations.

Insurance

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 11 percent of total sales to one major customer during the year ended December 31, 1996.

The Company had accounts receivable balances of approximately 15 percent and 14 percent of total accounts receivable from two major customers as of December 31, 1996, and approximately 10% due from one major customer for the year ended September 30, 1997.

The Company had cash and cash equivalents in financial institutions which exceeded the federally insured limits by $911,000, $269,000 and $858,000 at December 31, 1995 and 1996, and September 30, 1997, respectively.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily general contractors, located in Central and South Texas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the state of Texas. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Muth Electric, Inc.:

We have audited the accompanying balance sheets of Muth Electric, Inc., a South Dakota corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muth Electric, Inc., as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 and for the year ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

MUTH ELECTRIC, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 53	$ 82	$ 81
Accounts receivable --			
Trade, net of allowance of $55, $63 and $91, respectively	1,718	2,556	3,154
Retainage	417	212	383
Related party	--	74	246
Inventories	750	820	898
Costs and estimated earnings in excess of billings on uncompleted contracts	545	436	675
Prepaid expenses and other current assets	150	140	135
Total current assets	3,633	4,320	5,572
PROPERTY AND EQUIPMENT, net	946	1,140	1,133
Total assets	$4,579	$5,460	$6,705
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Notes payable	$ --	$ 530	$ 540
Accounts payable and accrued expenses	1,621	1,680	2,177
Billings in excess of costs and estimated earnings on uncompleted contracts	305	180	543
Total current liabilities	1,926	2,390	3,260
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $100 par value, 3,000 shares authorized, 737 shares issued and outstanding	74	74	74
Retained earnings	2,579	2,996	3,371
Total stockholder's equity	2,653	3,070	3,445
Total liabilities and stockholder's equity	$4,579	$5,460	$6,705

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

MUTH ELECTRIC, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
REVENUES	$13,466	$16,012	$16,830	$18,779	$12,517	$14,466
COST OF SERVICES (including depreciation)	9,805	12,189	12,834	14,511	9,751	11,428
Gross profit	3,661	3,823	3,996	4,268	2,766	3,038
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,678	2,923	2,957	3,074	2,147	2,264
Income from operations	983	900	1,039	1,194	619	774
OTHER INCOME (EXPENSE):						
Interest income (expense)	6	11	(24)	(27)	(17)	(20)
Other	(79)	(95)	27	1	22	(4)
Other income (expense), net	(73)	(84)	3	(26)	5	(24)
NET INCOME	$ 910	$ 816	$ 1,042	$ 1,168	$ 624	$ 750

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

MUTH ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 910	$ 816	$1,042	$ 1,168	$ 624	$ 750
Adjustments to reconcile net income to net cash provided by operating activities --						
Depreciation and amortization	142	185	224	212	194	182
Loss (gain) on sale of property and equipment	(6)	16	(28)	(26)	(16)	(14)
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	(260)	70	(674)	(1,209)	(406)	(941)
Inventories	31	(38)	(70)	(82)	(66)	(78)
Costs and estimated earnings in excess of billings on uncompleted contracts	579	(291)	70	(125)	(44)	(239)
Prepaid expenses and other current assets	(41)	5	10	(81)	96	5
Increase (decrease) in --						
Accounts payable and accrued expenses	(478)	525	59	451	105	497
Billings in excess of costs and estimated earnings on uncompleted contracts	(252)	(95)	(119)	197	47	363
Net cash provided by operating activities	625	1,193	514	505	534	525
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	11	5	53	42	34	23
Additions of property and equipment	(201)	(560)	(443)	(226)	(401)	(184)
Net cash used in investing activities	(190)	(555)	(390)	(184)	(367)	(161)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Net borrowings or notes payable	--	--	530	300	240	10
Payments of long-term loan receivable	390	--	--	--	--	--
Distributions to stockholders	(715)	(722)	(625)	(625)	(375)	(375)
Net cash used in financing activities	(325)	(722)	(95)	(325)	(135)	(365)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110	(84)	29	(4)	32	(1)
CASH AND CASH EQUIVALENTS, beginning of period	27	137	53	85	53	82
CASH AND CASH EQUIVALENTS, end of period	$ 137	$ 53	$ 82	$ 81	$ 85	$ 81
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 9	$ 4	$ 33	$ 36	$ 25	$ 28

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

MUTH ELECTRIC, INC.

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1993	737	$74	$2,290	$2,364
Distributions to stockholders	--	--	(715)	(715)
Net income	--	--	910	910
BALANCE, December 31, 1994	737	74	2,485	2,559
Distributions to stockholders	--	--	(722)	(722)
Net income	--	--	816	816
BALANCE, December 31, 1995	737	74	2,579	2,653
Distributions to stockholders	--	--	(625)	(625)
Net income	--	--	1,042	1,042
BALANCE, December 31, 1996	737	74	2,996	3,070
Distributions to stockholders (unaudited)	--	--	(375)	(375)
Net income (unaudited)	--	--	750	750
BALANCE, September 30, 1997	737	$74	$3,371	$3,445

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

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Muth Electric, Inc. (the Company), a South Dakota corporation, focuses on providing electrical system installation and repair services primarily for residential and commercial facilities. The Company performs the majority of its contract work under fixed-price contracts with contract terms generally ranging from one to 12 months. The Company performs the majority of its work in South Dakota and surrounding states.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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 stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the estimated useful life of the asset. Depreciation expense was approximately $142,000, $185,000, $224,000 and $212,000 for the years ended December 31, 1994, 1995, 1996 and September 30, 1997, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

The Company warrants labor and materials for the first year after installation of new electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable, as well as provides a general reserve for potential unknown adjustments.

Income Taxes

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes. The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 9 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5	$ 806	$ 868	$ 890
Machinery and equipment	7	466	635	707
Leasehold improvements	40	409	479	517
Furniture and fixtures	5	403	425	444
		2,084	2,407	2,558
Less -- Accumulated depreciation and amortization		(1,138)	(1,267)	(1,425)
Property and equipment, net		$ 946	$ 1,140	$1,133

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$60	$55	$63
Additions (deductions) to costs and expenses	(5)	8	28
Balance at end of period	$55	$63	$91

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 652	$ 757	$1,258
Accrued compensation and benefits	376	520	435
Other accrued expenses	593	403	484
	$1,621	$1,680	$2,177

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 9,215	$ 7,159	$ 7,250
Estimated earnings, net of losses	1,914	1,277	2,082
	11,129	8,436	9,332
Less -- Billings to date	(10,889)	(8,180)	(9,200)
	$ 240	$ 256	$ 132
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 545	$ 436	$ 675
Less: Billings in excess of costs and estimated earnings on uncompleted contracts	(305)	(180)	(543)
	$ 240	$ 256	$ 132

5. LINE OF CREDIT:

The Company has three lines of credit with a bank totaling $1,140,000 of available credit. The line of credit expires January 1998 and bears interest at 9 percent. The line of credit is unsecured. At September 30, 1997, borrowings outstanding under the line of credit were $540,000.

6. EMPLOYEE BENEFIT PLAN:

The Company has a defined 401(k) contribution profit-sharing plan. The Plan provides for the Company to match one-half of the first 5 percent contributed by each employee. Total contributions by the Company under the plan were approximately $83,000, $93,000 and $85,000 for the years ending December 31, 1995, 1996 and September 31, 1997 respectively. The Company may also make discretionary contributions. The Company declared discretionary contributions of $70,000 and $65,000 for the years ended December 31, 1995 and 1996, respectively, and had accrued approximately $74,000 at December 31, 1996, relating to all contributions to be funded in the subsequent fiscal year.

7. RELATED-PARTY TRANSACTIONS:

The Company periodically will obtain loans from the stockholder to meet current cash needs. The Company will also loan out excess funds to the stockholder. Loans neither to nor from the stockholder are charged interest. A total of $172,000 was due from a stockholder at September 30, 1997.

The Company has an outstanding trade receivable in the amount of $74,000 to a company owned by a member of the stockholder's family.

The Company also provides real estate management services to a company owned by the stockholder.

The Company leases facilities from the Company's stockholder. The leases expire annually. The rent paid under these related-party leases was approximately $95,000, $118,000 and $115,000 for the years ended December 31, 1995 and 1996 and September 30, 1997, respectively.

8. FINANCIAL INSTRUMENTS:

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

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

9. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

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

The Company is self-insured for medical claims up to $20,000 per year per covered individual. Claims in excess of these amounts are covered by a stop-loss policy. The Company has recorded reserves for its portion of self-insured claims based on estimated claims incurred through December 31, 1995 and 1996 or 1997.

10. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company did not have sales greater than 10 percent of total sales to any one customer during the years ended December 31, 1994, 1995 and 1996 or September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers located primarily in the Midwest region. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the Midwest. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Pollock Electric Inc.:

We have audited the accompanying balance sheets of Pollock Electric Inc., a Texas corporation, as of October 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pollock Electric Inc. as of October 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

POLLOCK ELECTRIC INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 302	$ 222	$ 347
Accounts receivable --			
Trade, net of allowance of $96, $178 and $175, respectively	2,204	4,030	4,536
Retainage	99	566	765
Other receivables	40	4	13
Inventories, net	--	--	18
Costs and estimated earnings in excess of billings on uncompleted contracts	399	202	767
Deferred tax asset	161	263	343
Prepaid expenses and other current assets	49	115	198
Total current assets	3,254	5,402	6,987
PROPERTY AND EQUIPMENT, net	280	341	379
Total assets	$3,534	$5,743	$7,366

LIABILITIES AND STOCKHOLDER'S EQUITY

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Notes payable and capital lease obligations	$ 28	$ 67	$ 167
Advances outstanding under line of credit	625	1,350	1,610
Accounts payable and accrued expenses	1,378	3,013	3,335
Income taxes payable	354	181	231
Billings in excess of costs and estimated earnings on uncompleted contracts	234	317	889
Unearned revenue and other current liabilities	14	13	146
Total current liabilities	2,633	4,941	6,378
CAPITAL LEASE OBLIGATIONS, net of current portion	75	75	71
DEFERRED TAX LIABILITY	20	20	21
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $1 par value, 1,000,000 shares authorized, 1,000 shares issued and outstanding	1	1	1
Additional paid-in capital	9	9	9
Retained earnings	796	697	886
Total stockholder's equity	806	707	896
Total liabilities and stockholder's equity	$3,534	$5,743	$7,366

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

POLLOCK ELECTRIC INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,	ELEVEN MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1996	1997
				(UNAUDITED)	
REVENUES	$13,002	$15,816	$20,291	$13,305	$17,780
COST OF SERVICES (including depreciation)	10,602	13,534	16,670	11,646	14,782
Gross profit	2,400	2,282	3,621	1,659	2,998
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,149	2,463	2,895	2,083	2,515
Income (loss) from operations	251	(181)	726	(424)	483
OTHER INCOME (EXPENSE):					
Interest expense	(77)	(104)	(172)	(87)	(155)
Other	--	156	3	154	1
Other income (expense), net	(77)	52	(169)	67	(154)
INCOME (LOSS) BEFORE INCOME TAXES	174	(129)	557	(357)	329
PROVISION (BENEFIT) FOR INCOME TAXES	82	(30)	214	(104)	140
NET INCOME (LOSS)	$ 92	$ (99)	$ 343	$ (253)	$ 189

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

POLLOCK ELECTRIC INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,	ELEVEN MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1996	1997
				(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ 92	$ (99)	$ 343	$ (253)	$ 189
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization	64	107	131	83	107
Deferred income taxes	(141)	(103)	(35)	(146)	(78)
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	577	(2,257)	(1,479)	(1,492)	(714)
Inventories	--	--	(18)	--	(18)
Costs and estimated earnings in excess of billings on uncompleted contracts	(164)	197	(234)	(134)	(565)
Prepaid expenses and other current assets	(30)	(41)	(78)	(71)	(83)
Increase (decrease) in --					
Accounts payable and accrued expenses	(546)	1,635	1,143	815	323
Income taxes payable	170	(172)	120	(243)	49
Billings in excess of costs and estimated earnings on uncompleted contracts	9	83	19	636	572
Unearned revenue and other current liabilities	(31)	(1)	103	29	133
Net cash provided by (used in) operating activities	--	(651)	15	(776)	(85)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions of property and equipment	(77)	(154)	(175)	(112)	(133)
Net cash used in investing activities	(77)	(154)	(175)	(112)	(133)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net borrowings under line of credit	241	725	484	609	343
Net cash provided by financing activities	241	725	484	609	343
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	164	(80)	324	(279)	125
CASH AND CASH EQUIVALENTS, beginning of period	138	302	23	302	222
CASH AND CASH EQUIVALENTS, end of period	$ 302	$ 222	$ 347	$ 23	$ 347
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 77	$ 104	$ 171	$ 88	$ 155
Income taxes	21	245	38	245	38

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

POLLOCK ELECTRIC INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINED	TOTAL STOCKHOLDER'S
	SHARES	AMOUNT	CAPITAL	EARNINGS	EQUITY
BALANCE, October 31, 1994	1,000	$ 1	$ 9	$ 704	$ 714
Net income	--	--	--	92	92
BALANCE, October 31, 1995	1,000	1	9	796	806
Net income	--	--	--	(99)	(99)
BALANCE, October 31, 1996	1,000	1	9	697	707
Net income (unaudited)	--	--	--	189	189
BALANCE, September 30, 1997	1,000	$ 1	$ 9	$ 886	$ 896

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

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Pollock Electric Inc., a Texas corporation (the Company), provides electrical system installation, data and fiber optic cabling installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed-price contracts, with contract terms generally ranging from one to 12 months. The Company performs the majority of its work in the commercial and industrial markets in Harris County, Texas, and surrounding areas.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the eleven months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was $64,144, $107,242 and $131,190 for the years ended October 31, 1995 and 1996 and September 30, 1997, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reasonably estimated.

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

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

Warranty Costs

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

Accounts Receivable and Provision for Doubtful Accounts

Accounts receivable at October 31, 1995 and 1996 and September 30, 1997, include immaterial amounts of claims and unapproved change orders, however, the Company generally does not recognize change orders until they are approved.

The Company provides an allowance for doubtful accounts based upon a percentage of gross sales revenue. In addition, the Company reserves for specific accounts when collection of such accounts is no longer probable.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	4-5	$ 95	$ 132	$ 143
Machinery and equipment	5-7	221	267	331
Computer and telephone equipment	5	161	201	259
Leasehold improvements	5-39	71	107	119
Furniture and fixtures	5-7	15	24	24
		563	731	876
Less -- Accumulated depreciation and amortization		(283)	(390)	(497)
Property and equipment, net		$ 280	$ 341	$ 379

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 68	$ 96	$178
Additions to costs and expenses	59	108	26
Deductions for uncollectible receivables written off and recoveries	(31)	(26)	(29)
Balance at end of period	$ 96	$178	$175

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 944	$2,553	$2,859
Accrued compensation and benefits	301	344	302
Other accrued expenses	133	116	174
	$1,378	$3,013	$3,335

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 1,300	$ 6,592	$ 9,484
Estimated earnings, net of losses	239	742	1,748
	1,539	7,334	11,232
Less -- Billings to date	(1,374)	(7,449)	(11,354)
	$ 165	$ (115)	$ (122)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 399	$ 202	$ 767
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(234)	(317)	(889)
	$ 165	$ (115)	$ (122)

5. LINE OF CREDIT:

The Company has a $2,500,000 line of credit with a bank. At October 31, 1995 and 1996 and September 30, 1997, unpaid borrowings were $625,000, $1,350,000 and $1,610,000, respectively. The line of credit expires February 28, 1998, and bears interest at the bank's prime lending rate plus 1 percent. The line of credit is personally guaranteed by Jon Pollock, sole stockholder and president of the Company, and is secured by all accounts, contract rights, chattel paper, instruments, general intangibles, rights to payments of any kind, all interest of the Company in any goods, and a blanket lien of all property and equipment. The borrowing base is limited to 75 percent of eligible accounts receivable that are outstanding less than 60 days from the invoice date.

Interest is computed monthly on the unpaid balance and is payable monthly. The Company has restrictive and various financial covenants with which the Company was in compliance at September 30, 1997.

6. LEASES:

The Company leases its office space from its sole stockholder and president under a lease agreement with a primary lease term of one year beginning November 15, 1991. At the expiration of the primary lease term, the Company exercised its option to extend the lease for an additional five-year period. Effective November 1, 1995, the lease agreement was modified to include additional office space. The basic rent was increased to $3,000 per month, and the expiration date was extended to November 30, 1998.

In addition to the basic lease cost, the Company must pay insurance, actual taxes, maintenance and other operating costs. The rent paid under this related-party lease was approximately $20,000, $36,000 and $36,000 for the years ended October 31, 1995 and 1996 and September 30, 1997, respectively.

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

	OCTOBER 31,	SEPTEMBER 30,
1997	$36	$--
1998	36	36
1999	3	6
	$75	$42

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Certain vehicles and equipment have been leased under terms that constitute capital leases. Accordingly, the costs of the assets (the lower of the cash purchase price or the present value of the future minimum lease payments) were recorded as an addition to property and the related liabilities were recorded as lease obligations. The assets are amortized using the straight-line method, and interest expense is recorded on the basis of the outstanding lease obligation.

The net present value of future minimum lease payments under the capital leases as recorded in short-term and long-term debt at October 31, 1996 and September 30, 1997, are as follows (in thousands):

Year ending October 31 --	
1997	$ 54
1998	51
1999	32
Total lease payments	137
Less -- Amounts representing interest	(16)
Present value of minimum lease payments	$121
Year ending September 30 --	
1998	$ 71
1999	54
2000	20
2001	7
Total lease payments	152
Less -- Amounts representing interest	(19)
Present value of minimum lease payments	$133

7. INCOME TAXES:

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

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,
	1995	1996	1997
Federal --			
Current	$ 259	$ 72	$ 318
Deferred	(187)	(99)	(122)
State --			
Current	35	10	39
Deferred	(25)	(13)	(21)
	$ 82	$ (30)	$ 214

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

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,
	1995	1996	1997
Income tax expense (benefit) at the statutory rate	$ 61	$ (45)	$ 194
Increase (decrease) resulting from --			
State income taxes, net of related tax effect	6	(2)	12
Nondeductible expenses	15	17	8
	$ 82	$ (30)	$ 214

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Deferred income tax assets --			
Bad debt reserve	$ 42	$ 51	$ 53
Warranty reserve	28	44	49
Contracts	51	50	75
Accrued expenses	40	118	166
Total deferred income tax assets	161	263	343
Deferred income tax liabilities --			
Property and equipment	(17)	(17)	(52)
State taxes	(1)	(4)	(4)
Contracts	(116)	(103)	(208)
Total deferred income tax liabilities	(134)	(124)	(264)
Total deferred income tax assets	$ 27	$ 139	$ 79

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Current	$ 161	$ 263	$ 343
Long-term	--	--	--
Total	161	263	343
Deferred tax liabilities --			
Current	(114)	(104)	(243)
Long-term	(20)	(20)	(21)
Total	(134)	(124)	(264)
Net deferred income tax assets	$ 27	$ 139	$ 79

8. RELATED-PARTY TRANSACTIONS:

The Company leases its office space from its sole stockholder and president. Total payments made under this lease agreement were approximately $20,000, $36,000, and $36,000 for the years ended October 31, 1995 and 1996 and September 30, 1997, respectively. (See Note 6).

In 1995, the Company encouraged its employees to purchase personal computers by making the down payments for the purchases. The employees are repaying the Company through payroll deductions. The outstanding amounts are classified as accounts receivable, other in the accompanying balance sheets.

9. EMPLOYEE BENEFIT PLANS:

Stock Appreciation Plan

On May 4, 1994, the Company adopted a stock appreciation rights plan titled the Stock Unit Plan (the Plan). Under the Plan, stock rights or units were awarded to employees valued at the book value of the

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Company's stock at that date. Subsequent increases in the book value of the stock accrue to the benefit of the officer or employee, while decreases in the book value reduce accrued benefits. Payments of amounts accrued under the Plan are payable at retirement or resignation from the Company, except for cases of termination with cause, at which time the units and benefits are forfeited. Deferred compensation liability accrued under the Plan totaled $11,500, $17,435 and $17,435 at October 31, 1995 and 1996 and September 30, 1997, respectively. The change in the value of the stock appreciation rights under the Plan are recorded as compensation expense as the Company's net book value fluctuates.

Stock Purchase Agreement

The Company has entered into various agreements with certain of its officers to provide for business continuity in the event of the death of the Company's president and sole stockholder. The agreements provide for the purchase of life insurance on the Company's president through split-dollar arrangements and term insurance to provide funds for the officers of the Company to acquire the president's stock in the event of his death. All amounts advanced by the Company to pay premiums that are not subject to reimbursement from the officers shall be collectible by the Company from the net equity of the insurance policy or from the proceeds paid thereon.

Profit-Sharing and 401(k) Plan

Effective November 1, 1994, the Company established a defined contribution plan for its employees. Employees over the age of 21 are eligible to participate after one year of service with the Company. Under this plan, employees may elect to defer up to 15 percent of their salary, subject to Internal Revenue Code limits. The Company may make a discretionary match as well as a discretionary profit-sharing contribution. The Company's contribution for the years ended October 31, 1995 and 1996, totaled $16,970 and $22,466, respectively, and the Company has accrued approximately $21,500 at September 30, 1997, for contributions to be funded in the subsequent fiscal year.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, a line of credit and notes payable. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

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

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 16 percent of total sales to one major customer during the years ended October 31, 1995 and 1996. During the year ended September 30, 1997, the Company had sales of approximately 11% and 10% of total sales to two major customers.

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors located primarily in Harris County, Texas, and surrounding areas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial markets in this geographic region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Charles P. Bagby, Co., Inc.:

We have audited the accompanying balance sheets of Charles P. Bagby, Co., Inc., an Alabama S-Corporation, as of December 31, 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years ended December 31, 1996 and September 30, 1997 and for the nine months ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles P. Bagby, Co., Inc. as of December 31, 1996 and September 30, 1997, and the results of its operations and its cash flows for the years ended December 31, 1996 and September 30, 1997, and for the nine months ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

CHARLES P. BAGBY, CO., INC.

BALANCE SHEETS
(IN THOUSANDS)

ASSETS

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 624	$ 851
Accounts receivable --		
Trade, net of allowance of $42 and $48, respectively	1,186	1,289
Retainage	444	602
Notes receivable, related party	2	15
Costs and estimated earnings in excess of billings on uncompleted contracts	167	755
Prepaid expenses and other current assets	359	323
Total current assets	2,782	3,835
PROPERTY AND EQUIPMENT, net	221	246
Total assets	$3,003	$4,081

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$1,402	$1,821
Billings in excess of costs and estimated earnings on uncompleted contracts	66	366
Total current liabilities	1,468	2,187
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Common stock, $1 par value, 1,000 shares authorized and outstanding	1	1
Retained earnings	1,534	1,893
Total stockholder's equity	1,535	1,894
Total liabilities and stockholder's equity	$3,003	$4,081

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

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,	YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1996	1997
			(UNAUDITED)	
REVENUES	$7,634	$11,772	$5,105	$ 9,243
COST OF SERVICES (including depreciation)	6,412	9,920	4,419	7,927
Gross profit	1,222	1,852	686	1,316
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	680	1,140	364	824
Income from operations	542	712	322	492
OTHER INCOME (EXPENSE):				
Other	39	(2)	37	(4)
Other income (expense), net	39	(2)	37	(4)
NET INCOME	$ 581	$ 710	$ 359	$ 488

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

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996	
			1996	1997
			(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 581	$ 710	$ 359	$ 488
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation and amortization	21	23	15	17
Changes in operating assets and liabilities -- (Increase) decrease in --				
Accounts receivable	(764)	(879)	(159)	(274)
Costs and estimated earnings in excess of billings on uncompleted contracts	(15)	(697)	94	(588)
Prepaid expenses and other current assets	(136)	83	(183)	36
Increase (decrease) in --				
Accounts payable and accrued expenses	130	1,131	(582)	419
Billings in excess of costs and estimated earnings on uncompleted contracts	51	315	37	301
Other, net	30	12	20	2
Net cash provided by (used in) operating activities	(102)	698	(399)	401
CASH FLOWS FROM INVESTING ACTIVITIES:				
Additions of property and equipment	(20)	(48)	(16)	(54)
Net cash used in investing activities	(20)	(48)	(16)	(54)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Short-term borrowings	--	230	--	230
Payments on short-term borrowings	--	(230)		(230)
Distributions to shareholders	(360)	(480)	(10)	(120)
Net cash used in financing activities	(360)	(480)	(10)	(120)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(482)	170	(425)	227
CASH AND CASH EQUIVALENTS, beginning of period	1,106	681	1,106	624
CASH AND CASH EQUIVALENTS, end of period	$ 624	$ 851	$ 681	$ 851
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest	$ 1	$ 10	$ 1	$ 10

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

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1995	1,000	$ 1	$1,283	$1,284
Distributions to shareholder	--	--	(360)	(360)
Net unrealized gains	--	--	30	30
Net income	--	--	581	581
BALANCE, December 31, 1996	1,000	1	1,534	1,535
Distributions to shareholder	--	--	(120)	(120)
Net unrealized gains (losses)	--	--	(9)	(9)
Net income	--	--	488	488
BALANCE, September 30, 1997	1,000	$ 1	$1,893	$1,894

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

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Charles P. Bagby, Co., Inc. (an Alabama S-Corporation), and its majority-owned subsidiary, Haymaker Electric, Ltd. (collectively, the "Company"), focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under cost-plus-fee contracts and fixed price contracts, with contract terms generally ranging from two to 18 months. The Company performs the majority of its work in the state of Alabama. All significant intercompany activity has been eliminated in consolidation.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was $21,000 for the year ended December 31, 1996, and $23,000 for the year ended September 30, 1997.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

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

Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company is an Alabama sub-chapter S corporation and is not subject to federal income tax. The earnings of the Company are taxable to the individual stockholder.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5-6	$ 52	$ 84
Machinery and equipment	5-10	33	33
Buildings and leasehold improvements	40	208	208
Furniture and fixtures	3-10	83	93
		376	418
Less -- Accumulated depreciation and amortization		(155)	(172)
Property and equipment, net		$ 221	$ 246

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$22	$26
Additions to costs and expenses	20	22
Balance at end of period	$42	$48

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

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 685	$1,120
Accrued compensation and benefits	175	624
Other accrued expenses	542	77
	$1,402	$1,821

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

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 4,304	$ 5,937
Estimated earnings, net of losses	546	1,321
	4,850	7,258
Less -- Billings to date	(4,749)	(6,869)
	$ 101	$ 389
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 167	$ 755
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(66)	(366)
	$ 101	$ 389

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT:

The Company has a $650,000 line of credit with a bank. The line of credit expires June 30, 1998, and bears interest at 1 percent over the prime lending rate. The line of credit is secured by a stockholder of a partner corporation. No borrowings were outstanding under this line of credit at December 31, 1996 or September 30, 1997.

6. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan. The plan provides for the Company to match 3 percent of the gross salary of each employee subject to certain limitations. All participants are immediately fully vested. Total contributions by the Company under the plan were approximately $51,000 for the year ended December 31, 1996, and $106,000 for the year ended September 30, 1997.

7. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, a line of credit and short-term borrowings. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

8. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

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

9. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales comprising approximately 10%, 11% and 11% of total sales to three major customers during the years ended December 31, 1996 and September 30, 1997.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Amber Electric, Inc.:

We have audited the accompanying balance sheets of Amber Electric, Inc., a Florida corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amber Electric, Inc. as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

AMBER ELECTRIC, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 83	$ 565	$ 988
Accounts receivable --			
Trade, net of allowance of $28, $40 and $51, respectively	1,159	1,382	2,365
Retainage	468	518	470
Inventories	39	28	25
Costs and estimated earnings in excess of billings on uncompleted contracts	25	151	119
Employee advances (Note 8)	2	29	4
Note receivable, related party (Note 8)	--	--	123
Deferred tax asset	36	65	63
Prepaid expenses and other current assets	22	--	54
Total current assets	1,834	2,738	4,211
PROPERTY AND EQUIPMENT, net	284	380	516
NOTE RECEIVABLE, related party (Note 8)	37	58	--
Total assets	$2,155	$3,176	$4,727

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 96	$ 133	$ 179
Line of credit	101	--	--
Accounts payable and accrued expenses	696	1,157	1,276
Income taxes payable	3	244	676
Billings in excess of costs and estimated earnings on uncompleted contracts	355	408	196
Note payable, related party (Note 8)	--	100	--
Deferred tax liability	129	97	122
Total current liabilities	1,380	2,139	2,449
LONG-TERM DEBT, net of current maturities	573	538	568
DEFERRED TAX LIABILITY	38	45	52
COMMITMENTS AND CONTINGENCIES (Note 11)			
STOCKHOLDER'S EQUITY:			
Common stock, $1 par value, 7,500 shares authorized, 1,100 shares issued and outstanding	1	1	1
Retained earnings	597	887	2,091
Treasury stock, 539 shares, at cost	(434)	(434)	(434)
Total stockholder's equity	164	454	1,658
Total liabilities and stockholder's equity	$2,155	$3,176	$4,727

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

AMBER ELECTRIC, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
REVENUES	$ 9,728	$13,878	$16,386	$10,572	$13,080
COST OF SERVICES (including depreciation)	8,635	12,215	13,415	8,710	9,910
Gross profit	1,093	1,663	2,971	1,862	3,170
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	957	1,160	1,379	978	1,197
Income from operations	136	503	1,592	884	1,973
OTHER INCOME (EXPENSE):					
Interest expense	(65)	(51)	(45)	(51)	(45)
Other	24	36	69	10	43
Other income (expense), net	(41)	(15)	24	(41)	(2)
INCOME BEFORE PROVISION FOR INCOME TAXES	95	488	1,616	843	1,971
PROVISION FOR INCOME TAXES	36	198	632	333	767
NET INCOME	$ 59	$ 290	$ 984	$ 510	$ 1,204

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

AMBER ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 59	$ 290	$ 984	$ 510	$ 1,204
Adjustments to reconcile net income to net cash provided by operating activities --					
Depreciation and amortization	62	87	172	61	146
Bad debt expense	17	35	37	9	11
(Gain) Loss on sale of property and equipment	--	5	--	4	(1)
Increase in cash surrender value of life insurance policy	(14)	--	--	--	--
Deferred income taxes	(41)	24	89	(31)	34
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	(299)	(308)	(1,142)	(112)	(946)
Inventories	15	11	11	3	3
Costs and estimated earnings in excess of billings on uncompleted contracts	(6)	(126)	35	(129)	32
Employee advances	14	(27)	13	(15)	25
Prepaid expenses and other current assets	(7)	22	(13)	(19)	(54)
Note receivable, related party	--	(21)	(65)	(21)	(65)
Increase (decrease) in --					
Accounts payable and accrued expenses	20	461	392	188	119
Billings in excess of costs and estimated earnings on uncompleted contracts	304	53	12	(171)	(212)
Income taxes payable	49	163	218	377	432
Other, net	4	1	(6)		(7)
Net cash provided by operating activities	177	670	737	654	721
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property and equipment	5	2	8	2	8
Additions of property and equipment	(155)	(190)	(323)	(157)	(290)
Net cash used in investing activities	(150)	(188)	(315)	(155)	(282)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Note payable, related party	--	100	--	--	(100)
Borrowings of line of credit	101	--	--	--	--
Payments of line of credit	(125)	(101)	--	(101)	--
Borrowings of long-term debt	104	131	236	95	200
Payments of long-term debt	(74)	(130)	(163)	(83)	(116)
Net cash provided by (used in) financing activities	6	--	73	(89)	(16)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33	482	495	410	423
CASH AND CASH EQUIVALENTS, beginning of period	50	83	493	83	565
CASH AND CASH EQUIVALENTS, end of period	$ 83	$ 565	$ 988	$ 493	$ 988
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 65	$ 51	$ 45	$ 51	$ 45
Income taxes	27	10	303	8	301

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

AMBER ELECTRIC, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED	TREASURY	TOTAL STOCKHOLDER'S
	SHARES	AMOUNT	EARNINGS	STOCK	EQUITY
BALANCE, December 31, 1994	1,100	$1	$ 538	$(434)	$ 105
Net income	--	--	59	--	59
BALANCE, December 31, 1995	1,100	1	597	(434)	164
Net income	--	--	290	--	290
BALANCE, December 31, 1996	1,100	1	887	(434)	454
Net income (unaudited)	--	--	1,204	--	1,204
BALANCE, September 30, 1997	1,100	$1	$2,091	$(434)	$1,658

The accompanying notes are an integral part of these financial statements

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Amber Electric, Inc. (the Company), a Florida corporation, focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from two to 12 months. The Company performs the majority of its work in central Florida.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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 stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line and declining-balance methods over the estimated useful lives of the related assets. Leasehold improvements are capitalized and amortized over the estimated useful life of the asset. Depreciation and amortization expense was approximately $62,000, $87,000 and $172,000 for the years ended December 31, 1995, 1996, and September 30, 1997, respectively.

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

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for one year after servicing of existing electrical systems.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	3-7	$ 430	$ 541	$ 631
Machinery and equipment	3-7	101	78	99
Leasehold improvements	5-39	76	74	87
Furniture and fixtures	3-7	121	91	191
		728	784	1,008
Less - Accumulated depreciation and amortization		(444)	(404)	(492)
Property and equipment, net		$ 284	$ 380	$ 516

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 17	$ 28	$ 40
Additions to costs and expenses	17	35	11
Deductions for uncollectible receivables written off and recoveries	(6)	(23)	--
Balance at end of period	$ 28	$ 40	$ 51

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 537	$ 882	$1,006
Accrued compensation and benefits	84	110	187
Other accrued expenses	75	165	83
	$ 696	$ 1,157	$1,276

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 1,912	$ 2,100	$ 1,582
Estimated earnings, net of losses	333	258	192
	2,245	2,358	1,774
Less -- Billings to date	(2,575)	(2,615)	(1,851)
	$ (330)	$ (257)	$ (77)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 25	$ 151	$ 119
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(355)	(408)	(196)
	$ (330)	$ (257)	$ (77)

5. LONG-TERM DEBT:

Long-term debt consists of notes payable to various banks. The debt is secured by certain equipment. The notes are payable in monthly installments including interest at rates ranging from 8 percent to 10.9 percent.

The Company has a note payable to a former stockholder payable in monthly installments of $4,333, including interest at 7.5 percent, due August 2004. The debt is guaranteed by the majority stockholder. The balance of such debt was approximately $330,000, $302,000 and $279,000 at December 31, 1995, 1996 and September 30, 1997, respectively.

The Company also has a note payable outstanding to an individual with a 5 percent stated interest rate and an 8.12 percent imputed interest rate. The note is payable in monthly installments of principal and interest of $1,893, collateralized by equipment and inventories, and is due February 2005. The balance of the note was approximately $168,000, $153,000 and $142,000 at December 31, 1995, 1996 and September 30, 1997, respectively.

The maturities of long-term debt as of September 30, 1997, are as follows (in thousands):

Year ending December 31 --	
1998	$179
1999	155
2000	115
2001	76
2002	70
Thereafter	152
	$747

At September 30, 1997 and December 31, 1996, the Company had a $500,000 line of credit with a bank, collateralized by accounts receivable and certain other assets. Interest is payable monthly at the bank's prime rate (8.5 percent at September 30, 1997). The agreement stipulates a minimum interest rate of 8 percent. Any amounts available are limited to 75 percent of eligible accounts receivable, as defined. At September 30, 1997 and December 31, 1996, the entire amount of the line remains available to be borrowed. The line of credit is subject to a continuing guarantee by the Company's majority stockholder. The line of credit is due on demand, but in no event no later than July 5, 1998.

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

At December 31, 1995, the maximum amount available under such line of credit was approximately $99,000 as the Company had a $200,000 line of credit with the bank.

6. LEASES:

The Company leases office space from the majority stockholder under a month-to-month operating lease. Rent expense incurred under this related-party lease was approximately $67,000, $81,000 and $83,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

There are no future minimum lease payments under this operating lease.

7. INCOME TAXES (IN THOUSANDS):

Federal income taxes are as follows:

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997
Federal --			
Current	$ 1	$224	$510
Deferred	30	(54)	32
State --			
Current	--	27	95
Deferred	5	1	(5)
	$ 36	$198	$632

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:

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997
Provision at the statutory rate	$33	$171	$565
Increase resulting from --			
State income taxes, net of related federal benefit	3	19	59
Permanent differences, primarily meals and entertainment	--	8	8
	$36	$198	$632

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Allowance for doubtful accounts	$ 11	$ 17	$ 20
Other accrued expenses not deducted for tax purposes	25	48	43
Total	36	65	63
Deferred tax liabilities --			
Accounting for long-term contracts	(129)	(97)	(122)
Bases differences on property and equipment and capital lease accounting	(38)	(45)	(52)
Total	(167)	(142)	(174)
Net deferred income tax liabilities	$(131)	$ (77)	$(111)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Current	$ 36	$ 65	$ 63
Long-term	--	--	--
Total	36	65	63
Deferred tax liabilities --			
Current	(129)	(97)	(122)
Long-term	(38)	(45)	(52)
Total	(167)	(142)	(174)
Net deferred tax liability	$(131)	$(77)	$(111)

8. RELATED-PARTY TRANSACTIONS:

During 1995, the Company transferred its interest in the cash surrender value of life insurance policies in exchange for a note receivable bearing annual interest of 4 percent to a partnership controlled by the majority stockholder of the Company. The entire principal and accrued interest is due August 2005. The Company continues to pay premiums for this policy, also increasing the receivable.

The Company had a note payable to the majority stockholder at December 31, 1996, which represented a bonus to the stockholder and was loaned to the Company without interest attached. The balance was subsequently paid to the stockholder.

The Company will advance money to employees on occasion. Advanced amounts are based on certain levels of employment and are repaid to the Company based on a variety of repayment plans.

9. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan. The plan provides for the Company to match, on a discretionary basis, one-half of the first 4 percent contributed by each employee. Total

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

contributions by the Company under the plan were approximately $31,000, $44,000 and $56,000 for the years ending December 31, 1995, 1996 and September 30, 1997, respectively. The Company had accrued approximately $5,000 at September 30, 1997, for contributions to be funded in the subsequent fiscal year.

10. FINANCIAL INSTRUMENTS:

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

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

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

The Company provides for workers' compensation insurance through a partially self-insured plan whereby the Company is responsible for certain incurred losses with a maximum of 125 percent of standard state-rated workers' compensation premiums. Estimated claims incurred during the years ended December 31, 1995, 1996 and September 30, 1997 were not material. Accordingly, the Company has not recorded any reserves for its portion of self-insurance claims. During 1997, the Company enrolled in a secured individual preferred dividend safety incentive program for workers' compensation with a maximum premium of 100 percent of the total normal state-rated premium. Employee health insurance is provided for under a fully insured medical plan consisting of HMO and POS programs.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 16 percent of total sales to one major customer for the year ended December 31, 1995, sales of approximately 15 and 13 percent of total sales to two major customers for the year ended December 31, 1996, and sales of approximately 22 percent of total sales to one major customer during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are real estate operations, general contractors, etc., located primarily in central Florida. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the central Florida region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Daniel Electrical Contractors, Inc. and
Daniel Electrical of Treasure Coast Inc.:

We have audited the accompanying combined balance sheets of Daniel Electrical Contractors, Inc., a Florida corporation, and Daniel Electrical of Treasure Coast Inc., a Florida corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related combined statements of operations, cash flows and stockholder's equity for the years then ended and for the nine months ended September 30, 1997. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., as of December 31, 1995 and 1996 and September 30, 1997, and the combined results of their operations and their cash flows for the years then ended and for the nine months ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 62	$ 411	$ 917
Investments	393	694	1,504
Accounts receivable --			
Trade, net of allowance of $68, $69 and $115, respectively	1,819	1,444	3,443
Retainage, net of allowance of $ -- , $12 and $12, respectively	815	1,353	1,294
Employee receivables (Note 7)	8	17	30
Inventories	103	84	23
Costs and estimated earnings in excess of billings on uncompleted contracts	119	719	510
Prepaid expenses and other current assets	24	35	166
Total current assets	3,343	4,757	7,887
PROPERTY AND EQUIPMENT, net	322	371	541
Total assets	$3,665	$5,128	$8,428
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 46	$ 34	$ 62
Accounts payable and accrued expenses	1,325	946	1,840
Billings in excess of costs and estimated earnings on uncompleted contracts	121	752	1,370
Deposit on contract in progress	--	500	--
Other current liabilities (Note 7)	477	114	81
Total current liabilities	1,969	2,346	3,353
LONG-TERM DEBT, net of current maturities	42	52	102
OTHER LONG-TERM LIABILITIES (Note 7)	483	483	483
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $1 and $0.01 par value, 7,500 and 2,000 shares authorized, 7,500 and 100 shares issued and outstanding at December 31, 1995, 1996, and September 30, 1997 for Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., respectively	8	8	8
Retained earnings	1,110	2,111	4,131
Unrealized gain on securities	53	128	351
Total stockholder's equity	1,171	2,247	4,490
Total liabilities and stockholder's equity	$3,665	$5,128	$8,428

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

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997
REVENUES	$12,049	$12,585	$18,409	$8,846	$14,670
COST OF SERVICES (including depreciation)	11,725	9,713	13,518	6,675	10,480
Gross profit	324	2,872	4,891	2,171	4,190
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,502	1,884	2,316	1,360	1,792
Income (loss) from operations	(1,178)	988	2,575	811	2,398
OTHER INCOME (EXPENSE):					
Interest expense	(46)	(73)	(60)	(58)	(45)
Other	71	86	100	48	62
Other income (expense), net	25	13	40	(10)	17
NET INCOME (LOSS)	$(1,153)	$ 1,001	$ 2,615	$ 801	$ 2,415

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

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$(1,153)	$1,001	$ 2,615	$ 801	$2,415
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization	113	125	141	100	116
Provision for bad debts	29	205	229	23	47
Loss on abandonment of leasehold improvements	--	--	34	--	34
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	423	(185)	(1,606)	(577)	(1,998)
Inventories	14	19	37	43	61
Costs and estimated earnings in excess of billings on uncompleted contracts	733	(600)	45	(436)	209
Prepaid expenses and other current assets	25	(11)	(158)	17	(130)
Increase (decrease) in --					
Accounts payable and accrued expenses	(567)	(379)	667	(151)	895
Deposits on contracts in progress	--	500	(500)	500	(500)
Billings in excess of costs and estimated earnings on uncompleted contracts	(92)	631	548	701	618
Other current liabilities	(42)	(87)	(68)	(8)	11
Net cash provided by (used in) operating activities	(517)	1,219	1,984	1,013	1,778
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(31)	(306)	(889)	(3)	(586)
Additions of property and equipment	(97)	(175)	(444)	(84)	(353)
Net cash used in investing activities	(128)	(481)	(1,333)	(87)	(939)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings of long-term debt	350	17	171	--	154
Payments of long-term debt	(44)	(406)	(175)	(323)	(92)
Distributions to stockholders	--	--	(395)	--	(395)
Net cash provided by (used in) financing activities	306	(389)	(399)	(323)	(333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(339)	349	252	603	506
CASH AND CASH EQUIVALENTS, beginning of period	401	62	665	62	411
CASH AND CASH EQUIVALENTS, end of period	$ 62	$ 411	$ 917	$ 665	$ 917
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 20	$ 113	$ 102	$ 18	$ 7

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

DANIEL ELECTRICAL CONTRACTORS INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK			UNREALIZED GAIN (LOSS) ON	TOTAL
	SHARES	AMOUNT	RETAINED EARNINGS	SECURITIES	STOCKHOLDER'S EQUITY
BALANCE, December 31, 1994	7,500	$8	$ 2,263	$(13)	$ 2,258
Issuance of stock in Daniel Electrical of Treasure Coast Inc.	100	--	--	--	--
Change in unrealized gain on securities	--	--	--	66	66
Net loss	--	--	(1,153)	--	(1,153)
BALANCE, December 31, 1995	7,600	8	1,110	53	1,171
Change in unrealized gain on securities	--	--	--	75	75
Net income	--	--	1,001	--	1,001
BALANCE, December 31, 1996	7,600	8	2,111	128	2,247
Distributions to stockholders	--	--	(395)	--	(395)
Change in unrealized gain on securities	--	--	--	223	223
Net income	--	--	2,415	--	2,415
BALANCE, September 30, 1997	7,600	$8	$ 4,131	$351	$ 4,490

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

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., (collectively, the Company), both Florida corporations focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts with contract terms generally ranging from six to 18 months. The Company performs the majority of its work in Dade County, Florida.

The combined financial statements include the accounts of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc. These entities are related by virtue of common ownership. All material intercompany transactions and balances have been eliminated in combination.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings)of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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.

Investments

Investments in securities are classified as securities available for sale and consist of equity securities. Unrealized holding gains and losses on securities available-for-sale are reported as net amount as a separate component of stockholder's equity.

Inventories

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

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

lesser of the life of the lease or the estimated useful life of the asset. Depreciation and amortization expense was $113,000, $125,000 and $141,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed, except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes. The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's combined financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairments would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the combined financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5	$ 446	$ 517	$ 597
Machinery and equipment	5	120	134	151
Computer and telephone equipment	5	92	114	141
Leasehold improvements	5	116	144	209
Furniture and fixtures	5	26	29	29
		800	938	1,127
Less -- Accumulated depreciation and amortization		(478)	(567)	(586)
Property and equipment, net		$ 322	$ 371	$ 541

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$47	$ 68	$ 87
Additions to costs and expenses	29	205	229
Deductions for uncollectible receivables written off and recoveries	(8)	(192)	(189)
Balance at end of period	$68	$ 81	$ 127

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$1,009	$686	$1,296
Accrued compensation and benefits	76	28	180
Other accrued expenses	240	232	364
	$1,325	$946	$1,840

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$6,197	$ 8,381	$ 11,760
Estimated earnings, net of losses	1,238	2,993	4,120
	7,435	11,374	15,880
Less -- Billings to date	(7,437)	(11,407)	(16,740)
	$ (2)	$ (33)	$ (860)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 119	$ 719	$ 510
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(121)	(752)	(1,370)
	$ (2)	$ (33)	$ (860)

5. LONG-TERM DEBT:

Long-term debt consists of installment obligations collateralized by certain transportation and computer equipment, and due in various monthly installments, including interest ranging from 6 percent to 11 percent.

The maturities of long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 62
1999	44
2000	36
2001	15
2002	7
	$164

The Company has a $400,000 open line of credit with a bank. The line of credit bears interest based upon the prime lending rate, which was 8.25% at September 30, 1997. The line of credit is secured by the Company's investment in securities and borrowings under such line of credit are due on demand. No borrowings were outstanding under this line of credit at September 30, 1997.

6. LEASES:

In February of 1997, the Company leased its Miami facility from a Limited Partnership which is controlled by the Company's stockholder. Prior to February 1997, the Company leased office space from a

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

third party, and such lease expired January 1997. The rent paid under this lease was approximately $71,000 for December 31, 1996. The Company leases its Vero Beach facility from a company which is owned by the Company's stockholder and is leased on a month-to-month basis.

7. RELATED-PARTY TRANSACTIONS:

Related-Party Notes Payable

The Company has a $483,000 subordinated long-term note payable to the president of the Company at December 31, 1995, 1996 and at September 30, 1997. The Company also has a $175,000, $115,000 and $81,000 note payable due on demand to the president of the Company at the respective periods.

Related-Party Accounts Receivable

The Company has an $8,000, $8,000 and $18,000 account receivable due from the president of the Company at December 31, 1995, 1996 and at September 30, 1997, respectively. The Company also has a $9,000 and $12,000 employee receivable at December 31, 1996 and at September 30, 1997, respectively.

Related-Party Entertainment Expense

Costs related to related-party entertainment expense amounted to $15,000, $8,000 and $4,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

Related-Party Compensation

The Company paid $58,000, $72,000 and $72,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively to a related-party company for compensation.

8. EMPLOYEE BENEFIT PLAN:

The Company has a nonqualifying discriminatory pension plan for certain key executives. Contributions are subject to management's discretion. Total contributions by the Company under the plan were approximately $9,000, $14,000 and $14,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

9. FINANCIAL INSTRUMENTS:

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

10. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

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

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The Company is self-insured for medical claims up to $14,000 per year in total for all covered individuals. Additionally, the Company is part of the state's workers' compensation plan and is responsible for claims up to $100,000 per accident with a maximum aggregate exposure for 24 months of $500,000. Claims in excess of these amounts are covered by a stop-loss policy. Under the state's policy, the Company has a $305,000 letter of credit which expires April 1, 1998. The Company has recorded reserves for its portion of self-insured claims based on estimated claims incurred through March 31, 1995 and 1996, December 31, 1996, and September 30, 1997.

11. INVESTMENTS AVAILABLE-FOR-SALE:

Investments in securities consist of equity securities and mutual funds with an aggregate market value of $393,000, $694,000 and $1,504,000 at December 31, 1995, 1996 and September 30, 1997, respectively, and unrealized holding gains of $66,000, $75,000 and $237,000 for the respective periods.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 32 percent and 21 percent of total sales to two major customers during the year ended December 31, 1995, sales of approximately 29 percent and 25 percent of total sales to two major customers during the year ended December 31, 1996, and sales of approximately 30 percent and 38 percent of total sales to two major customers during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors located primarily in southern Florida. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the southern Florida region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Summit Electric of Texas, Incorporated:

We have audited the accompanying balance sheets of Summit Electric of Texas, Incorporated, a Texas corporation, as of March 31, 1997 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Electric of Texas, Incorporated as of March 31, 1997 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

	MARCH 31, 1997	SEPTEMBER 30, 1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 57	$ 157
Accounts receivable --		
Trade, net of allowance of $112 and $122, respectively	2,270	2,543
Retainage	128	91
Receivable from stockholder	--	66
Other receivables	6	8
Deferred tax asset	69	69
Costs and estimated earnings in excess of billings on uncompleted contracts	239	178
Prepaid expenses and other current assets	25	27
Total current assets	2,794	3,139
NOTES RECEIVABLE FROM RELATED PARTIES	270	268
PROPERTY AND EQUIPMENT, net	223	180
OTHER ASSETS	49	50
Total assets	$3,336	$3,637
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Short-term debt, including current maturities of long-term debt	$ 819	$ 808
Accounts payable and accrued expenses	974	1,494
Billings in excess of costs and estimated earnings on uncompleted contracts	436	182
Other current liabilities	3	19
Total current liabilities	2,232	2,503
LONG-TERM DEBT, net of current maturities	101	88
DEFERRED TAX LIABILITY	11	11
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY:		
Common stock, $1 par value, 10,000 shares authorized, 1,000 shares issued and outstanding	1	1
Retained earnings	991	1,034
Total stockholder's equity	992	1,035
Total liabilities and stockholder's equity	$3,336	$3,637

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	SIX MONTHS ENDED SEPTEMBER 30, 1996	SIX MONTHS ENDED SEPTEMBER 30, 1997
			(UNAUDITED)	
REVENUES	$10,565	$10,995	$5,735	$6,165
COST OF SERVICES (including depreciation)	9,157	9,454	4,946	5,243
Gross profit	1,408	1,541	789	922
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,340	1,463	699	822
Income from operations	68	78	90	100
OTHER INCOME (EXPENSE):				
Interest expense	(56)	(79)	(19)	(42)
Other	25	23	13	11
Other expense, net	(31)	(56)	(6)	(31)
INCOME BEFORE PROVISION FOR INCOME TAXES	37	22	84	69
PROVISION FOR INCOME TAXES	23	21	28	26
NET INCOME	$ 14	$ 1	$ 56	$ 43

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	SIX MONTHS ENDED SEPTEMBER 30, 1996	SIX MONTHS ENDED SEPTEMBER 30, 1997
			(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 14	$ 1	$ 56	$ 43
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation and amortization	72	75	38	41
Provision for doubtful accounts	--	10	--	10
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Accounts receivable	316	(420)	452	(284)
Receivable from stockholder	56	(58)	48	(66)
Other receivables	32	42	25	35
Costs and estimated earnings in excess of billings on uncompleted contracts	(105)	(45)	1	61
Prepaid expenses and other current assets	(23)	(8)	(16)	(1)
Increase (decrease) in --				
Accounts payable and accrued expenses	(498)	541	(519)	520
Billings in excess of costs and estimated earnings on uncompleted contracts	48	(153)	(52)	(253)
Other, net	3	15	2	14
Net cash provided by (used in) operating activities	(85)	--	35	120
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments on notes receivable from related parties	3	4	1	2
Additions to property and equipment	(191)	(156)	(35)	--
Net cash provided by (used in) investing activities	(188)	(152)	(34)	2
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of long-term debt and notes payable	238	226	3	(9)
Payments of long-term debt	(19)	(24)	(8)	(13)
Net cash provided by (used in) financing activities	219	202	(5)	(22)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54)	50	(4)	100
CASH AND CASH EQUIVALENTS, beginning of period	111	107	111	57
CASH AND CASH EQUIVALENTS, end of period	$ 57	$ 157	$ 107	$ 157
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest	$ 56	$ 79	$ 19	$ 42
Income taxes	35	19	19	3

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK		RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT		
BALANCE, March 31, 1996	1,000	$1	$ 977	$ 978
Net income	--	--	14	14
BALANCE, March 31, 1997	1,000	1	991	992
Net income (unaudited)	--	--	43	43
BALANCE, September 30, 1997	1,000	$1	$1,034	$1,035

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Summit Electric of Texas, Incorporated (the Company), a Texas corporation, focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract duration generally ranging from two to eight months. The Company performs the majority of its work primarily in Houston, Texas.

On a limited basis, the Company provides auto repair and restoration services to its sole stockholder (the Stockholder) and third parties. The revenues and cost of services related to such activities have not been removed from the Company's results of operations for the year ended March 31, 1997 and September 30, 1997, as such amounts are not material.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the six months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using an accelerated 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 $72,101 and $75,358 for the years ended March 31, 1997 and September 30, 1997, respectively.

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

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

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

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and 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. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

New Accounting Pronouncement

Effective April 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	MARCH 31, 1997	SEPTEMBER 30, 1997
Transportation equipment	5	$ 450	$ 447
Machinery and equipment	7	11	11
Computer and telephone equipment	5	84	84
Leasehold improvements	31.5	52	52
Furniture and fixtures	7	43	43
		640	637
Less -- Accumulated depreciation and amortization		(417)	(457)
Property and equipment, net		$ 223	$ 180

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	MARCH 31, 1997	SEPTEMBER 30, 1997
Balance at beginning of period	$112	$112
Additions to costs and expenses	--	10
Deductions for uncollectible receivables written off and recoveries	--	--
Balance at end of period	$112	$122

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

	MARCH 31, 1997	SEPTEMBER 30, 1997
Accounts payable, trade	$696	$ 1,175
Other accrued expenses	278	319
	$974	$ 1,494

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	MARCH 31, 1997	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 6,482	$ 6,373
Estimated earnings, net of losses	2,122	1,818
	8,604	8,191
Less -- Billings to date	(8,801)	(8,195)
	$ (197)	$ (4)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 239	$ 178
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(436)	(182)
Net liability	$ (197)	$ (4)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Note payable to bank bearing interest at 9.15%, payable in monthly installments of principal and interest of $2,612 through October 2001, secured by transportation equipment	$117	$106
Note payable to a financing company bearing interest at 7.9%, payable in monthly installments of principal and interest of $557 through January 1999, secured by transportation equipment	11	9
	128	115
Less -- Current portion	(27)	(27)
Long-term debt	$101	$ 88

The maturities of long-term debt are as follows (in thousands):

YEAR ENDED	MARCH 31,	SEPTEMBER 30,
1998	$ 27	$ 27
1999	29	28
2000	26	27
2001	28	28
2002	18	5
	$128	$115

The Company has a $1,000,000 line of credit with a bank. The line of credit expired September 30, 1997, and bears interest at 1 percent above the prime lending rate. The weighted average interest rate under this line of credit was 9.25 percent for fiscal 1997. The line of credit is secured by contracts receivable, equipment, furniture and fixtures, and the personal guarantee of the Stockholder. Outstanding borrowings under this line of credit at March 31, 1997, total $788,142.

On September 30, 1997, the Company negotiated an amendment to its existing bank line of credit (the Amended Line of Credit). The Amended Line of Credit has a $1,500,000 borrowing base and is due

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

October 3, 1998. The Amended Line of Credit bears interest at 1 percent above the prime lending rate. Outstanding borrowings under this line of credit at September 30, 1997, total $779,458.

The bank line of credit requires the Company to maintain certain net worth and profitability covenants. At March 31, 1997 and September 30, 1997, the Company was in compliance with its line-of-credit covenants, as amended.

6. LEASES:

The Company leases a facility from a company which is owned by the Company's stockholder. The lease expires on November 30, 1998. The rent paid under this related-party lease was approximately $96,000 for each of the years ended March 31, 1997 and September 30, 1997. The Company also leases two facilities from third parties. The rent paid under these leases were approximately $7,144 and $15,051 for the years ended March 31, 1997 and September 30, 1997, respectively.

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

	YEAR ENDED	
	MARCH 31, 1997	SEPTEMBER 30, 1997
1998	$ 99	$ 99
1999	66	26
2000	1	--
Thereafter	--	--
	$166	$125

7. INCOME TAXES:

Federal income taxes are as follows (in thousands):

	YEAR ENDED	
	MARCH 31, 1997	SEPTEMBER 30, 1997
Current --		
Federal	$17	$19
State	6	2
	$23	$21

Actual income tax expense differs from income tax expense computed by applying the blended U.S. federal and state statutory corporate rate of 28 percent to income before provision for income taxes as follows (in thousands):

	YEAR ENDED	
	MARCH 31, 1997	SEPTEMBER 30, 1997
Provision at the statutory rate	$10	$ 6
Increase resulting from --		
Permanent differences, primarily meals and entertainment	9	14
State income tax, net of benefit for federal deduction	4	1
	$23	$21

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	MARCH 31, 1997	SEPTEMBER 30, 1997
Allowance for doubtful accounts	$ 40	$ 40
Warranty and contract allowances	29	29
Bases difference on property and equipment	(15)	(29)
Deferred tax assets	$ 54	$ 40

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

	MARCH 31, 1997	SEPTEMBER 30, 1997
Deferred tax assets --		
Current	$ 69	$ 69
Long-term	--	--
Deferred tax assets	69	69
Deferred tax liabilities --		
Current	(4)	(18)
Long-term	(11)	(11)
Deferred tax liability	(15)	(29)
Net deferred tax assets	$ 54	$ 40

8. RELATED-PARTY TRANSACTIONS:

Notes receivable from related parties consist of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Note receivable from the Stockholder, bearing an interest rate of 7.07%, requiring monthly payments of interest, maturing November 1998	$250	$250
Note receivable from the spouse of the Stockholder, bearing an interest rate of 8%, requiring monthly installments of principal and interest of $480, maturing April 2001	20	18
	$270	$268

The Company provides auto repair and restoration services to the Stockholder. The Stockholder reimbursed the Company $81,161 and $122,979 for such services for the years ended March 31, 1997 and September 30, 1997, respectively.

9. EMPLOYEE BENEFIT PLAN:

The Company adopted a 401(k) savings and investment plan approved by the Internal Revenue Service effective January 1, 1996, covering all eligible Company employees. Contributions may be made to the plan by an employee at a percentage of salary but cannot exceed the maximum allowed by the Internal Revenue Code and may be matched by a discretionary Company contribution.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

The Company's contributions to the plan for the years ended March 31, 1997 and September 30, 1997, totaled $24,747 and $24,660, respectively.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and short and long-term debt. The Company believes that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

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

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

For the years ended March 31, 1997 and September 30, 1997, revenues from no one individual customer exceeded 10 percent of total revenues.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily general contractors located in Houston, Texas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within Houston, Texas. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Thurman & O'Connell Corporation:

We have audited the accompanying balance sheets of Thurman & O'Connell Corporation, a Kentucky corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thurman & O'Connell Corporation as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

THURMAN & O'CONNELL CORPORATION

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 860	$1,488	$1,160
Accounts receivable --			
Trade, net of allowance of $37, $10 and $17, respectively	1,078	315	538
Retainage	348	78	124
Other receivables	12	17	9
Inventories	1,072	273	213
Costs and estimated earnings in excess of billings on uncompleted contracts	--	22	52
Prepaid expenses and other current assets	4	13	15
Total current assets	3,374	2,206	2,111
PROPERTY AND EQUIPMENT, net	342	306	301
Total assets	$3,716	$2,512	$2,412

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 13	$ 6	$ 7
Accounts payable and accrued expenses	663	242	262
Dividends payable to stockholders	160	200	--
Billings in excess of costs and estimated earnings on uncompleted contracts	1,652	479	361
Total current liabilities	2,488	927	630
LONG-TERM DEBT, net of current maturities	96	93	88
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, no par value, 2,000 shares authorized, 200 shares issued and outstanding	300	300	300
Retained earnings	832	1,192	1,394
Total stockholders' equity	1,132	1,492	1,694
Total liabilities and stockholders' equity	$3,716	$2,512	$2,412

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

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1996	1997
				(UNAUDITED)	
REVENUES	$4,729	$4,551	$4,049	$3,741	$3,239
COST OF SERVICES	3,309	3,059	2,181	2,531	1,653
Gross profit	1,420	1,492	1,868	1,210	1,586
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	512	503	503	397	397
Income from operations	908	989	1,365	813	1,189
OTHER INCOME (EXPENSE):					
Interest expense	(13)	(8)	(6)	(6)	(4)
Other	36	65	70	46	51
Other income (expense), net	23	57	64	40	47
INCOME BEFORE INCOME TAX EXPENSE	931	1,046	1,429	853	1,236
INCOME TAX EXPENSE	19	36	46	24	34
NET INCOME	$ 912	$1,010	$1,383	$ 829	$1,202

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

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 912	$ 1,010	$ 1,383	$ 829	$1,202
Adjustments to reconcile net income to net cash provided by operating activities --					
Depreciation and amortization	53	49	51	37	39
Provision to (reduction in) allowance for doubtful accounts	13	10	36	(19)	7
Loss (gain) on sale of property and equipment	(1)	--	(1)	--	(1)
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Receivables	(506)	1,018	(6)	756	(268)
Inventories	(405)	799	181	678	60
Costs and estimated earnings in excess of billings on uncompleted contracts	68	(22)	(28)	(24)	(30)
Prepaid expenses and other current assets	25	(9)	(9)	(2)	(2)
Increase (decrease) in --					
Accounts payable and accrued expenses	(1)	(421)	(165)	(236)	20
Billings in excess of costs and estimated earnings on uncompleted contracts	916	(1,173)	(506)	(785)	(118)
Net cash provided by operating activities	1,074	1,261	936	1,234	909
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property and equipment	1	--	23	--	23
Additions of property and equipment	(42)	(13)	(62)	(7)	(56)
Net cash used in investing activities	(41)	(13)	(39)	(7)	(33)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings of long-term debt	--	103	103	--	--
Payments of long-term debt	(63)	(113)	(110)	(7)	(4)
Distributions to stockholders	(620)	(610)	(1,200)	(610)	(1,200)
Net cash used in financing activities	(683)	(620)	(1,207)	(617)	(1,204)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	350	628	(310)	610	(328)
CASH AND CASH EQUIVALENTS, beginning of period	510	860	1,470	860	1,488
CASH AND CASH EQUIVALENTS, end of period	$ 860	$ 1,488	$ 1,160	1,470	$1,160
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 10	$ 8	$ 7	$ 5	$ 4
Taxes	$ 6	$ 26	$ 50	$ 23	$ 47

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

THURMAN & O'CONNELL CORPORATION

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

	COMMON STOCK		RETAINED	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	EARNINGS	EQUITY
BALANCE, December 31, 1994	200	$300	$ 580	$ 880
Distributions to stockholders	--	--	(660)	(660)
Net income	--	--	912	912
BALANCE, December 31, 1995	200	300	832	1,132
Distributions to stockholders	--	--	(650)	(650)
Net income	--	--	1,010	1,010
BALANCE, December 31, 1996	200	300	1,192	1,492
Distributions to stockholders (unaudited)	--	--	(1,000)	(1,000)
Net income (unaudited)	--	--	1,202	1,202
BALANCE, September 30, 1997	200	$300	$1,394	$1,694

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

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Thurman & O'Connell Corporation (the Company), a Kentucky corporation, focuses on providing electrical system installation and repair services primarily to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from 12 to 24 months. The Company performs the majority of its work in Kentucky.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1997 and 1996, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

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. The Company maintains its principal cash balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000.

Inventories

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

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation expense was approximately $53,000, $49,000 and $51,000 for the years ended December 31, 1995 and 1996 and September 30, 1997, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions 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. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems.

Income Taxes

The stockholders of the Company have elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. The provision for income taxes in the accompanying financial statements relates to income and other taxes incurred by the Company in those localities that do not permit the Company to report its net income with that of its stockholders (S Corporation treatment). The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings (as defined in Note 1).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Land	--	$ 25	$ 25	$ 25
Building	30	206	206	206
Machinery and equipment	7	39	39	42
Transportation equipment	5	239	241	257
Computer and telephone equipment	7	19	24	26
Furniture and fixtures	7	20	23	21
		548	558	577
Less -- Accumulated depreciation and amortization		(206)	(252)	(276)
		$ 342	$ 306	$ 301

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$24	$ 37	$ 18
Additions to costs and expenses	13	10	36
Deductions for uncollectible receivables written off and recoveries	--	(37)	(37)
Balance at end of period	$37	$ 10	$ 17

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$516	$130	$150
Accrued compensation and benefits	50	60	64
Accrued cost overruns	78	21	20
Accrued warranty costs	10	10	10
Other accrued expenses	9	21	18
	$663	$242	$262

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 2,159	$ 623	$1,844
Estimated earnings, net of losses	721	229	1,466
	2,880	852	3,310
Less -- Billings to date	(4,532)	(1,309)	(3,619)
	$(1,652)	$ (457)	$ (309)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ --	$ 22	$ 52
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(1,652)	(479)	(361)
	$(1,652)	$ (457)	$ (309)

5. LONG-TERM DEBT:

During 1996, the Company refinanced the note payable to a bank which was in place at December 31, 1995, with a variable rate note payable. The note is payable in monthly principal and interest payments of $1,051 through October 2004, at which time any unpaid principal and interest is due. The note is collateralized by a cash account at the bank, and the Company has agreed not to pay dividends in excess of the Company's net income for any fiscal year. Interest is based upon a variable rate of 1% above the rate being offered on the sweep account (6% as of December 31, 1996 and September 30, 1997).

At December 31, 1995, the Company had a note payable to a bank which required monthly principal payments of $1,051 plus interest at the prime rate (8.25% at December 31, 1995) through July 2008. Under the agreement, the Company agreed not to pay dividends in excess of the Company's net income for the year. The note was collateralized by the Company's land and building.

The approximate aggregate maturities of long-term debt as of September 30, 1997, are as follows (in thousands):

YEAR ENDING DECEMBER 31 --	
1997	$ 2
1998	7
1999	8
2000	8
2001	9
Thereafter	61
	$95

The Company has a $1,000,000 line of credit with a bank. The line of credit expires in April 1998 and bears interest at the prime lending rate. All receivables are pledged as collateral under the agreement, and the Company has agreed not to pay dividends in excess of net income for the year and to maintain its deposit accounts with the bank. There were no borrowings under this agreement at December 31, 1996 or September 30, 1997. In 1995, the Company had a $500,000 unsecured line of credit at prime with a bank, which expired in April 1996. There were no borrowings under this agreement during 1995 or 1996.

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

6. RELATED-PARTY TRANSACTIONS:

The Company earned revenue for electrical contracting services from companies owned by a stockholder of approximately $47,000, $40,000 and $25,000 for the years ended December 31, 1995 and 1996, and September 30, 1997, respectively, with approximately $1,000, $2,000 and $4,000 of the revenue being recorded as receivables at the respective balance sheet dates. In addition, the Company had a receivable from another stockholder in the amount of approximately $1,000, $2,000 and $5,000 as of December 31, 1995 and 1996 and September 30, 1997, respectively, related to travel expense advances.

7. EMPLOYEE BENEFIT PLAN:

During 1995, the Company adopted a defined contribution 401(k) savings plan covering employees meeting certain minimum service and age requirements, as defined. The plan provides for discretionary contributions on the part of the Company. For the years ended December 31, 1995 and 1996 and September 30, 1997, the Company elected to match 100% of the first 2 percent contributed by each employee. The contributions paid by the Company totaled approximately $9,000, $12,000 and $8,000 for the years ended December 31, 1995 and 1996 and September 30, 1997, respectively.

8. FINANCIAL INSTRUMENTS:

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

9. STOCKHOLDERS' AGREEMENT:

The Company has a right of first refusal on any stock voluntarily offered for sale by a stockholder subject to certain terms and conditions. The redemption price shall be as determined by the stockholders on an annual basis or by formula which is contained in the agreement if a value has not been established by the stockholders. Such redemption price is payable in not more than 10 equal quarterly installments with interest at the prime rate. As of September 30, 1997 and December 31, 1996, the redemption price was determined to be $5,141 per share.

Upon the death of any stockholder, the Company shall redeem the stock held by such stockholder provided that the redemption is requested in writing by the personal representative of the deceased stockholder within two months of the appointment of such representative or the Company elects to redeem such stock within the same two-month period. The redemption price pursuant to this paragraph is the same as described above. Such redemption price may be paid in full at the closing or in installments, the down payment being the greater of one-fifth of redemption price or any life insurance proceeds received by the Company resulting from the death of the stockholder with the balance payable in quarterly installments over not more than five years with interest at the prime rate. Coverage under the key-man term life insurance purchased by the Company totaled $1,000,000 as of December 31, 1995 and 1996 and September 30, 1997.

10. DIVIDENDS:

As long as the election made by the stockholders to report the operations of the Company on their individual federal and state income tax returns remains in effect, the board of directors of the Company is required to declare a dividend, subsequent to the close of the Company's tax year and prior to the date when payment of individual income taxes is required, to provide the stockholders sufficient cash to pay any applicable individual income taxes resulting from the inclusion of the Company's taxable income on their individual income tax returns. In addition, at the discretion of the Company's board of directors, an additional

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

minimum dividend shall be authorized which, when combined with the dividend required to meet the tax obligations of the shareholders, shall equal not less than 50 percent of the net pretax income of the Company.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is not currently involved in any significant disputes or legal actions, however, such actions could arise in the ordinary course of business.

Insurance

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

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 25, 18, 12, 12 and 11 percent of total sales to five major customers during 1995, sales of approximately 48, 11 and 10 percent of total sales to three major customers during 1996 and sales of approximately 26, 12 and 12 percent of total sales to three major customers during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors in the commercial and industrial construction markets in Kentucky. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial construction markets in this state. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Rodgers Electric Company, Inc.:

We have audited the accompanying balance sheet of Rodgers Electric Company, Inc., a Washington corporation, as of September 30, 1997, and the related statement of operations, cash flows and stockholders' equity for the year then ended. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rodgers Electric Company, Inc. as of September 30, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

RODGERS ELECTRIC COMPANY, INC.

BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

	SEPTEMBER 30, 1997
CURRENT ASSETS:	
Cash and cash equivalents	$ 818
Accounts receivable --	
Trade, net of allowance of $15	571
Retainage	37
Other receivables	5
Costs and estimated earnings in excess of billings on uncompleted contracts	20
Deferred tax asset	39
Prepaid expenses and other current assets	29
Total current assets	1,519
PROPERTY AND EQUIPMENT, net	393
OTHER ASSETS	175
Total assets	$2,087
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Short-term debt, including current maturities of long-term debt	$ 36
Accounts payable and accrued expenses	488
Billings in excess of costs and estimated earnings on uncompleted contracts	109
Income taxes payable	213
Total current liabilities	846
LONG-TERM DEBT, net of current maturities	58
DEFERRED TAX LIABILITY	75
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock, $100 par value, 500 shares authorized, 150 shares issued and outstanding	15
Retained earnings	1,093
Total stockholders' equity	1,108
Total liabilities and stockholders' equity	$2,087

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

RODGERS ELECTRIC COMPANY, INC.

STATEMENT OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED SEPTEMBER 30, 1997
REVENUES	$3,325
COST OF SERVICES (including depreciation)	1,621
Gross profit	1,704
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,238
Income from operations	466
OTHER INCOME (EXPENSE):	
Interest expense	(7)
Other	36
Other income, net	29
INCOME BEFORE PROVISION FOR INCOME TAXES	495
PROVISION FOR INCOME TAXES	178
NET INCOME	$ 317

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

RODGERS ELECTRIC COMPANY, INC.

STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED SEPTEMBER 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 317
Adjustments to reconcile net income to net cash provided by operating activities --	
Depreciation and amortization	47
Provision for doubtful accounts	11
Changes in operating assets and liabilities --	
(Increase) decrease in --	
Accounts receivable	(275)
Costs and estimated earnings in excess of billings on uncompleted contracts	(20)
Deferred taxes, net	(34)
Other	14
Increase (decrease) in --	
Accounts payable and accrued expenses	355
Income taxes payable	211
Billings in excess of costs and estimated earnings on uncompleted contracts	109
Net cash provided by operating activities	735
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payments on notes receivable from related parties	2
Additions to property and equipment	(170)
Net cash used in investing activities	(168)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings of long-term debt and notes payable	70
Payments of long-term debt	(23)
Net cash provided by financing activities	47
NET INCREASE IN CASH AND CASH EQUIVALENTS	614
CASH AND CASH EQUIVALENTS, beginning of period	204
CASH AND CASH EQUIVALENTS, end of period	$ 818
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for --	
Interest	$ 7
Income taxes	--

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

RODGERS ELECTRIC COMPANY, INC.

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

	COMMON STOCK			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
BALANCE, September 30, 1996	150	$15	$ 776	$ 791
Net income	--	--	317	317
BALANCE, September 30, 1997	150	$15	$1,093	$1,108

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

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Principles of Presentation

Rodgers Electric Company, Inc. is a Washington corporation. The Company provides electrical contracting services to commercial and industrial customers in Western Washington. Most of the Company's revenue is from partnering with customers and providing engineering services for design-build projects on a time and material basis with a guaranteed not-to-exceed price.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using a 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 $47,000 for the year ended September 30, 1997.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

Warranty Costs

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

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and 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. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective April 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	SEPTEMBER 30, 1997
Transportation equipment	10	$ 434
Machinery and equipment	10	53
Leasehold improvements	10-25	33
Furniture and fixtures	10	96
		616
Less -- Accumulated depreciation and amortization		(223)
Property and equipment, net		$ 393

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	SEPTEMBER 30, 1997
Accounts payable, trade	$106
Payroll, profit sharing and related items	363
Other accrued expenses	19
	$488

Contracts in progress (in thousands):

	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$321
Estimated earnings, net of losses	472
	793
Less-Billings to date	(882)
	$(89)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 20
Less-Billings in excess of costs and estimated earnings on uncompleted contracts	(109)
Net liability	$(89)

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	SEPTEMBER 30, 1997
Notes payable to financing companies with interest rates ranging from 3.9% to 9.75%, payable in monthly installments of principal and interest through March 2002, secured by transportation equipment	94
Less -- Current portion	(36)
Long-term debt	$ 58

The maturities of long-term debt are as follows (in thousands):

YEAR ENDED SEPTEMBER 30 --	
1998	$ 36
1999	27
2000	18
2001	10
2002	3
	$ 94

6. RELATED PARTY TRANSACTIONS:

The Company is located in a building owned by the sole stockholder which is leased to the Company with monthly lease payments of $2,200 per month.

7. INCOME TAXES:

Federal income taxes are $178,000 for the fiscal year ended September 30, 1997.

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, 1997
Provision at the statutory rate	$173
Increase resulting from --	
Permanent differences, mainly meals and entertainment	5
	$178

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	SEPTEMBER 30, 1997
Allowance for doubtful accounts and other	$ 39
Bases difference on property and equipment	(75)
Net deferred tax liabilities	$(36)

9. EMPLOYEE BENEFIT PLAN:

The Company has a profit sharing plan which covers substantially all qualified employees. The profit sharing contribution is made at the discretion of the Directors. Benefits payable under the profit sharing plan are limited to contributions made and earnings therein. Company contributions for the year ended September 30, 1997 were $192,000.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and short and long-term debt. The Company believes that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is periodically involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales greater than 10% of total sales to three major customers, comprising approximately 25%, 22% and 13% of sales during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily commercial and industrial companies located in the North Puget Sound area of Western Washington. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors in that area, including cyclical changes in the aerospace industry. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

TABLE OF CONTENTS

UNTIL , 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

7,000,000 SHARES

[INTEGRATED LOGO]

COMMON STOCK

PROSPECTUS

MERRILL LYNCH & CO.

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

SUNTRUST EQUITABLE SECURITIES

SANDERS MORRIS MUNDY

, 1998

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]
SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED JANUARY 23, 1998

PROSPECTUS

7,000,000 SHARES

[INTEGRATED LOGO]
COMMON STOCK

All of the shares of Common Stock, $.01 par value per share (the "Common Stock"), offered hereby are being offered by Integrated Electrical Services, Inc. (the "Company").

Of the shares of Common Stock being offered hereby, 1,400,000 shares (the "International Shares") are being offered initially outside the United States and Canada (the "International Offering") by the International Managers and 5,600,000 shares (the "U.S. Shares") are being offered initially in the United States and Canada (the "U.S. Offering" and, together with the International Offering, the "Offerings") by the U.S. Underwriters. The price to public and underwriting discount per share are identical for both Offerings and the closings for both Offerings are conditioned upon each other. See "Underwriting."

Prior to the Offerings, there has been no public market for the Common Stock. It is currently estimated that the initial public offering price will be between $13.00 and $15.00 per share. See "Underwriting" for information relating to the factors to be considered in determining the initial public offering price. Shares of Common Stock are being reserved for sale to certain employees, directors and business associates of, and certain other persons designated by, the Company, at the initial public offering price. Such employees, directors, and other persons are expected to purchase, in the aggregate, not more than 10% of the Common Stock offered in the Offerings. See "Underwriting."

The Common Stock has been approved for listing upon notice of issuance on The New York Stock Exchange ("NYSE") under the symbol "IEE."

SEE "RISK FACTORS" BEGINNING ON PAGE 9 FOR A DISCUSSION OF CERTAIN MATTERS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share	$	$	$
Total(3)	$	$	$

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."

(2) Before deducting expenses payable by the Company estimated at $.

(3) The Company has granted the International Managers and U.S. Underwriters options, exercisable within 30 days after the date hereof, to purchase up to 210,000 and 840,000 additional shares of Common Stock, respectively, solely to cover over-allotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock offered hereby are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by the Underwriters against payment therefor, subject to certain conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the share certificates representing the Common Stock will be made in New York, New York on or about , 1998.

MERRILL LYNCH INTERNATIONAL

DONALDSON, LUFKIN & JENRETTE
INTERNATIONAL

SUNTRUST EQUITABLE SECURITIES

SANDERS MORRIS MUNDY

The date of this Prospectus is , 1998.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

[MAP OF LOCATIONS AND OTHER GRAPHICS]

[Map of the Continental United States depicting locations in which the Company maintains offices. Map also denotes states in which the Company conducts business.]

[Photograph of a two-story, glass residential structure]

[Photograph of modern office building.]

[Photograph of a contemporary home.]

[Photograph of an end of an exposed cable. A number of the individual strands running through the cable are exposed and illuminated.]

[Photograph of a 2-story apartment facility.]

[Photograph of hotel. Photo shows the entrance side of the hotel.]

[Photograph of showroom of a car dealership.]

[Photograph of concession stand in movie theater.]

Certain persons participating in the Offerings may engage in transactions that stabilize, maintain or otherwise affect the price of the Common Stock. Such transactions may include stabilizing, the purchase of Common Stock to cover syndicate short positions and the imposition of penalty bids. For a description of these activities, see "Underwriting."

For United Kingdom purchasers: The shares of Common Stock may not be offered or sold in the United Kingdom other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, whether as principal or agent (except in circumstances that do not constitute an offer to the public within the meaning of the Public Offers of Securities Regulations 1995 or the Financial Services Act 1986), and this Prospectus may only be issued or passed on to any person in the United Kingdom if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the Prospectus may otherwise lawfully be passed on.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

UNDERWRITING

Subject to the terms and conditions set forth in the international purchase agreement (the "International Purchase Agreement") among the Company and each of the underwriters named below (the "International Managers"), the Company has agreed to sell to each of the International Managers, and each of the International Managers, for whom Merrill Lynch International is acting as representative (the "Lead Manager"), severally has agreed to purchase from the Company, the aggregate number of shares of Common Stock set forth opposite its name below.

INTERNATIONAL MANAGERS	NUMBER OF SHARES
Merrill Lynch International	
Donaldson, Lufkin & Jenrette International	
SunTrust Equitable Securities Corporation	
Sanders Morris Mundy Inc	
Total	1,400,000

The Company has also entered into a U.S. purchase agreement (the "U.S. Purchase Agreement") with certain other underwriters in the United States and Canada (the "U.S. Underwriters" and, together with the International Managers, the "Underwriters"), for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation, SunTrust Equitable Securities Corporation and Sanders Morris Mundy Inc. are acting as representatives. Subject to the terms and conditions set forth in the U.S. Purchase Agreement, and concurrently with the sale of 1,400,000 shares of Common Stock to the International Managers pursuant to the International Purchase Agreement, the Company has agreed to sell to the U.S. Underwriters, and the U.S. Underwriters severally have agreed to purchase from the Company, an aggregate of 5,600,000 shares of Common Stock. The public offering price per share of Common Stock and the total underwriting discount per share are identical under the International Purchase Agreement and the U.S. Purchase Agreement.

In the International Purchase Agreement and the U.S. Purchase Agreement, the several International Managers and the several U.S. Underwriters, respectively, have agreed, subject to the terms and conditions set forth therein, to purchase all of the shares of Common Stock being sold pursuant to each such Purchase Agreement if any of such shares being sold pursuant to each such Purchase Agreement are purchased. Under certain circumstances, the commitments of non-defaulting International Managers or U.S. Underwriters (as the case may be) may be increased as set forth in the International Purchase Agreement and the U.S. Purchase Agreement, respectively. The closing with respect to the sale of shares of Common Stock to be purchased by the International Managers and the U.S. Underwriters are conditioned upon one another.

The International Managers and the U.S. Underwriters have entered into an intersyndicate agreement (the "Intersyndicate Agreement") that provides for the coordination of their activities. Under the terms of the Intersyndicate Agreement, the Underwriters are permitted to sell shares of Common Stock to each other for the purposes of resale at the public offering price, less an amount not greater than the selling concession. Under the terms of the Intersyndicate Agreement, the International Managers and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are United States or Canadian persons or to persons they believe intend to resell to persons who are United States or Canadian persons, and the U.S. Underwriters and any dealer to whom they sell shares of Common Stock will not offer to sell or sell shares of Common Stock to persons who are non-United States and non-Canadian persons or to persons they believe intend to resell to persons who are non-United States persons or non-Canadian persons, except, in each case, for transactions pursuant to the Intersyndicate Agreement.

The Lead Manager has advised the Company that the International Managers propose initially to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of $ per share. The

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

International Managers may allow, and such dealers may reallow, a discount not in excess of $ per share to certain other dealers. After the Offerings, the initial public offering price, concession and discount may be changed.

The Company has granted the International Managers an option, exercisable by the Lead Manager for 30 days after the date of this Prospectus, to purchase up to an aggregate of 210,000 additional shares of Common Stock at the initial public offering price set forth on the cover page hereof, less the underwriting discount. The International Managers may exercise this option to cover overallotments, if any, made on the sale of the shares of Common Stock offered hereby. If the International Managers exercise this option, each International Manager will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the foregoing table bears to the 1,400,000 shares of Common Stock initially offered hereby. The Company has also granted an option to the U.S. Underwriters, which expires 30 days after the date of this Prospectus, to purchase up to 840,000 additional shares of Common Stock to cover over-allotments, if any, on terms similar to those granted to the International Managers.

The Company and each of its directors and executive officers have agreed not to (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, for a period of 180 days from the date of this Prospectus without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the Underwriters, except for (i) shares issued in connection with acquisitions, provided that (except with respect to shares issued in transactions in which the issuance or resale of such shares is not registered under the Securities Act), the recipients of such shares agree to be bound by similar restrictions, (ii) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Company's benefit plans described herein or (iii) with respect to directors and executive officers, certain pledges of securities.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

Until the distribution of the Common Stock is completed, rules of the Commission may limit the ability of the Underwriters and certain selling group members to bid for and purchase the Common Stock. As an exception to these rules, the U.S. Underwriters are permitted to engage in certain transactions that stabilize the price of the Common Stock. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock.

If the Underwriters create a short position in the Common Stock in connection with the Offerings, (i.e., if they sell more shares of Common Stock than are set forth on the cover page of this Prospectus), the U.S. Underwriters may reduce that short position by purchasing Common Stock in the open market. The U.S. Underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option described above.

The U.S. Underwriters may also impose a penalty bid on certain Underwriters and selling group members. This means that if the U.S. Underwriters purchase shares of Common Stock in the open market to reduce the Underwriters' short position or to stabilize the price of the Common Stock, they may reclaim the amount of the selling concession from the Underwriters and selling group members who sold those shares as part of the Offerings.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an affect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, neither the Company nor any of the Underwriters makes any representation that the U.S. Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Common Stock has been approved for listing upon notice of issuance on the NYSE under the symbol "IEE."

The U.S. Underwriters have reserved for sale, at the initial public offering price, up to 700,000 shares of Common Stock for certain employees, directors and business associates of, and certain other persons designated by, the Company who have expressed an interest in purchasing such shares of Common Stock. The number of shares available for sale to the general public in the Offerings will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered to the general public on the same basis as other shares offered hereby.

Prior to the Offerings, there has been no established trading market for the shares of Common Stock. The initial public offering price for the Common Stock offered hereby has been determined by negotiations between the Company and the Underwriters. Among the factors considered in making such determination were the history of and the prospects for the industry in which the Company competes, an assessment of the Company's management, the past and present operations of the Founding Companies and the Company, the historical results of operations of the Founding Companies and the Company and the trend of its revenues and earnings, the prospects for future earnings of the Company, the general condition of prices of similar securities of generally comparable companies and other relevant factors. There can be no assurance that an active trading market will develop for the Common Stock or that the Common Stock will trade in the public market subsequent to the Offerings at or above the initial public offering price.

The Underwriters have informed the Company that the Underwriters do not intend to confirm sales to any account over which they exercise discretionary authority.

Each International Manager represents and agrees that (a) it has not offered or sold and prior to the expiration of six months from the date hereof, will not offer or sell any shares of Common Stock to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (b) it has complied with and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Common Stock in, from or otherwise involving the United Kingdom, and (c) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue or sale of the Common Stock if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

No action has been or will be taken in any jurisdiction (except in the United States) that would permit a public offering of the shares of Common Stock or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or the shares of Common Stock in any jurisdiction where action for that purpose is required. Accordingly, the shares of Common Stock may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the shares of Common Stock may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Purchasers of the shares of Common Stock offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase, in addition to the offering price set forth on the cover page of this Prospectus.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

TABLE OF CONTENTS

UNTIL   , 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

7,000,000 SHARES

[INTEGRATED LOGO]

COMMON STOCK

PROSPECTUS

MERRILL LYNCH INTERNATIONAL

DONALDSON, LUFKIN & JENRETTE
INTERNATIONAL

SUNTRUST EQUITABLE SECURITIES SANDERS MORRIS MUNDY

, 1998

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION(A)

SEC Registration Fee	$ 36,591
NASD Filing Fee	12,575
Listing Fee	144,100
Accounting Fees and Expenses	3,200,000
Legal Fees and Expenses	950,000
Printing Expenses	250,000
Transfer Agent's Fees	7,500
Miscellaneous	199,234
Total	$4,800,000

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(a) The amounts set forth above, except for the SEC and NASD fees, are in each case estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Subsection (a) of section 145 of the General Corporation Law of the State of Delaware empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Subsection (b) of Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been made to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145 further provides that to the extent a director or officer of a corporation has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145 in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; that indemnification provided for by Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of such person's heirs, executors and administrators; and empowers the corporation to purchase and maintain insurance on behalf of a director or officer of the corporation against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under Section 145.

Section 102(b)(7) of the General Corporation Law of the State of Delaware provides that a certificate of incorporation may contain a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

Article Eighth of the Company's Amended and Restated Certificate of Incorporation states that:

No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty by such director as a director; provided, however, that this Article Eighth shall not eliminate or limit the liability of a director to the extent provided by applicable law (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article Eighth shall apply to, or have any effect on, the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

In addition, Article VI of the Company's Bylaws further provides that the Company shall indemnify its officers, directors and employees to the fullest extent permitted by law.

The Company intends to enter into indemnification agreements with each of its executive officers and directors.

Under Section 6 of the U.S. and International Purchase Agreements filed as Exhibits 1.1 and 1.2 to this Registration Statement, the Underwriters have agreed to indemnify, under certain conditions, the Company, its officers and directors, and persons who control the Company within the meaning of the Securities Act of 1933, as amended, against certain liabilities.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is certain information concerning all sales of securities by the Company during the past three years that were not registered under the Securities Act of 1933. The description presented below gives effect to the Company's recent 2,329.6-for-one stock split effected in October, 1997.

(a) On June 26, 1997, the Company issued 2,329,600 shares of its Common Stock at an aggregate price of $1,000 to C. Byron Snyder, the Snyder Children's Trust and D. Merril Cummings.

(b) On September 5, 1997, the Company issued 1,672,711 shares of its Common Stock to C. Byron Snyder, the Snyder Children's Trust, and to certain executive officers and key employees at an aggregate price of $718.

(c) On October 17, 1997, the Company issued 50,000 shares of its Common Stock to certain executive officers and key employees at an aggregate price of $21.

(d) See "Certain Transactions" for a discussion of the issuance of shares of Common Stock in connection with the Acquisitions.

These transactions were completed without registration under the Securities Act of 1933 in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

EXHIBIT	
**1.1	-- Form of U.S. Purchase Agreement.
**1.2	-- Form of International Purchase Agreement.
**2.1	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Ace Electric, Inc., and all of the Stockholders of Ace Electric, Inc.
**2.2	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Amber Electric, Inc., and all of the Stockholders of Amber Electric, Inc.
**2.3	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., BW Consolidated, Inc., all of the Stockholders of BW Consolidated, Inc., Bexar Electric Company, Ltd., Calhoun Electric Company, Ltd. and the Employee Partners of such partnerships.
**2.4	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Daniel Electrical Contractors, Inc., Daniel Electrical of Treasure Coast Inc. and all of the Stockholders of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc.
**2.5	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Stark Investments, Inc., and all of the Stockholders of Stark Investments, Inc.
**2.6	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Hatfield Electric, Inc., and all of the Stockholders of Hatfield Electric, Inc.
**2.7	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., General Partner, Inc., Charles P. Bagby Company, Inc. and all of the Stockholders of General Partner, Inc., and Charles P. Bagby Company, Inc.
**2.8	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Houston-Stafford Electric, Inc., and all of the Stockholders of Houston-Stafford Electric, Inc.
**2.9	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Mills Electrical Contractors, Inc., and all of the Stockholders of Mills Electrical Contractors, Inc.
**2.10	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Muth Electric, Inc., and all of the Stockholders of Muth Electric, Inc.
**2.11	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Pollock Electric Inc., and all of the Stockholders of Pollock Electric Inc.
**2.12	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thomas Popp & Company and all of the Stockholders of Thomas Popp & Company.
**2.13	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Reynolds Electric Corp., and all of the Stockholders of Reynolds Electric Corp.
**2.14	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Rodgers Electric Company, Inc., and all of the Stockholders of Rodgers Electric Company, Inc.

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**2.15	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Summit Electric of Texas, Incorporated, and all of the Stockholders of Summit Electric of Texas, Incorporated.
**2.16	-- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thurman & O'Connell Corporation, and all of the Stockholders of Thurman & O'Connell Corporation.
*3.1	-- Amended and Restated Certificate of Incorporation, as amended.
**3.2	-- Bylaws.
**4.1	-- Specimen Common Stock Certificate.
**5.1	-- Opinion of Andrews & Kurth L.L.P. as to the legality of the securities being registered.
**10.1	-- Form of Employment Agreement.
**10.2	-- Form of Officer and Director Indemnification Agreement.
**10.3	-- Integrated Electrical Services, Inc. 1997 Stock Plan.
**10.4	-- Integrated Electrical Services, Inc. 1997 Directors Stock Plan.
*10.5	-- Form of Credit Agreement among the Company, the Financial Institutions named therein and NationsBank of Texas, N.A., including form of Subsidiary Guaranty Agreement, form of Pledge Agreement, form of promissory note, and form of swing line note.
*10.6	-- Form of Agreement to be entered into by the Company and the stockholders set forth on Schedule A thereto.
**21.1	-- List of Subsidiaries.
**23.1	-- Consent of Andrews & Kurth L.L.P. (included in Exhibit 5.1).
*23.2	-- Consent of Arthur Andersen LLP.
**24.1	-- Powers of Attorney (included in signature page set forth on page II-5).
**27	-- Financial Data Schedule.
**99.1	-- Consents of directors to serve.

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* Filed herewith.

** Previously filed.

(b) Financial statement schedules

None.

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

(1) That for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) That for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To provide to the Underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT TO THE REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON, STATE OF TEXAS, ON JANUARY 23, 1998.

Integrated Electrical Services, Inc.

By: /s/ C. BYRON SNYDER

C. Byron Snyder

President and Chairman of

the Board of Directors

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT TO THE REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED ON JANUARY 23, 1998.

SIGNATURE	TITLE
/s/ C. BYRON SNYDER C. Byron Snyder	President and Chairman of the Board of Directors (Principal Executive Officer)
JIM P. WISE* Jim P. Wise	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
J. PAUL WITHROW* J. Paul Withrow	Vice President and Chief Accounting Officer (Principal Accounting Officer)
*By: /s/ C. BYRON SNYDER (C. Byron Snyder, pursuant to a power of attorney filed with this Registration Statement No. 333-38715, filed with the Securities and Exchange Commission on October 24, 1997)	

SIGNATURE TITLE

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**4.1	-- Specimen Common Stock Certificate.
**5.1	-- Opinion of Andrews & Kurth L.L.P. as to the legality of the securities being registered.
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**21.1	-- List of Subsidiaries.
**23.1	-- Consent of Andrews & Kurth L.L.P. (included in Exhibit 5.1).
*23.2	-- Consent of Arthur Andersen LLP.
**24.1	-- Powers of Attorney (included in signature page set forth on page II-5).
**27	-- Financial Data Schedule.
**99.1	-- Consents of directors to serve.

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* Filed herewith.

** Previously filed.

EXHIBIT 3.1

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION OF
INTEGRATED ELECTRICAL SERVICES, INC.

Integrated Electrical Services, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware ("DGCL"), hereby certifies as follows pursuant to Sections 242 and 245 of the DGCL:

1. The original Certificate of Incorporation of the Corporation was filed in the Office of the Secretary of State of the State of Delaware (the "Secretary of State") on June 26, 1997.

2. The director and the stockholders of the Corporation, in accordance with Sections 242 and 245 of the DGCL, adopted and approved this Amended and Restated Certificate of Incorporation (including the amendments to the Corporation's Certificate of Incorporation effected hereby).

3. Effective immediately upon the filing of this Amended and Restated Certificate of Incorporation in the office of the Secretary of State, each outstanding share of previously existing Common Stock, par value $0.01 per share, shall be and hereby is converted into and reclassified as 2,329.6 shares of Common Stock, par value $0.01 per share. Certificates representing reclassified shares are hereby canceled and upon presentation of the canceled certificates to the Corporation, the holders thereof shall be entitled to receive certificate(s) representing the new shares into which such canceled shares have been converted.

4. The Certificate of Incorporation of the Corporation is hereby amended and restated to read in its entirety as follows:

1. The name of the Corporation is Integrated Electrical Services, Inc.

2. The address of its registered office in the State of Delaware is 1209 Orange Street, Wilmington County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Laws of the State of Delaware.

4. The total number of shares of all classes of stock which the Corporation shall have authority to issue is one hundred twelve million, six hundred fifty-five thousand, seven hundred nine (112,655,709), consisting of ten million (10,000,000) shares of preferred stock par value $.01 per share (hereinafter called "Preferred Stock"), and one hundred million (100,000,000) shares of common stock, par value $.01 per share (hereinafter called "Common Stock") and two million, six

hundred fifty-five thousand, seven hundred nine (2,655,709) shares of restricted voting common stock, par value $.01 per share (hereinafter called "Restricted Voting Common Stock").

(a) The Preferred Stock may be issued from time to time in one or more series and in such amounts as may be determined by the Board of Directors. The voting powers, designations, preferences and relative, participating, optional or other special rights, if any, and the qualifications, limitations, or restrictions thereof, if any, of the Preferred Stock of each series shall be such as are fixed by the Board of Directors, authority so to do being hereby expressly granted, and as are stated and expressed in a resolution or resolutions adopted by the Board of Directors providing for the issue of such series of Preferred Stock (herein called the "Directors' Resolution"). The Directors' Resolution as to any series shall (1) designate the series, (2) fix the dividend rate, if any, of such series, establish whether dividends shall be cumulative or non-cumulative, fix the payment dates for dividends on shares of such series and the date or dates, or the method of determining the date or dates, if any, from which dividends on shares of such series shall be cumulative, (3) fix the amount or amounts payable on shares of such series upon voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, and (4) state the price or prices or rate or rates, and adjustments, if any, at which, the time or times and the terms and conditions upon which, the shares of such series may be redeemed at the option of the Corporation or at the option of the holder or holders of shares of such series or upon the occurrence of a specified event, and state whether such shares may be redeemed for cash, property or rights, including securities of the Corporation or another entity; and such Directors' Resolutions may (i) limit the number of shares of such series that may be issued, (ii) provide for a sinking fund for the purchase or redemption of shares of such series and specify the terms and conditions governing the operations of any such fund, (iii) grant voting rights to the holders of shares of such series, (iv) impose conditions or restrictions upon the creation of indebtedness of the Corporation or upon the issuance of additional Preferred Stock or other capital stock ranking on a parity therewith, or prior thereto, with respect to dividends or distributions of assets upon liquidation, (v) impose conditions or restrictions upon the payment of dividends upon, or the making of other distributions to, or the acquisition of, shares ranking junior to the Preferred Stock or to any series thereof with respect to dividends or distributions of assets upon liquidation, (vi) state the time or times, the price or prices or the rate or rates of exchange and other terms, conditions and adjustments upon which shares of any such series may be made convertible into, or exchangeable for, at the option of the holder or the Corporation or upon the occurrence of a specified event, shares of any other class or classes or of any other series of Preferred Stock or any other class or classes of stock or other securities of the Corporation, and (vii) grant such other special rights and impose such qualifications, limitations or restrictions thereon as shall be fixed by the Board of Directors, to the extent not inconsistent with this Section 4 and to the full extent now or hereafter permitted by the laws of the State of Delaware.

Except as by law expressly provided, or except as may be provided in any Directors' Resolution, the Preferred Stock shall have no right or power to vote on any question or in any proceeding or to be represented at, or to receive notice of, any meeting of stockholders of the Corporation.

Preferred Stock that is redeemed, purchased or retired by the Corporation shall, assume the status of authorized but unissued Preferred Stock and may thereafter, subject to the provisions of any Directors' Resolution providing for the issue of any particular series of Preferred Stock, be reissued in the same manner as authorized but unissued Preferred Stock.

(b) Subject to the preferred rights of the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the holders of the Common Stock shall be entitled to receive, as and when declared by the Board of Directors out of the funds of the Corporation legally available therefor, such dividends (payable in cash, stock or otherwise) as the Board of Directors may from time to time determine, payable to stockholders of record on such dates, not exceeding 60 days preceding the dividend payment dates, as shall be fixed for such purpose by the Board of Directors in advance of payment of each particular dividend. All dividends on Common Stock shall be paid pari passu with dividends on Restricted Voting Common Stock.

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after the distribution or payment to the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the remaining assets of the Corporation available for distribution to stockholders shall be distributed among and paid to the holders of Common Stock and Restricted Voting Common Stock ratably in proportion to the number of shares of Common Stock and Restricted Voting Common Stock held by them respectively.

Except as otherwise required by law, each holder of shares of Common Stock shall be entitled to one vote for each share of Common Stock standing in such holder's name of the books of the Corporation.

(c) Subject to the preferred rights of the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the holders of the Restricted Voting Common Stock shall be entitled to receive, as and when declared by the Board of Directors out of the funds of the Corporation legally available therefor, such dividends (payable in cash, stock or otherwise) as the Board of Directors may from time to time determine, payable to stockholders of record on such dates, not exceeding 60 days preceding the dividend payment dates, as shall be fixed for such purpose by the Board of Directors in advance of payment of each particular dividend. All dividends on Restricted Voting Common Stock shall be paid pari passu with dividends on Common Stock.

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntarily or involuntarily, after the distribution or payment to the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the remaining assets of the Corporation available for distribution to stockholders shall be distributed among and paid to the holders of Restricted Voting Common Stock and Common Stock ratably in proportion to the number of shares of Restricted Voting Common Stock and Common Stock held by them respectively.

Holders of Restricted Voting Common Stock voting as a class shall be entitled to elect one member of the Board of Directors, but shall not otherwise be entitled to vote in the election of directors of the Corporation. Subject to the foregoing, and except as otherwise required by law, each holder of shares of Restricted Voting Common Stock shall be entitled to one-half of one vote for each share of Restricted Voting Common Stock standing in such holder's name of the books of the Corporation.

Each share of the Restricted Voting Common Stock will automatically convert into Common Stock on a share-for-share basis (a) in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a disposition which is a distribution by a holder to its partners or beneficial owners or a transfer to a related party of such holder (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)), (b) in the event any person acquires beneficial ownership of 15% or more of the outstanding shares of Common Stock of the Corporation, or (c) in the event any person offers to acquire 15% or more of the outstanding shares of Common Stock of the Corporation.

After January 1, 2000, the Corporation may elect to convert any outstanding shares of Restricted Voting Common Stock into shares of Common Stock.

(d) The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable laws.

5. The Board of Directors is hereby authorized to create and issue, whether or not in connection with the issuance and sale of any of its stock or other securities, rights (the "Rights") entitling the holders thereof to purchase from the Corporation shares of capital stock or other securities. The times at which and the terms upon which the Rights are to be issued will be determined by the Board of Directors and set forth in the contracts or instruments that evidence the Rights. The authority of the Board of Directors with respect to the Rights shall include, but not be limited to, determination of the following:

(a) The initial purchase price per share of the capital stock or other securities of the Corporation to be purchased upon exercise of the Rights;

(b) Provisions relating to the times at which and the circumstances under which the Rights may be exercised or sold or otherwise transferred, either together with or separately from, any other securities of the Corporation;

(c) Provisions that adjust the number or exercise price of the Rights or amount or nature of the securities or other property receivable upon exercise of the Rights in the event of a combination, split or recapitalization of any capital stock of the Corporation, a change in ownership of the Corporation's securities or a reorganization, merger, consolidation, sale of assets or other occurrence relating to the Corporation or any capital stock of the Corporation, and provisions restricting the ability of the Corporation to enter into any such transaction absent an assumption by the other party or parties thereto of the obligations of the Corporation under such Rights;

(d) Provisions that deny the holder of a specified percentage of the outstanding securities of the Corporation the right to exercise the Rights and/or cause the Rights held by such holder to become void;

(e) Provisions that permit the Corporation to redeem the Rights; and

(f) The appointment of a Rights Agent with respect to the Rights;

and such other provisions relating to the Rights as may be determined by the Board of Directors.

6. No holder of stock of the Corporation shall be entitled as of right to purchase or subscribe for any part of any unissued stock of the Corporation or any additional stock to be issued whether or not by reason of any increase of the authorized capital stock of the Corporation, or any bonds, certificates of indebtedness, debentures or other securities convertible into stock or such additional authorized issuance of new stock, but rather such stock, bonds, certificates of indebtedness, debentures and other securities may be issued and disposed of pursuant to resolution of the Board of Directors to such persons, firms, corporations or associations, and upon such terms as may be deemed advisable by the Board of Directors in the exercise of their discretion.

7. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and for creating, defining, limiting and regulating the powers of the Corporation, the directors and the stockholders.

(a) Subject to any limitation contained in the bylaws, the Board of Directors may make bylaws, and from time to time may alter, amend or repeal any bylaws, but any bylaws made by the Board of Directors may be altered, amended or repealed by the stockholders at any meeting of stockholders by the affirmative vote of the holders of at least 66 2/3% of the outstanding shares entitled to vote thereon, provided notice that an amendment is to be considered and acted upon is inserted in the notice of waiver of notice of such meeting.

(b) Any vote or votes authorizing liquidation of the Corporation or proceedings for its dissolution may provide, subject to (i) any agreements among and between stockholders, (ii) the rights of creditors and (iii) rights expressly provided for particular classes or series of stocks, for the distribution pro rata among the stockholders of the Corporation of the assets of the Corporation, wholly or in part in kind, whether such assets be in cash or other property, and may authorize the Board of Directors of the Corporation to determine the value of the different assets of the Corporation for the purpose of such liquidation and may divide, such assets or any part thereof among the stockholders of the Corporation in such manner that every stockholder will receive a proportionate amount in value (determined as aforesaid) of cash or property of the Corporation upon such liquidation or dissolution even though each stockholder may not receive a strictly proportionate part of each such asset.

(c) The Corporation shall, to the maximum extent permitted from time to time under the General Corporation Law of the State of Delaware, indemnify and upon request shall advance expenses to any person who is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to be a director or officer of the Corporation, or while a director or officer is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees and expenses), judgments, fines, penalties and amounts paid in settlement or incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to be a director or officer of the Corporation, or while a director or officer is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees and expenses), judgments, fines, penalties and amounts paid in settlement or incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding, claim or counterclaim initiated by or on behalf of such person. Such indemnification shall not be exclusive of other indemnification rights arising under any bylaw, agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any repeal or modification of the foregoing provisions of this Section 7(c) shall be prospective only, and shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such repeal or modification.

(d) A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended. Any repeal or modification of this Section by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

8. Subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specific circumstances:

(a) after March 1, 1998, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing of such stockholders;

(b) special meetings of the stockholders of the Corporation may be called only by the Chairman of the Board of Directors and shall be called within ten (10) days after receipt of the written request of the Board of Directors, pursuant to a resolution approved by a majority of the whole Board of Directors; and

(c) the business permitted to be conducted at any special meeting of the stockholders is limited to the business brought before the meeting by the Chairman or by the Secretary at the request of a majority of the Board of Directors.

9. The number of directors which shall constitute the whole board shall be such as from time to time shall be fixed by, or in the manner provided in, the bylaws, but in no case shall the number be less than two nor more than 15.

The directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes which classes shall consist of an equal, or as near to equal as possible, number of directors. As to the initial election, the director or directors of the first class shall be elected for a term expiring at the next annual meeting of stockholders to be held in 1998; the director or directors of the second class for a term expiring at the annual meeting to be held in 1999; and the director or directors of the third class for a term expiring at the annual meeting to be held in 2000. At each annual meeting, commencing with the annual meeting in 1998, the successor or successors to the class of directors whose term shall expire in that year shall be elected to hold office or the term of three years, so that the term of office or one class of directors shall expire in each year. Any increase or decrease in the number of directors constituting the Board shall be apportioned among the classes so as to maintain the number of directors in each class as near as possible to one-third the whole number of directors as so adjusted. Any director elected or appointed to fill a vacancy shall hold office for the remaining term of the class to which such directorship is assigned. No decrease in the number of directors constituting the Corporation's Board of Directors shall shorten the term of any incumbent director. Any vacancy in the Board of Directors, whether arising through death, resignation or removal of a director, or through an increase in the number of directors of any class, shall be filled by the majority vote of the remaining directors, although less than a quorum, or by a sole remaining director. The bylaws may contain any provision regarding classification of the Corporation's directors not inconsistent with the terms hereof. The right to cumulate votes in the election of directors is expressly prohibited.

A director of the Corporation may be removed only for cause and only upon the affirmative vote of the holders of 66 2/3 percent of the outstanding capital stock of the Corporation entitled to vote at an election of directors, subject to further restrictions on removal, not inconsistent with this Section 9, as may be contained in the bylaws.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the Directors' Resolutions applicable thereto, and such directors so elected shall not be subject to the provisions of this Section 9 unless expressly provided by such terms.

Notwithstanding the foregoing, the holders of Restricted Voting Common Stock voting as a class shall be entitled to elect one member of the Board of Directors, and only the holders of the Restricted Voting Common Stock shall be entitled to remove such member from the Board of Directors.

10. Election of directors need not be by written ballot unless the bylaws of the Corporation shall so provide. Meetings of stockholders may be held within or without the State of Delaware, as the bylaws may provide. The books of the Corporation may be kept (subject to any provisions contained in the statutes of the State of Delaware) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or the bylaws of the Corporation.

11. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner set forth below, and all rights and conferred upon the directors or stockholders of the Corporation herein or in any amendment hereof are granted subject to this reservation.

The affirmative vote of the holders of at least 75% of the then outstanding shares entitled to vote thereon and the affirmative vote of the holders of at least 75% of the then outstanding shares of each class of stock of the Corporation voting separately as a class, shall be required to adopt any amendment to Sections 5, 7, 8, 9 and 11 of the Certificate of Incorporation of the Corporation.

The affirmative vote of the holders of at least a majority of the then outstanding shares entitled to vote thereon and the affirmative vote of the holders of at least a majority of the then outstanding shares of each class of stock of the Corporation voting separately as a class, shall be required to adopt any amendment to Sections 1, 2, 3, 4, 6 and 10 of the Certificate of Incorporation of the Corporation.

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed for and on behalf of the Corporation by its officers thereunto duly authorized as of October 23, 1997.

/s/ JIM P. WISE

Jim P. Wise
Chief Financial Officer

CERTIFICATE OF AMENDMENT
OF THE
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
INTEGRATED ELECTRICAL SERVICES, INC.

Integrated Electrical Services, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"), does hereby certify:

FIRST: That the name of the Corporation is Integrated Electrical Services, Inc. The Amended and Restated Certificate of Incorporation of the Corporation was filed with the Delaware Secretary of State's Office on October 23, 1997.

SECOND: That in lieu of a meeting and vote of directors, the Board of Directors of the Corporation, by unanimous written consent filed with the minutes of proceedings of the Board of Directors of the Corporation in accordance with the provisions of Section 141(f) of the DGCL, adopted resolutions approving and declaring advisable the following amendments to the Certificate of Incorporation of the Corporation:

NOW, THEREFORE BE IT RESOLVED, that, effective upon approval by the stockholders of the Corporation, Article 4, Section (c) of the Amended and Restated Certificate of Incorporation of the Corporation be, and it hereby is, amended to read in its entirety as follows:

> "(c) Subject to the preferred rights of the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the holders of the Restricted Voting Common Stock shall be entitled to receive, as and when declared by the Board of Directors out of the funds of the Corporation legally available therefor, such dividends (payable in cash, stock or otherwise) as the Board of Directors may from time to time determine, payable to stockholders of record on such dates, not exceeding 60 days preceding the dividend payment dates, as shall be fixed for such purpose by the Board of Directors in advance of payment of each particular dividend. All dividends on Restricted Voting Common Stock shall be paid pari passu with dividends on Common Stock.
>
> In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntarily or involuntarily, after the distribution or payment to the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the remaining assets of the Corporation available for distribution to stockholders shall be distributed among and paid to the holders of Restricted Voting Common Stock and Common Stock ratably in proportion to the number of shares of Restricted Voting Common Stock and Common Stock held by them respectively.

Holders of Restricted Voting Common Stock voting as a class shall be entitled to elect one member of the Board of Directors, but shall not otherwise be entitled to vote in the election of directors of the Corporation. Subject to the foregoing, and except as otherwise required by law, each holder of shares of Restricted Voting Common Stock shall be entitled to one-half of one vote for each share of Restricted Voting Common Stock standing in such holder's name of the books of the Corporation.

Each share of the Restricted Voting Common Stock will automatically convert into Common Stock on a share- for-share basis in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a disposition which is a distribution by a holder to its partners or beneficial owners or a transfer to a related party of such holder (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended))."

RESOLVED, FURTHER, that, effective upon approval by the stockholders of the Corporation, Article 9 of the Amended and Restated Certificate of Incorporation be, and it hereby is, amended to read in its entirety as follows:

"9. The number of directors which shall constitute the whole board shall be such as from time to time shall be fixed by, or in the manner provided in, the bylaws, but in no case shall the number be less than two nor more than 15.

The directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes which classes shall consist of an equal, or as near to equal as possible, number of directors. As to the initial election, the director or directors of the first class shall be elected for a term expiring at the next annual meeting of stockholders to be held following the end of the 1998 fiscal year; the director or directors of the second class for a term expiring at the annual meeting to be held following the end of the 1999 fiscal year; and the director or directors of the third class for a term expiring at the annual meeting to be held following the end of the 2000 fiscal year. At each annual meeting, commencing with the annual meeting in 1998, the successor or successors to the class of directors whose term shall expire in that year shall be elected to hold office or the term of three years, so that the term of office or one class of directors shall expire in each year. Any increase or decrease in the number of directors constituting the Board shall be apportioned among the classes so as to maintain the number of directors in each class as near as possible to one- third the whole number of directors as so adjusted. Any director elected or appointed to fill a vacancy shall hold office for the remaining term of the class to which such directorship is assigned. No decrease in the number of directors constituting the Corporation's Board of Directors shall shorten the term of any incumbent director. Any vacancy in the Board of Directors, whether arising through death, resignation or removal of a director, or through an increase in the number of directors of any class, shall be filled by the majority vote of the remaining directors, although less than a quorum, or by a sole remaining director. The bylaws may contain any provision regarding classification of the Corporation's directors not inconsistent with the terms hereof. The right to cumulate votes in the election of directors is expressly prohibited.

A director of the Corporation may be removed only for cause and only upon the affirmative vote of the holders of 66 2/3 percent of the outstanding capital stock of the Corporation entitled to vote at an election of directors, subject to further restrictions on removal, not inconsistent with this Section 9, as may be contained in the bylaws.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the Directors' Resolutions applicable thereto, and such directors so elected shall not be subject to the provisions of this Section 9 unless expressly provided by such terms.

Notwithstanding the foregoing, the holders of Restricted Voting Common Stock voting as a class shall be entitled to elect one member of the Board of Directors, and only the holders of the Restricted Voting Common Stock shall be entitled to remove such member from the Board of Directors."

THIRD: That said amendments were duly adopted by the stockholders of the Corporation in accordance with the applicable provisions of Sections 228 and 242 of the DGCL.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by Jim P. Wise, its Senior Vice President and Chief Financial Officer, this 22nd day of December, 1997.

INTEGRATED ELECTRICAL SERVICE, INC.

By: /s/ Jim P. Wise

Name: Jim P. Wise
Title: Senior Vice President and
Chief Financial Officer

EXHIBIT 10.5

[Execution Version]

CREDIT AGREEMENT

Among

INTEGRATED ELECTRICAL SERVICES, INC.
as Borrower,

THE FINANCIAL INSTITUTIONS
NAMED IN THIS CREDIT AGREEMENT
as Banks,

and

NATIONSBANK OF TEXAS, N.A.,
as Agent for the Banks

$65,000,000

January 30, 1998

Arranged By:
NATIONSBANC MONTGOMERY SECURITIES L.L.C.

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EXHIBITS

Exhibit A	-	Form of Compliance Certificate
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SCHEDULES

Schedule I	-	Administrative Information (Borrower; Agent; Banks)
Schedule II	-	Disclosures (Existing Other Debt; Existing Subsidiaries)

CREDIT AGREEMENT

This Credit Agreement dated as of January 30, 1998, is among Integrated Electrical Services, Inc., a Delaware corporation, as Borrower, the financial institutions named herein, as Banks, and NationsBank of Texas, N.A., as Agent for the Banks.

The parties hereto agree as follows:

ARTICLE 1. DEFINITIONS AND ACCOUNTING TERMS.

1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (unless otherwise indicated, such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquisition" means the direct or indirect purchase or acquisition, whether in one or more related transactions, of any Person or group of Persons or any related group of assets, liabilities, or securities of any Person or group of Persons.

"Acquisition Advance Date" means the date on which the first amounts are advanced hereunder by the Banks or the Swing Line Lender in connection with any Acquisition.

"Acquisition Certificate" means an acquisition certificate executed by a Responsible Officer of the Borrower in substantially the form of Exhibit H.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person or any Subsidiary of such Person. The term "control" (including the terms "controlled by" or "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership, by contract, or otherwise.

"Agent" means NationsBank in its capacity as an agent pursuant to Article 7 and any successor agent pursuant to Section 7.7.

"Agent Fee Letter" means the confidential letter agreement dated as of November 26, 1997, between the Borrower, the Agent, and the Arranger regarding certain fees owed by the Borrower to the Agent in connection with this Agreement.

"Agreement" means this Credit Agreement.

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

Debt to EBITDA	Applicable Margin LIBOR Tranches and Letter of Credit Fee	Applicable Margin Prime Rate Tranche	Applicable Margin Commitment Fee
less than 1.00	1.00%	0.00%	0.250%
>1.00 but #1.50	1.25%	0.00%	0.250%
>1.50 but #2.00	1.50%	0.00%	0.300%
>2.00	2.00%	0.50%	0.375%

Until delivery of the first Compliance Certificate, the foregoing ratio shall be deemed to be 1.01. Thereafter, the ratio and resulting Applicable Margin shall be based upon Schedule B or Schedule D, at the Borrower's option, of the most recent Compliance Certificate delivered to the Agent pursuant to Section 5.2(a) or Section 5.2(b) (provided that for the period from the determination of the Applicable Margin based on the first Compliance Certificate until the date when the Applicable Margin is reset based upon the Compliance Certificate for the period ending June 30, 1998, the ratio shall be deemed to be the greater of the ratio as so determined or 1.01 and the Applicable Margin shall be set accordingly).

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

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

"Applicable Lending Office" means, with respect to each Bank and for any particular type of transaction, the office of such Bank set forth in Schedule I to this Agreement (or in the applicable Assignment and Acceptance by which such Bank joined this Agreement) as its applicable lending office for such type of transaction or such other office of such Bank as such Bank may from time to time specify in writing to the Borrower and the Agent for such particular type of transaction.

"Arranger" means NationsBanc Montgomery Securities L.L.C., formerly known as NationsBanc Montgomery Securities, Inc.

"Assignment and Acceptance" means an Assignment and Acceptance in substantially the form of Exhibit E executed by an assignor Bank, an assignee Bank, and the Agent, in accordance with Section 8.5.

"Banks" means the lenders listed as Banks on the signature pages of this Agreement and each Eligible Assignee that shall become a party to this Agreement pursuant to Section 8.5(b).

"Base Rate" means, for any day, the fluctuating rate per annum of interest equal to the greater of (a) the Prime Rate in effect on such day or (b) the Federal Funds Rate in effect on such day plus 0.50%.

"Borrower" means Integrated Electrical Services, Inc., a Delaware corporation.

"Business Day" means any Monday through Friday during which commercial banks are open for business in Houston, Texas, Dallas, Texas, and, if the applicable Business Day relates to any LIBOR Tranche, on which dealings are carried on in the London interbank market.

"Capital Expenditures" means, with respect to any Person and any period of its determination, the consolidated expenditures of such Person during such period that are required to be included in or are reflected by the consolidated property, plant, or equipment accounts of such Person, or any similar fixed asset or long term capitalized asset accounts of such Person, on the consolidated balance sheet of such Person in conformity with generally accepted accounting principles.

"Capital Leases" means, with respect to any Person, any lease of any property by such Person which would, in accordance with generally accepted accounting principles, be required to be classified and accounted for as a capital lease on the balance sheet of such Person.

"Cash Taxes" means, with respect to any Person and for any period of its determination, the consolidated cash taxes paid by such Person during such period, or with respect to any Persons which were organized as partnerships or subchapter S corporations during such period, all amounts distributed by such Persons to their respective partners or shareholders with respect to taxes during such period.

"Change of Control" means, with respect to the Borrower, (a) the direct or indirect acquisition after the date hereof by any Person or related Persons constituting a group of (i) beneficial ownership of issued and outstanding shares of Voting Securities of the Borrower, the result of which acquisition is that such Person or such group possesses 35% or more of the combined voting power of all then-issued and outstanding Voting Securities of the Borrower or (ii) the power to elect, appoint, or cause the election or appointment of at least a majority of the members of the board of directors of the Borrower, or (b) the individuals who, at the beginning of any period of 12 consecutive months, constitute the Borrower's board of directors (together with any new director whose election by the Borrower's board of directors or whose nomination for election by the Borrower's stockholders entitled to vote thereon was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason (other than death or disability) to constitute a majority of the Borrower's board of directors then in office.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"Commonly Controlled Entity" means, with respect to any Person, any other Person which is under common control with such Person within the meaning of Section 414 of the Code.

"Compliance Certificate" means a compliance certificate executed by a Responsible Officer of the Borrower in substantially the form of Exhibit A, including the following attached Schedules:

Schedule A: The applicable financial reports provided under Section 5.2(a) or 5.2(b) ending on the date of the computation of the financial covenants.

Schedule B: The computation of the financial covenants under this Agreement based upon the financial reports in Schedule A to the Compliance Certificate in a form acceptable to the Agent.

Schedule C: A schedule of any adjustments to the financial reports in Schedule A to the Compliance Certificate that are requested by the Borrower to reflect the financial results of Acquisitions made prior to the end of the applicable period, together with the supporting financial reports of the Acquisitions from which the Borrower prepared such adjustments, prepared in accordance with Section 1.3(c) and otherwise in a form acceptable to the Agent.

Schedule D: The computation of the financial covenants under this Agreement based upon the financial reports in Schedule C to the Compliance Certificate in a form acceptable to the Agent.

"Continuation/Conversion Request" means a Continuation/Conversion Request in substantially the form of Exhibit C executed by a Responsible Officer of the Borrower and delivered to the Agent.

"Contract Status Report" means a report, in form and substance acceptable to the Agent, detailing the status of each contract of any Restricted Entity which contract has a value equal to or greater than $7,500,000.

"Credit Documents" means this Agreement, the Revolving Loan Notes, the Swing Line Note, the Agent Fee Letter, the Letter of Credit Documents, the Guaranty, the Security Documents, the Interest Hedge Agreements, and each other agreement, instrument, or document executed at any time in connection with this Agreement.

"Credit Obligations" means all principal, interest, fees, reimbursements, indemnifications, and other amounts now or hereafter owed by the Borrower to the Agent and the Banks (or with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under this Agreement, the Revolving Loan Notes, the Swing Line Note, the Letter of Credit Documents, and the other Credit Documents and any increases, extensions, and rearrangements of those obligations under any amendments, supplements, and other modifications of the documents and agreements creating those obligations.

"Credit Parties" means the Borrower and the Guarantors.

"Debt" means, with respect to any Person, without duplication, (a) indebtedness of such Person for borrowed money, (b) obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments, (c) obligations of such Person to pay the deferred purchase price of property or services (other than trade debt and normal operating liabilities incurred in the ordinary course of business), (d) obligations of such Person as lessee under Capital Leases, (e) obligations of such Person under or relating to letters of credit, guaranties, purchase agreements, or other creditor assurances assuring a creditor against loss in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (d) of this definition, (f) nonrecourse indebtedness or obligations of others of the kinds referred to in clauses (a) through (e) of this definition secured by any Lien on or in respect of any property of such Person, and (g) obligations of such Person evidenced by preferred stock or other equity interests in such Person which provide for mandatory redemption, mandatory payment of dividends, or similar rights to the payment of money. For the purposes of determining the amount of any Debt, the amount of any Debt described in clause (e) of the definition of Debt shall be valued at the maximum amount of the contingent liability thereunder, the amount of any Debt described in clause (f) that is not covered by clause (e) shall be valued at the lesser of the amount of the Debt secured or the book value of the property securing such Debt, and the amount of any Debt described in clause (g) shall be valued at the stated redemption value of such Debt as of the date of determination.

"Default" means (a) an Event of Default or (b) any event or condition which with notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Default Rate" means, with respect to any amount due hereunder, a per annum interest rate equal to (a) if such amount is either outstanding principal accruing interest based upon a rate established elsewhere in this Agreement or accrued but unpaid interest thereon, the sum of (i) the interest rate established elsewhere in this Agreement from time to time for such principal amount, including any applicable margin, plus (ii) 2.00% per annum or (b) in all other cases, the Base Rate in effect from time to time plus the Applicable Margin for the Prime Rate Tranche in effect from time to time plus 2.00% per annum.

"Derivatives" means any swap, hedge, cap, collar, or similar arrangement providing for the exchange of risks related to price changes in any commodity, including money.

"Dollars or $" means lawful money of the United States of America.

"EBITDA" means, with respect to any Person and for any period of its determination, the consolidated net income of such Person for such period, plus the consolidated interest expense and income taxes of such Person for such period, plus the consolidated depreciation and amortization of such Person for such period, in each case excluding extraordinary items (except extraordinary losses incurred subsequent to the date of the initial public offering of the Borrower, which shall remain included).

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

"Eligible Assignee" means, with respect to any assignment hereunder at the time of such assignment, any commercial bank organized under the laws of the United States or any of the countries parties to the Organization for Economic Cooperation and Development or any political subdivision of any thereof which has primary capital (or its equivalent) of not less than $250,000,000, is approved by the Agent, and, so long as no Event of Default exists, is approved by the Borrower, in either case, such approval not to be unreasonably withheld.

"Environmental Law" means all federal, state, and local laws, rules, regulations, ordinances, orders, decisions, agreements, and other requirements now or hereafter in effect relating to the pollution, destruction, loss, or injury of the environment, the presence of any contaminant in the environment, the protection, cleanup, remediation, or restoration of the environment, the creation, handling, transportation, use, or disposal of any waste product in the environment, exposure of persons to any contaminant, waste, or hazardous substance in the environment, and the health and safety of employees in relation to their environment.

"Event of Default" has the meaning specified in Section 6.1.

"Federal Funds Rate" means, for any period, a fluctuating per annum interest rate equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for any such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System or any of its successors.

"Guaranty" means the Guaranty dated as of January 30, 1998, made by the Subsidiaries of the Borrower in favor of the Agent guaranteeing the Credit Obligations.

"Guarantors" means (a) the Subsidiaries of the Borrower that have executed the Guaranty in connection with the execution of this Agreement and (b) any future Subsidiaries of the Borrower that join the Guaranty pursuant to Section 5.19.

"Hazardous Materials" means any substance or material identified as a hazardous substance pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended and as now or hereafter in effect; any substance or material regulated as a hazardous waste pursuant to the Resource Conservation and Recovery Act of 1976, as amended and as now or hereafter in effect; and any substance or material designated as a hazardous substance or hazardous waste pursuant to any other Environmental Law.

"Highest Lawful Rate" means the maximum lawful interest rate, if any, that at any time or from time to time may be contracted for, charged, or received under the laws applicable to the relevant Bank which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow. The maximum lawful rate under this Agreement shall be the weekly indicated rate ceiling under Article 5069-1.04 of the Texas Revised Civil Statutes, as amended, unless any other lawful rate ceiling exceeds the rate ceiling so determined, and then the higher rate ceiling shall apply.

"Interest Expense" means, with respect to any Person and for any period of its determination, the consolidated interest expense of such Person during such period.

"Interest Hedge Agreements" means any swap, hedge, cap, collar, or similar arrangement between the Borrower and any Bank (or any Affiliate of any Bank) providing for the exchange of risks related to price changes in the interest rate on the Revolving Loan Advances under this Agreement.

"Interest Period" means, with respect to each LIBOR Tranche, the period commencing on the date of such LIBOR Tranche and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three, or six months, in each case as the Borrower may select in the applicable Revolving Loan Borrowing Request or Continuation/Conversion Request (unless there shall exist any Default or Event of Default, in which case the Borrower may only select one month Interest Periods); provided, however, that:

(a) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(b) any Interest Period which begins on the last Business Day of the calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month in which it would have ended if there were a numerically corresponding day in such calendar month; and

(c) the Borrower may not select an Interest Period for any LIBOR Tranche which ends after the Revolving Loan Maturity Date.

"Issuing Bank" means NationsBank and any successor issuing bank pursuant to Section 7.7.

"LIBOR" means, for any LIBOR Tranche for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the term "LIBOR" shall mean, for any LIBOR Tranche for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates.

"LIBOR Tranche" shall mean any Tranche which bears interest based upon the LIBOR, as determined in accordance with Section 2.5.

"Letter of Credit" means any commercial or standby letter of credit issued by the Issuing Bank for the account of the Borrower pursuant to the terms of this Agreement.

"Letter of Credit Application" means the Issuing Bank's standard form letter of credit application for either a commercial or standby letter of credit, as the case may be, which has been executed by the Borrower and accepted by the Issuing Bank in connection with the issuance of a Letter of Credit.

"Letter of Credit Application Amendment" means the Issuing Bank's standard form application to amend a letter of credit for either a commercial or standby letter of credit, as the case may be, which has been executed by a Borrower and accepted by the Issuing Bank in connection with the increase or extension of a Letter of Credit.

"Letter of Credit Collateral Account" means a special cash collateral account pledged to the Agent containing cash deposited pursuant to Sections 2.2(d) or 6.4 to be maintained with the Agent in accordance with Section 2.2(g).

"Letter of Credit Documents" means all Letters of Credit, Letter of Credit Applications, Letter of Credit Application Amendments, and agreements, documents, and instruments entered into in connection with or relating thereto.

"Letter of Credit Exposure" means, as of any date of its determination, the aggregate outstanding undrawn amount of Letters of Credit plus the aggregate of the reimbursement obligations of the Borrower under the Letter of Credit Applications and this Agreement.

"Letter of Credit Sublimit" means $10,000,000.

"Lien" means any mortgage, lien, pledge, charge, deed of trust, security interest, encumbrance, or other type of preferential arrangement to secure or provide for the payment of any obligation of any Person, whether arising by contract, operation of law, or otherwise (including any title retention for such purposes under any conditional sale agreement, any Capital Lease, or any other title transfer or retention agreement).

"Majority Banks" means, at any time, Banks holding more than 66 2/3% of the then aggregate unpaid principal amount of the Revolving Loan Notes held by the Banks and the Letter of Credit Exposure of the Banks at such time; provided that if no such principal amount or Letter of Credit Exposure is then outstanding, "Majority Banks" shall mean Banks having more than 66 2/3% of the aggregate amount of the Revolving Loan Commitments at such time.

"Material Adverse Change" means any material adverse change in the business, operations, or financial condition of the Borrower and its Subsidiaries on a consolidated basis.

"NationsBank" means NationsBank of Texas, N.A., in its individual capacity.

"Net Worth" means, with respect to any Person and as of any date of its determination, the excess of (a) the assets of such Person over (b) the liabilities of such Person.

"PBGC" means Pension Benefit Guaranty Corporation or its successor.

"Permitted Debt" means all of the following Debt:

(a) Debt in the form of the Credit Obligations;

(b) Debt in the form of indebtedness for borrowed money and letters of credit owed by any Subsidiary of the Borrower prior to the acquisition of such Subsidiary by the Borrower in an Acquisition transaction, or owed by any Person that is the subject of any Acquisition assumed by the Borrower or any Subsidiary of the Borrower in connection with such Acquisition, provided that with respect to any such indebtedness, arrangements satisfactory to the Agent for the repayment of such indebtedness within 30 days following the closing of the Acquisition are made prior to the closing of the Acquisition and such arrangements are executed;

(c) Debt in the form of (i) purchase money indebtedness and Capital Leases, (ii) indebtedness for borrowed money and letters of credit owed by any Subsidiary of the Borrower prior to the acquisition of such Subsidiary by the Borrower in an Acquisition transaction, or owed by any Person that is the subject of any Acquisition assumed by the Borrower or any Subsidiary of the Borrower in connection with such Acquisition, and (iii) other indebtedness, which Debt under clauses (i), (ii), and (iii) together are in an aggregate outstanding amount not to exceed $3,000,000;

(d) Debt in the form of Subordinated Debt;

(e) Debt in the form of Qualified Preferred Stock; and

(f) Debt in the form of reimbursement obligations for performance bonds issued in the ordinary course of business.

"Permitted Investments" means all of the following investments:

(a) investments (including investments in the form of loans) in wholly-owned Subsidiaries of the Borrower;

(b) investments in the form of loans, guaranties, open accounts, and other extensions of trade credit in the ordinary course of business;

(c) investments in commercial paper, bankers' acceptances, loan participation agreements, and other similar investments, in each case, maturing in twelve months or less from the date of issuance and which, at the time of acquisition are rated A-2 or better by Standard & Poor's Corporation and P-2 or better by Moody's Investors Services, Inc;

(d) investments in direct obligations of the United States, or investments in any Person which investments are guaranteed by the full faith and credit of the United States, in either case maturing in twelve months or less from the date of acquisition thereof and repurchase agreements having a term of less than one year and fully collateralized by such obligations which are entered into with banks or trust companies described in clause (e) below or brokerage companies having net worth in excess of $250,000,000;

(e) investments in time deposits or certificates of deposit maturing within one year from the date such investment is made, issued by a bank or trust company organized under the laws of the United States or any state thereof having capital, surplus, and undivided profits aggregating at least $250,000,000 or a foreign branch thereof and whose long-term certificates of deposit are, at the time of acquisition thereof, rated A-2 by Standard & Poor's Corporation or Prime-2 by Moody's Investors Services, Inc.;

(f) investments in money market funds which invest solely in the types of investments described in paragraphs (c) through (e) above; and

(g) loans and advances to directors, officers, and employees of the Credit Parties made in the ordinary course of business in an aggregate outstanding amount not to exceed $250,000.

In valuing any investments for the purpose of applying the limitations set forth in this Agreement, such investments shall be taken at the original cost thereof (but without reduction for any subsequent appreciation or depreciation thereof) less any amount actually repaid or recovered on account of capital or principal (but without reduction for any offsetting investments made by the investee in the investor). For purposes of this Agreement, at any time when a corporation becomes a Subsidiary of the Borrower, all investments of such corporation at such time shall be deemed to have been made by such corporation at such time.

"Permitted Liens" means all of the following Liens:

(a) Liens securing the Credit Obligations;

(b) Liens securing purchase money debt, Capital Leases, and assumed or acquired indebtedness for borrowed money and letters of credit permitted under clause (b) of the definition of Permitted Debt provided that no such Lien is spread to cover any property not (i) purchased in connection with the incurrence of such Debt, in the case of purchase money debt, or (ii) covered by such Lien at the time of the assumption or acquisition of the indebtedness secured thereby, in the case of assumed or acquired indebtedness for borrowed money and letters of credit; and

(c) Liens arising in the ordinary course of business which are not incurred in connection with the borrowing of money, the obtaining of advances or credit, or payment of legal judgments and which do not materially detract from the value of any Restricted Entity's assets or materially interfere with any Restricted Entity's business, including such (i) Liens for taxes, assessments, or other governmental charges or levies; (ii) Liens in connection with worker's compensation, unemployment insurance, or other social security, old age pension, or public liability obligations; (iii) Liens in the form of legal or equitable encumbrances deemed to exist by reason of negative pledge covenants and other covenants or undertakings of like nature; (iv) Liens in the form of vendors', carriers', warehousemen's, repairmen's, mechanics', workmen's, materialmen's, construction, or other like Liens arising by operation of law in the ordinary course of business or incident to the construction or improvement of any property, including liens securing reimbursement obligations for performance bonds issued in the ordinary course of business; and (v) Liens in the form of zoning restrictions, easements, licenses, and other restrictions on the use of real property or minor irregularities in title thereto which do not materially impair the use of such property in the operation of the business of the applicable Restricted Entity or the value of such property.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, or other entity, or a government or any political subdivision or agency thereof, or any trustee, receiver, custodian, or similar official.

"Plan" means any (a) employee medical benefit plan under Section 3(1) of ERISA, (b) employee pension benefit plan under Section 3(2) of ERISA, (c) multiemployer plan under Section 4001(a)(3) of ERISA, and (d) employee account benefit plan under Section 3(2) of ERISA.

"Pledge Agreement" means the Pledge Agreement dated as of January 30, 1998, made by Borrower and the Subsidiaries of Borrower in favor of the Agent granting the Agent a security interest in the capital stock of each Subsidiary (whether direct or indirect) of Borrower to secure the Credit Obligations.

"Prime Rate" means, for any day, the fluctuating per annum interest rate in effect on such day equal to the rate of interest publicly announced by the Agent as its prime rate, whether or not the Borrower has notice thereof.

"Prime Rate Borrowing" shall mean that portion of any Revolving Loan Borrowing which bears interest based upon the Base Rate as determined in accordance with Section 2.5.

"Prime Rate Tranche" shall mean the Tranche which bears interest based upon the Base Rate, as determined in accordance with Section 2.5.

"Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

"Qualified Preferred Stock" means, with respect to the Borrower and as of any date of its issuance, any shares of preferred stock of the Borrower that (a) is issued after the date of this Agreement, (b) provides for its mandatory redemption on a date, if at all, that is on or after the first anniversary of the latest maturity of any of the Credit Obligations at the time issued, and (c) provides in the applicable certificate of designation for the redemption of such shares and for the blockage of Restricted Payments in respect of such shares during the existence of a Default or an Event of Default (i) on the terms and conditions set forth on Schedule IV, or (ii) on terms approved by the Agent and the Majority Banks in their sole discretion, all such provisions to be in form and content satisfactory to the Agent and the Majority Banks in their sole discretion.

"ratable share" or "pro rata share" means, with respect to any Bank and as of any date of its determination, either (a) the ratio of such Bank's Revolving Loan Commitment at such time to the aggregate Revolving Loan Commitments at such time or (b) if the Revolving Loan Commitments have been terminated, the ratio of such Bank's aggregate outstanding Revolving Loan Advances and share of the Letter of Credit Exposure at such time to the aggregate outstanding Revolving Loan Advances and Letter of Credit Exposure at such time.

"Registration Statement" means the public offering registration statement of the Borrower as filed with the Securities and Exchange Commission on October 24, 1997, and as refiled on November 28, 1997, under Registration Number 333-38715.

"Related Parties" means, with respect to any Person, such Person's stockholders, directors, officers, employees, agents, Affiliates, successors, and assigns, and their respective stockholders, directors, officers, employees, and agents, and, with respect to any Person that is an individual, such Person's family relations and heirs.

"Reportable Event" means any of the events set forth in Section 4043 of ERISA.

"Responsible Officer" means, with respect to any Person, such Person's Chief Executive Officer, President, Chief Financial Officer, Secretary, Treasurer, or any other officer of such Person designated by any of the foregoing in writing from time to time.

"Restricted Entities" means the Borrower and each Subsidiary of the Borrower.

"Restricted Payment" means the declaration or making by any Person of any (a) dividends; (b) purchase, redemption, retirement, or other acquisition for value any of its capital stock now or hereafter outstanding, or any distribution of assets to its stockholders as such, whether in cash, assets, or in obligations of it; (c) allocation or other setting apart of any sum for the payment of any dividend or distribution on, or for the purchase, redemption, or retirement of, any shares of its capital stock; or (d) making of any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock; in each case, other than any such dividends, distributions, and payments payable in such Person's common stock.

"Revolving Loan" means the aggregate outstanding principal amount of the Revolving Loan Borrowings.

"Revolving Loan Advance" means the outstanding principal from a Bank which represents such Bank's ratable share of a Revolving Loan Borrowing.

"Revolving Loan Borrowing" means any aggregate amount of principal advanced on the same day and pursuant to the same Revolving Loan Borrowing Request under the revolving loan facility created in Section 2.1.

"Revolving Loan Borrowing Request" means a Revolving Loan Borrowing Request in substantially the form of Exhibit B executed by a Responsible Officer of the Borrower and delivered to the Agent.

"Revolving Loan Commitment" means, for any Bank, the amount set forth below such Bank's name on the signature pages of this Agreement as its Revolving Loan Commitment, or if such Bank has entered into any Assignment and Acceptance since the date of this Agreement, as set forth for such Bank as its Revolving Loan Commitment in the Register maintained by the Agent pursuant to Section 8.5(c), in each case as such amount may be terminated pursuant to Section 6.2.

"Revolving Loan Maturity Date" means January 31, 2001.

"Revolving Loan Note" means a promissory note of the Borrower payable to the order of a Bank, in substantially the form of Exhibit D, evidencing the indebtedness of the Borrower to such Bank resulting from Revolving Loan Advances made by such Bank to the Borrower.

"Security Agreement" means the Security Agreement dated as of January 30, 1998, made by the Borrower and the Subsidiaries of the Borrower in favor of the Agent granting the Agent a security interest in the accounts receivable of each such Credit Party to secure the Credit Obligations.

"Security Documents" means the Security Agreement, the Pledge Agreement, and any other document creating or consenting to Liens in favor of the Agent securing Credit Obligations.

"Subordinated Debt" means, with respect to the Borrower and as of any date of its issuance, any unsecured indebtedness for borrowed money for which the Borrower is directly and primarily obligated that (a) arises after the date of this Agreement, (b) does not have any stated maturity before the latest maturity of any of the Credit Obligations at the time incurred, (c) has terms that are no more restrictive than the terms of the Credit Documents, and (d) is expressly subordinated to the Credit Obligations (i) on the terms and conditions set forth on Schedule III, or (ii) on terms approved by the Agent and the Majority Banks in their sole discretion, including payment subordination, remedy subordination, and related terms satisfactory to the Agent and the Majority Banks in their sole discretion.

"Subsidiary" means, with respect to any Person, any other Person, a majority of whose outstanding Voting Securities (other than directors' qualifying shares) shall at any time be owned by such Person or one or more Subsidiaries of such person.

"Swing Line Lender" means NationsBank.

"Swing Line Loan" means the aggregate outstanding principal amount of the advances made under the Swing Line Note.

"Swing Line Note" means the promissory note of the Borrower in the principal amount of $5,000,000 payable to the order of the Swing Line Lender evidencing the indebtedness of the Borrower to the Swing Line Lender resulting from advances to the Borrower under the line of credit created thereunder.

"Tranche" means any tranche of principal outstanding under the Revolving Loan accruing interest on the same basis whether created in connection with new advances of principal under the Revolving Loan pursuant to Section 2.5(a)(i) or by the continuation or conversion of existing tranches of principal under such Loan pursuant to Section 2.5(a)(ii) and shall include the Prime Rate Tranche or any LIBOR Tranche.

"Type" has the meaning set forth in Section 1.4.

"Voting Securities" means (a) with respect to any corporation, any capital stock of the corporation having general voting power under ordinary circumstances to elect directors of such corporation, (b) with respect to any partnership, any partnership interest having general voting power under ordinary circumstances to elect the general partner or other management of the partnership, and (c) with respect to any other Person, such ownership interests in such Person having general voting power under ordinary circumstances to elect the management of such Person, in each case irrespective of whether at the time any other class of stock, partnership interests, or other ownership interest might have special voting power or rights by reason of the happening of any contingency.

1.2 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

1.3 Accounting Terms; Preparation of Financials.

(a) All accounting terms, definitions, ratios, and other tests described herein shall be construed in accordance with United States generally accepted accounting principles applied on a consistent basis with those applied in the preparation of the Registration Statement, except as expressly set forth in this Agreement.

(b) The Restricted Entities shall prepare their financial statements in accordance with United States generally accepted accounting principles applied on a consistent basis with those applied in the preparation of the Registration Statement, unless otherwise approved in writing by the Agent. In accordance with the foregoing, (i) any Acquisition which is permitted to be treated as a pooling transaction shall be treated as a pooling transaction, and following such an Acquisition the consolidated financial statements of the Borrower shall be adjusted to reflect the results of such Acquisition during the periods prior to such Acquisition in accordance with generally accepted accounting principles and (ii) any Acquisition which is not permitted to be treated as a pooling transaction shall be treated as an asset purchase, without adjustment for prior periods.

(c) Where expressly permitted in this Agreement, the Borrower may elect to use the compliance calculations set forth in Schedule D of a Compliance Certificate to calculate the Applicable Margin or compliance with a financial covenant under this Agreement. In such case the accounting terms, definitions, ratios, and other tests used in making such calculation shall be construed as required by paragraph (a) above except that the consolidated financial results of the Borrower shall be deemed to be the adjusted consolidated financial results of the Borrower set forth in Schedule C of the Compliance Certificate. The Borrower shall prepare Schedule C and D of the Compliance Certificate in accordance with the following provisions:

(i) The Borrower may select one or more Acquisitions for inclusion in the adjustments permitted in Schedule C or D of the Compliance Certificate; provided that if the inclusion of any Acquisition results in an increase in the consolidated EBITDA of the Borrower over the consolidated EBITDA of the Borrower required to be reported in Schedule A or B of the Compliance Certificate, then the Borrower must include all Acquisitions which would cause a decrease in the consolidated EBITDA of the Borrower in Schedule C and D of the Compliance Certificate.

(ii) If the Acquisition is treated as a pooling transaction, the Borrower shall adjust the pooling accounting treatment of the Acquisition to reflect nonrecurring items (both positive and negative) that are permitted to be adjusted in accordance with the guidelines established by the Securities and Exchange Commission for acquisition accounting for reported acquisitions by public companies or as approved by the Agent.

(iii) If the Acquisition is not treated as a pooling transaction, the financial results of the acquired Person or assets shall be added to the applicable financial results of the Borrower in the same manner as if such transaction were a pooling transaction with such adjustments thereto as are required to reflect nonrecurring items (both positive and negative) that are permitted to be adjusted in accordance with the guidelines established by the Securities and Exchange Commission for acquisition accounting for reported acquisitions by public companies or as approved by the Agent.

(iv) No Acquisition may be included in Schedule C or D of the Compliance Certificate at the request of the Borrower unless the financial reports of the acquired Person or assets from which Schedule C and D are prepared are audited financial reports prepared by independent certified public accounting firms of national standing or are approved by the Agent.

1.4 Types. The "Type" of a Tranche refers to the determination whether such tranche is a LIBOR Tranche or the Prime Rate Tranche.

1.5 Interpretation. Article, Section, Schedule, and Exhibit references are to this Agreement, unless otherwise specified. All references to instruments, documents, contracts, and agreements are references to such instruments, documents, contracts, and agreements as the same may be amended, supplemented, and otherwise modified from time to time, unless otherwise specified. The word "including" shall mean "including but not limited to." The word "or" shall mean "and/or" wherever necessary to prevent interpretation of any provision against the Agent or the Banks. Whenever the Borrower has an obligation under this Agreement and the Credit Documents the expense of complying with that obligation shall be an expense of the Borrower unless otherwise specified. Whenever any determination is to be made by the Agent or any Bank, such determination shall be in such Person's sole discretion unless otherwise specified in this Agreement. If any provision in this Agreement and the Credit Documents is held to be illegal, invalid, not binding, or unenforceable, such provision shall be fully severable and this Agreement and the Credit Documents shall be construed and enforced as if such illegal, invalid, not binding, or unenforceable provision had never comprised a part of this Agreement and the Credit Documents, and the remaining provisions shall remain in full force and effect. This Agreement and the Credit Documents have been reviewed and negotiated by sophisticated parties with access to legal counsel and shall not be construed against the drafter. In the event of a conflict between this Agreement and any other Credit Documents, this Agreement shall control.

ARTICLE 2. CREDIT FACILITIES.

2.1 Revolving Loan Facility.

(a) Revolving Loan Commitments. Each Bank severally agrees, on the terms and conditions set forth in this Agreement and for the purposes set forth in Section 5.4, to make Revolving Loan Advances to the Borrower as such Bank's ratable share of Revolving Loan Borrowings requested by the Borrower from time to time on any Business Day during the period from the date of this Agreement until the Revolving Loan Maturity Date provided that the aggregate outstanding principal amount of Revolving Loan Advances made by such Bank plus such Bank's ratable share of the Swing Line Loan plus such Bank's ratable share of the Letter of Credit Exposure shall not exceed such Bank's Revolving Loan Commitment. Revolving Loan Borrowings must be made in an amount equal to or greater than $1,000,000, in the case of any Revolving Loan Borrowing comprised of a LIBOR Tranche, or $1,000,000, in the case of any Prime Rate Borrowing, and be made in multiples of $500,000, in the case of any Revolving Loan Borrowing comprised of a LIBOR Tranche, or $100,000, in the case of any Prime Rate Borrowing. Within the limits expressed in this Agreement, the Borrower may from time to time borrow, prepay, and reborrow Revolving Loan Borrowings. The indebtedness of the Borrower to the Banks resulting from the Revolving Loan Advances made by the Banks shall be evidenced by Revolving Loan Notes made by the Borrower.

(b) Method of Advancing

(i) Each Revolving Loan Borrowing shall be made pursuant to a Revolving Loan Borrowing Request given by the Borrower to the Agent in writing or by telecopy not later than the time required pursuant to Section 2.5(a)(i) to select the interest rate basis for the Revolving Loan Borrowing. Each Revolving Loan Borrowing Request shall be fully completed and shall specify the information required therein, and shall be irrevocable and binding on the Borrower. Upon receipt of the Revolving Loan Borrowing Request by the Agent, the Agent shall promptly forward notice of the Revolving Loan Borrowing to the Banks. Each Bank shall, before 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the date of the requested Revolving Loan Borrowing, make available from its Applicable Lending Office to the Agent at the Agent's Applicable Lending Office, in immediately available funds, such Bank's ratable share of such Revolving Loan Borrowing. Subject to the satisfaction of all applicable conditions precedent, after receipt by the Agent of such funds, the Agent shall, by 4:00 p.m. (local time at the Applicable Lending Office of the Agent), on the date requested for such Revolving Loan Borrowing make such Revolving Loan Borrowing available to the Borrower in immediately available funds at any account of Borrower which is designated in writing by the Borrower to the Agent.

(ii) Unless the Agent shall have received notice from a Bank before the date of any Revolving Loan Borrowing that such Bank shall not make available to the Agent such Bank's ratable share of such Revolving Loan Borrowing, the Agent may assume that such Bank has made its ratable share of such Revolving Loan Borrowing available to the Agent on the date of such Revolving Loan Borrowing in accordance with paragraph (i) above and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made its ratable share of such Revolving Loan Borrowing available to the Agent, such Bank agrees that it shall pay interest on such amount for each day from the date such amount is made available to the Borrower by the Agent until the date such amount is paid to the Agent by such Bank at the Federal Funds Rate in effect from time to time, provided that with respect to such Bank if such amount is not paid by such Bank by the end of the second day after the Agent makes such amount available to the Borrower, the interest rates specified above shall be increased by a per annum amount equal to 2.00% on the third day and shall remain at such increased rate thereafter. Interest on such amount shall be due and payable by such Bank upon demand by the Agent. If such Bank shall pay to the Agent such amount and interest as provided above, such amount so paid shall constitute such Bank's Revolving Loan Advance as part of such Revolving Loan Borrowing for all purposes of this Agreement even though not made on the same day as the other Revolving Loan Advances comprising such Revolving Loan Borrowing. In the event that such Bank has not repaid such amount by the end of the fifth day after such amount was made available to the Borrower, the Borrower agrees to repay to the Agent on demand such amount, together with interest on such amount for each day from the date such amount was made available to the Borrower until the date such amount is repaid to the Agent at the interest rate charged to the Borrower for such Revolving Loan Borrowing under the terms of this Agreement.

(iii) The failure of any Bank to make available its ratable share of any Revolving Loan Borrowing shall not relieve any other Bank of its obligation, if any, to make available its ratable share of such Revolving Loan Borrowing. No Bank shall be responsible for the failure of any other Bank to honor such other Bank's obligations hereunder, including any failure to make available any funds as part of any Revolving Loan Borrowing.

(c) Prepayment.

(i) The Borrower may prepay the outstanding principal amount of the Revolving Loan pursuant to written notice given by the Borrower to the Agent in writing or by telecopy not later than (A) 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of the proposed prepayment, in the case of the prepayment of any portion of the Revolving Loan which is comprised of LIBOR Tranches, or (B) 11:00 a.m. (local time at the Applicable Lending Office of the Agent) on the same Business Day of the proposed prepayment, in the case of the prepayment of any portion of the Revolving Loan comprised solely of the Prime Rate Tranche. Each such notice shall specify the principal amount and Tranche or Tranches of the Revolving Loan which shall be prepaid, the date of the prepayment, and shall be irrevocable and binding on the Borrower. Prepayments of the Revolving Loan shall be made in integral multiples of $500,000, in the case of prepayments of any LIBOR Tranches, or $100,000, in the case of prepayments of the Prime Rate Tranche. If the prepayment would cause the aggregate outstanding principal amount of any LIBOR Tranche comprising all or any part of the Revolving Loan or the aggregate outstanding principal amount of the Prime Rate Tranche comprising all or any part of the Revolving Loan, to be less than $1,000,000, in the case of any such LIBOR Tranche, or $1,000,000, in the case of the Prime Rate Tranche, the prepayment must be in an amount equal to the entire outstanding principal amount of such LIBOR Tranche under the Revolving Loan or the entire outstanding principal amount of the Prime Rate Tranche under the Revolving Loan, as the case may be. Upon receipt of any notice of prepayment, the Agent shall give prompt notice of the intended prepayment to the Banks. For each such notice given by the Borrower, the Borrower shall prepay the Revolving Loan in the specified amount on the specified date as set forth in such notice. The Borrower shall have no right to prepay any principal amount of the Revolving Loan except as provided in this Section 2.1(c)(i).

(ii) Each prepayment of principal of any LIBOR Tranche under the Revolving Loan pursuant to this Section 2.1(c) shall be accompanied by payment of all accrued but unpaid interest on the principal amount prepaid and any amounts required to be paid pursuant to Section 2.6 as a result of such prepayment.

(d) Repayment. The Borrower shall pay to the Agent for the ratable benefit of the Banks the aggregate outstanding principal amount of the Revolving Loan on the Revolving Loan Maturity Date.

2.2 Letter of Credit Facility.

(a) Commitment for Letters of Credit. The Issuing Bank shall, on the terms and conditions set forth in this Agreement and for the purposes set forth in Section 5.4, issue, increase, and extend Letters of Credit at the request of the Borrower from time to time on any Business Day during the period from the date of this Agreement until the Revolving Loan Maturity Date provided that (i) the Letter of Credit Exposure shall not exceed the Letter of Credit Sublimit and (ii) the aggregate outstanding principal amount of Revolving Loan Borrowings plus the Letter of Credit Exposure plus the Swing Line Loan shall not exceed the aggregate amount of the Revolving Loan Commitments. No Letter of Credit may have an expiration date later than 12 months after its issuance date, and each Letter of Credit which is self-extending beyond its expiration date must be cancelable upon no more than 30 days notice prior to each extension period given by the Issuing Bank to the beneficiary of such Letter of Credit. No Letter of Credit may have an expiration date later than 12 months after the Revolving Loan Maturity Date unless approved by the Issuing Bank, the Agent, and the Banks. Each Letter of Credit must be in form and substance acceptable to the Issuing Bank. The indebtedness of the Borrower to the Issuing Bank resulting from Letters of Credit requested by the Borrower shall be evidenced by the Letter of Credit Applications made by the Borrower.

(b) Requesting Letters of Credit. Each Letter of Credit shall be issued, increased, or extended pursuant to a Letter of Credit Application or Letter of Credit Application Amendment, as applicable, given by the Borrower to the Issuing Bank in writing or by telecopy promptly confirmed in writing, such Letter of Credit Application or Letter of Credit Application Amendment being given not later than 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of the proposed issuance, increase, or extension of the Letter of Credit. Each Letter of Credit Application or Letter of Credit Application Amendment shall be fully completed and shall specify the information required therein (including the proposed form of the Letter of Credit or change thereto), and shall be irrevocable and binding on the Borrower. Upon receipt by the Issuing Bank of the Letter of Credit Application or Letter of Credit Application Amendment, the Issuing Bank shall give prompt notice thereof to the Agent, and the Agent shall promptly inform the Banks of the proposed Letter of Credit or change thereto. Subject to the satisfaction of all applicable conditions precedent, the Issuing Bank shall, by 4:00 p.m. (local time at the Applicable Lending Office of the Agent), on the date requested by the Borrower for the issuance, increase, or extension of such Letter of Credit issue, increase, or extend such Letter of Credit to the specified beneficiary. Upon the date of the issuance, increase, or extension of a Letter of Credit, the Issuing Bank shall be deemed to have sold to each other Bank and each other Bank shall be deemed to have purchased from the Issuing Bank a ratable participation in the related Letter of Credit or change thereto. The Issuing Bank shall notify the Agent of each Letter of Credit issued, increased, or extended and the date and amount of each Bank's participation in such Letter of Credit, and the Agent shall in turn notify the Banks.

(c) Reimbursements for Letters of Credit. With respect to any Letter of Credit and in accordance with the related Letter of Credit Application, the Borrower agrees to pay to the Issuing Bank on demand fees due with respect to such Letter of Credit as specified in Section 2.4(b)). If the Borrower does not pay upon demand of the Issuing Bank any amount due to the Issuing Bank under any Letter of Credit Application, in addition to any rights the Issuing Bank may have under such Letter of Credit Application, the Issuing Bank may upon written notice to the Agent request the satisfaction of such obligation by the making of a Revolving Loan Borrowing. Concurrently with such notice to the Agent, the Issuing Bank will use reasonable efforts provide like notice to the Borrower, provided that failure to provide such notice to the Borrower at such time shall not invalidate the effectiveness of such request for a Revolving Loan Borrowing. Upon such request, the Borrower shall be deemed to have requested the making of a Revolving Loan Borrowing in the amount of such obligation and the transfer of the proceeds thereof to the Issuing Bank. Such Revolving Loan Borrowing shall be a Prime Rate Borrowing. The Agent shall promptly forward notice of such Revolving Loan Borrowing to the Borrower and the Banks, and each Bank shall, in accordance with the procedures of Section 2.1(b), other than limitations on the size of Revolving Loan Borrowings, and notwithstanding the failure of any conditions precedent, make available such Bank's ratable share of such Revolving Loan Borrowing to the Agent, and the Agent shall promptly deliver the proceeds thereof to the Issuing Bank for application to such Bank's share of the obligations under such Letter of Credit. The Borrower hereby unconditionally and irrevocably authorizes, empowers, and directs the Issuing Bank to make such requests for Revolving Loan Borrowings on behalf of the Borrower, and the Banks to make Revolving Loan Advances to the Agent for the benefit of the Issuing Bank in satisfaction of such obligations. The Agent and each Bank may record and otherwise treat the making of such Revolving Loan Borrowings as the making of Revolving Loan Borrowings to the Borrower under this Agreement as if requested by the Borrower. Nothing herein is intended to release the Borrower's obligations under any Letter of Credit Application, but only to provide an additional method of payment therefor. The making of any Revolving Loan Borrowing under this Section 2.2(c) shall not constitute a cure or waiver of any Default or Event of Default, other than the payment Default or Event of Default which is satisfied by the application of the amounts deemed advanced hereunder, caused by the Borrower's failure to comply with the provisions of this Agreement or any Letter of Credit Application.

(d) Prepayments of Letters of Credit. In the event that any Letters of Credit shall be outstanding according to their terms after the Revolving Loan Maturity Date, the Borrower shall pay to the Agent an amount equal to the Letter of Credit Exposure allocable to such Letters of Credit to be held in the Letter of Credit Collateral Account and applied in accordance with paragraph (g) below.

(e) Obligations Unconditional. The obligations of the Borrower and each Bank under this Agreement and the Letter of Credit Applications to make payments as required to reimburse the Issuing Bank for draws under Letters of Credit and to make other payments due in respect of Letters of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and the Letter of Credit Applications under all circumstances, including: (i) any lack of validity or enforceability of any Letter of Credit Document; (ii) any amendment, waiver, or consent to departure from any Letter of Credit Document; (iii) the existence of any claim, set-off, defense, or other right which the Borrower or any Bank may have at any time against any beneficiary or transferee of any Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), the Issuing Bank, or any other person or entity, whether in connection with the transactions contemplated in this Agreement or any unrelated transaction; (iv) any statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or (v) payment by the Issuing Bank under any Letter of Credit against presentation of a draft or certificate which does not comply with the terms of such Letter of Credit; provided, however, that nothing contained in this paragraph (d) shall be deemed to constitute a waiver of any remedies of the Borrower or any Bank in connection with the Letters of Credit or the Borrower's or such Bank's rights under paragraph (e) below.

(f) Liability of Issuing Bank. The Issuing Bank shall not be liable or responsible for: (i) the use which may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith; (ii) the validity, sufficiency, or genuineness of documents related to Letters of Credit, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent, or forged; (iii) payment by the Issuing Bank against presentation of documents which do not strictly comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the relevant Letter of Credit; or (iv) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit (INCLUDING THE ISSUING BANK'S OWN NEGLIGENCE); except that the Issuing Bank shall be liable to the Borrower or any Bank to the extent of any direct, as opposed to consequential, damages suffered by the Borrower or such Bank which the Borrower or such Bank proves were caused by (A) the Issuing Bank's gross negligence or willful misconduct in determining whether documents presented under a Letter of Credit comply with the terms of such Letter of Credit, (B) the Issuing Bank's willful failure to make or delay in making lawful payment under any Letter of Credit after the presentation to it of documentation strictly complying with the terms and conditions of such Letter of Credit or the Issuing Bank's payment of greater than the maximum amount permitted under any Letter of Credit, or (C) the Issuing Bank's negligence in the handling of money.

(g) Letter of Credit Collateral Account.

(i) If the Borrower is required to deposit funds in the Letter of Credit Collateral Account pursuant to Sections 2.2(d) or 6.4, then the Borrower and the Agent shall establish the Letter of Credit Collateral Account and the Borrower shall execute any documents and agreements, including the Agent's standard form assignment of deposit accounts, that the Agent reasonably requests in connection therewith to establish the Letter of Credit Collateral Account and grant the Agent a first priority security interest in such account and the funds therein. The Borrower hereby pledges to the Agent and grants the Agent a security interest in the Letter of Credit Collateral

Account, whenever established, all funds held in the Letter of Credit Collateral Account from time to time, and all proceeds thereof as security for the payment of the Obligations.

(ii) Funds held in the Letter of Credit Collateral Account shall be held as cash collateral for obligations with respect to Letters of Credit and promptly applied by the Agent at the request of the Issuing Bank to any reimbursement or other obligations under Letters of Credit that exist or occur. To the extent that any surplus funds are held in the Letter of Credit Collateral Account above the Letter of Credit Exposure, during the existence of an Event of Default the Agent may (A) hold such surplus funds in the Letter of Credit Collateral Account as cash collateral for the Credit Obligations or (B) apply such surplus funds to any Credit Obligations in accordance with Section 6.9. If no Default exists, the Agent shall release to the Borrower at the Borrower's written request any funds held in the Letter of Credit Collateral Account above the amounts required by Section 2.2(d).

(iii) Funds held in the Letter of Credit Collateral Account shall be invested in money market funds of the Agent or in another investment if mutually agreed upon by the Borrower and the Agent, but the Agent shall have no other obligation to make any other investment of the funds therein. The Agent shall exercise reasonable care in the custody and preservation of any funds held in the Letter of Credit Collateral Account and shall be deemed to have exercised such care if such funds are accorded treatment substantially equivalent to that which the Agent accords its own property, it being understood that the Agent shall not have any responsibility for taking any necessary steps to preserve rights against any parties with respect to any such funds.

2.3 Swing Line Facility.

(a) Commitment. The Swing Line Lender agrees, on the terms and conditions set forth in the Swing Line Note, to make advances to the Borrower under the Swing Line Note. No Bank shall have any rights thereunder (but each Bank shall have the obligation to reimburse the Swing Line Lender in accordance with paragraph (b) below). The indebtedness of the Borrower to the Swing Line Lender resulting from the advances under the Swing Line Note made by the Swing Line Lender shall be evidenced by the Swing Line Note made by the Borrower.

(b) Reimbursements for Swing Line Loan Obligations. With respect to the Swing Line Loan and the interest, premium, fees, and other amounts owed by the Borrower to the Swing Line Lender in connection with the Swing Line Note, and in accordance with the terms of the Swing Line Note, the Borrower agrees to pay to the Swing Line Lender such amounts when due and payable to the Swing Line Lender under the Swing Line Note. If the Borrower does not pay to the Swing Line Lender any such amounts when due and payable to the Swing Line Lender under the Swing Line Note, in addition to any rights the Swing Line Lender may have under such Swing Line Note, the Swing Line Lender may upon written notice to the Agent request the satisfaction of such obligation by the making of a Revolving Loan Borrowing in the amount of any such amounts not paid when due and payable. Concurrently with such notice to the Agent, the Swing Line Lender will use reasonable efforts provide like notice to the Borrower, provided that failure to provide such notice to the Borrower at such time shall not invalidate the effectiveness of such request for a Revolving Loan Borrowing. Upon such request, the Borrower shall be deemed to have requested the making of a Revolving Loan Borrowing in the amount of such obligation and the transfer of the proceeds thereof to the Swing Line Lender. Such Revolving Loan Borrowing shall be a Prime Rate Borrowing. The Agent shall promptly forward notice of such Revolving Loan Borrowing to the Borrower and the Banks, and each Bank shall, in accordance with the procedures of Section 2.1(b), other than limitations on the size of Revolving Loan Borrowings, and notwithstanding the failure of any conditions precedent, make available such Bank's ratable share of such Revolving Loan Borrowing to the Agent, and the Agent shall promptly deliver the proceeds thereof to the Swing Line Lender for application to such amounts owed to the Swing Line Lender. The Borrower hereby unconditionally and irrevocably authorizes, empowers, and directs the Swing Line Lender to make such requests for Revolving Loan Borrowings on behalf of the Borrower, and the Banks to make Revolving Loan Advances to the Agent for the benefit of the Swing Line Lender in satisfaction of such obligations. The Agent and each Bank may record and otherwise treat the making of such Revolving Loan Borrowings as the making of a Revolving Loan Borrowing to the Borrower under this Agreement as if requested by the Borrower. Nothing herein is intended to release the Borrower's obligations under the Swing Line Note, but only to provide an additional method of payment therefor. The making of any Borrowing under this Section 2.3(b) shall not constitute a cure or waiver of any Default or Event of Default, other than the payment Default or Event of Default which is satisfied by the application of the amounts deemed advanced hereunder, caused by the Borrower's failure to comply with the provisions of this Agreement or the Swing Line Note.

2.4 Fees.

(a) Commitment Fees. The Borrower shall pay to the Agent for the ratable benefit of the Banks an unused commitment fee in an amount equal to the product of the Applicable Margin for unused commitment fees in effect from time to time multiplied by the average daily amount by which (i) the aggregate amount of the Revolving Loan Commitments exceeds (ii) the aggregate outstanding principal amount of the Revolving Loan plus the Letter of Credit Exposure. The unused commitment fee shall be due and payable in arrears on the last day of each calendar quarter and on the Revolving Loan Maturity Date.

(b) Fees for Letters of Credit. For each Letter of Credit issued by the Issuing Bank, the Borrower shall pay to the Agent for the ratable benefit of the Banks a letter of credit fee equal to the Applicable Margin for letter of credit fees per annum on the face amount of such Letter of Credit for the stated term of such Letter of Credit, with a minimum fee of $500. In addition, for each Letter of Credit issued by the Issuing Bank, the Borrower shall pay to the Agent for the benefit of the Issuing Bank a fronting fee of 0.125% per annum on the face amount of such Letter of Credit for the stated term of such Letter of Credit, with a minimum fee of $500. The Borrower shall pay such letter of credit fees for each Letter of Credit quarterly in arrears within ten days after when billed therefor by the Issuing Bank.

(c) Agent Fee Letter. The Borrower shall pay to the parties specified therein the fees and other amounts payable under the Agent Fee Letter.

2.5 Interest.

(a) Election of Interest Rate Basis. The Borrower may select the interest rate basis for the Revolving Loan in accordance with the terms of this Section 2.5(a):

(i) Under the Revolving Loan Borrowing Request provided to the Agent in connection with the making of each Revolving Loan Borrowing, the Borrower shall select the amount and the Type of the Tranches, and for each LIBOR Tranche selected, any permitted Interest Period for each such LIBOR Tranche, which will comprise such Revolving Loan Borrowing, provided that (A) at no time shall there be more than ten separate LIBOR Tranches outstanding and (B) each LIBOR Tranche must be in a principal amount equal to or greater than $1,000,000 and be made in multiples of $500,000, and the Prime Rate Tranche must be in a principal amount equal to or greater than$1,000,000 and be made in multiples of $100,000. Such interest rate elections must be provided to the Agent in writing or by telecopy not later than 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of any proposed Revolving Loan Borrowing comprised of a LIBOR Tranche or 11:00 a.m. (local time at the Applicable Lending Office of the Agent) on the same day of any proposed Revolving Loan Borrowing which is a Prime Rate Borrowing. The Agent shall promptly forward copies of such interest rate elections to the Banks. In the case of any Revolving Loan Borrowing comprised of a LIBOR Tranche, upon determination by the Agent, the Agent shall promptly notify the Borrower and the Banks of the applicable interest rate for such Tranche.

(ii) With respect to any Tranche, the Borrower may continue or convert any portion of any LIBOR Tranche or the Prime Rate Tranche to form new LIBOR Tranches or increase or decrease the amount of the Prime Rate Tranche in accordance with this paragraph. Each such continuation or conversion shall be deemed to create a new LIBOR Tranche or increase or decrease the amount of the Prime Rate Tranche, as applicable, for all purposes of this Agreement. Each such continuation or conversion shall be made pursuant to a Continuation/Conversion Request given by the Borrower to the Agent in writing or by telecopy not later than 1:00 p.m. (local time at the Applicable Lending Office of the Agent) on the third Business Day before the date of the proposed continuation or conversion. Each Continuation/Conversion Request shall be fully completed and shall specify the information required therein, and shall be irrevocable and binding on the Borrower. The Agent shall promptly forward notice of the continuation or conversion to the Banks. In the case of any continuation or conversion into LIBOR Tranches, upon determination by the Agent, the Agent shall notify the Borrower and the Banks of the applicable interest rate. Continuations and conversions of LIBOR Tranches shall be made in integral multiples of $500,000, and continuations and conversions of the Prime Rate Tranche shall be made in integral multiples of $100,000. No continuation or conversion shall be permitted if such continuation or conversion would cause the aggregate outstanding principal amount of any LIBOR Tranche which would remain outstanding to be less than $1,000,000, or the aggregate outstanding principal amount of the Prime Rate Tranche which would remain outstanding to be less than $1,000,000. At no time shall there be more than ten separate LIBOR Tranches outstanding. Any conversion of an existing LIBOR Tranche is subject to Section 2.5. Subject to the satisfaction of all applicable conditions precedent, the Agent and the Banks shall before close of business on the date requested by the Borrower for the continuation or conversion, make such continuation or conversion.

(iii) At the end of the Interest Period for any LIBOR Tranche if the Borrower has not continued or converted such LIBOR Tranche into new Tranches as provided for in paragraph (ii) above, the Borrower shall be deemed to have continued such LIBOR Tranche as a new LIBOR Tranche with an Interest Period of one month. All of the Prime Rate Tranche shall continue as the Prime Rate Tranche unless the Borrower converts such Prime Rate Tranche as provided for in paragraph (ii) above.

(b) LIBOR Tranches. Each LIBOR Tranche shall bear interest during its Interest Period at a per annum interest rate equal to the sum of the LIBOR for such Tranche plus the Applicable Margin for LIBOR Tranches in effect from time to time. The Borrower shall pay to the Agent for the ratable benefit of the Banks all accrued but unpaid interest on each LIBOR Tranche on the last day of the applicable Interest Period for such LIBOR Tranche (and with respect to LIBOR Tranches with Interest Periods of greater than three months, on the date which is three months after the first date of the Interest Period for such LIBOR Tranche), when required upon prepayment as specified elsewhere in this Agreement, on any date when such LIBOR Tranche is prepaid in full, and on the Revolving Loan Maturity Date.

(c) Prime Rate Tranche. The Prime Rate Tranche shall bear interest at a per annum interest rate equal to the Base Rate in effect from time to time plus the Applicable Margin for the Prime Rate Tranche in effect from time to time. The Borrower shall pay to the Agent for the ratable benefit of the Banks all accrued but unpaid interest on the aggregate outstanding principal amount of the Prime Rate Tranche on the last day of each calendar quarter, when required upon prepayment as specified elsewhere in this Agreement, on any date the Prime Rate Tranche is prepaid in full, and on the Revolving Loan Maturity Date.

(d) Usury Protection.

(i) If, with respect to any Bank and the Borrower, the effective rate of interest contracted for by such Bank with the Borrower under the Credit Documents, including the stated rates of interest contracted for hereunder and any other amounts contracted for under the Credit Documents which are deemed to be interest, at any time exceeds the Highest Lawful Rate, then the outstanding principal amount of the loans made by such Bank to the Borrower hereunder shall bear interest at a rate which would make the effective rate of interest on the loans made by such Bank to the Borrower under the Credit Documents equal the Highest Lawful Rate until the difference between the amounts which would have been due by the Borrower to such Bank at the stated rates and the amounts which were due by the Borrower to such Bank at the Highest Lawful Rate (the "Lost Interest") has been recaptured by such Bank. If, when the loans made hereunder are repaid in full, the Lost Interest has not been fully recaptured by such Bank pursuant to the preceding paragraph, then, to the extent permitted by law, the interest rates charged by such Bank to the Borrower hereunder shall be retroactively increased such that the effective rate of interest on the loans made by such Bank to the Borrower under the Credit Documents was at the Highest Lawful Rate since the effectiveness of this Agreement to the extent necessary to recapture the Lost Interest not recaptured pursuant to the preceding sentence and, to the extent allowed by law, the Borrower shall pay to such Bank the amount of the Lost Interest remaining to be recaptured by such Bank.

(ii) In calculating all sums paid or agreed to be paid to any Bank by the Borrower for the use, forbearance, or detention of money under the Credit Documents, such amounts shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread in equal parts throughout the term of the Credit Documents.

(iii) NOTWITHSTANDING THE FOREGOING OR ANY OTHER TERM IN THIS AGREEMENT AND THE CREDIT DOCUMENTS TO THE CONTRARY, it is the intention of each Bank and the Borrower to conform strictly to any applicable usury laws. Accordingly, if any Bank contracts for, charges, or receives any consideration from the Borrower which constitutes interest in excess of the Highest Lawful Rate, then any such excess shall be canceled automatically and, if previously paid, shall at such Bank's option be applied to the outstanding amount of the loans made hereunder by such Bank to the Borrower or be refunded to the Borrower.

2.6 Breakage Costs. If (i) any payment of principal on or any conversion of any LIBOR Tranche is made on any date other than the last day of the Interest Period for such LIBOR Tranche, whether as a result of any voluntary or mandatory prepayment (other than a prepayment upon the occurrence of any event subject to Section 2.8 or 2.9), any acceleration of maturity, or any other cause, (ii) any payment of principal on any LIBOR Tranche is not made when due, or (iii) any LIBOR Tranche is not borrowed, converted, or prepaid in accordance with the respective notice thereof provided by the Borrower to the Agent, whether as a result of any failure to meet any applicable conditions precedent for borrowing, conversion, or prepayment, the permitted cancellation of any request for borrowing, conversion, or prepayment, the failure of the Borrower to provide the respective notice of borrowing, conversion, or prepayment, or any other cause not specified above which is created by the Borrower, then the Borrower shall pay to each Bank upon demand any amounts required to compensate such Bank for any losses, costs, or expenses, including lost profits and administrative expenses, which are reasonably allocable to such action, including losses, costs, and expenses related to the liquidation or redeployment of funds acquired or designated by such Bank to fund or maintain such Bank's ratable share of such LIBOR Tranche or related to the reacquisition or redesignation of funds by such Bank to fund or maintain such Bank's ratable share of such LIBOR Tranche following any liquidation or redeployment of such funds caused by such action. Such Bank need not prove matched funding of any particular funds, and a certificate as to the amount of such loss, cost, or expense detailing the calculation thereof and certifying that such Bank customarily charges such amounts to its other customers in similar circumstances submitted by such Bank to the Borrower shall be conclusive and binding for all purposes, absent manifest error.

2.7 Increased Costs.

(a) Cost of Funds. If due to either (i) any introduction of, change in, or change in the interpretation of any law or regulation, in each case, after the date of this Agreement or (ii) compliance with any guideline or request from any central bank or other governmental authority having appropriate jurisdiction (whether or not having the force of law) given after the date of this Agreement, there shall be any increase in the costs of any Bank attributable to (x) committing to make any Revolving Loan Advance or obtaining funds for the making, funding, or maintaining of such Bank's ratable share of any LIBOR Tranche in the relevant interbank market or (y) committing to make Letters of Credit or issuing, funding, or maintaining Letters of Credit (including any increase in any applicable reserve requirement specified by the Federal Reserve Board, including those for emergency, marginal, supplemental, or other reserves), then the Borrower shall pay to such Bank upon demand any amounts required to compensate such Bank for such increased costs, such amounts being due and payable upon demand by such Bank. A certificate as to the cause and amount of such increased cost detailing the calculation of such cost and certifying that such Bank customarily charges such amounts to its other customers in similar circumstances submitted by such Bank to the Borrower shall be conclusive and binding for all purposes, absent manifest error. No Bank may make any claim for compensation under this Section 2.7(a) for increased costs incurred before 90 days prior to the delivery of any such certificate.

(b) Capital Adequacy. If, due to either (i) any introduction of, change in, or change in the interpretation of any law or regulation, in each case, after the date of this Agreement or (ii) compliance with any guideline or request from any central bank or other governmental authority having appropriate jurisdiction (whether or not having the force of law) given after the date of this Agreement, there shall be any increase in the capital requirements of any Bank or its parent or holding company attributable to (x) committing to make Revolving Loan Advances or making, funding, or maintaining Revolving Loan Advances or (y) committing to make Letters of Credit or issuing, funding, or maintaining Letters of Credit, as such capital requirements are allocated by such Bank, then the Borrower shall pay to such Bank upon demand any amounts required to compensate such Bank or its parent or holding company for such increase in costs (including an amount equal to any reduction in the rate of return on assets or equity of such Bank or its parent or holding company), such amounts being due and payable upon demand by such Bank. A certificate as to the cause and amounts detailing the calculation of such amounts and certifying that such Bank customarily charges such amounts to its other customers in similar circumstances submitted by such Bank to the Borrower shall be conclusive and binding for all purposes, absent manifest error. No Bank may make any claim for compensation under this Section 2.7(b) for increased costs incurred before 90 days prior to the delivery of any such certificate.

2.8 Illegality. Notwithstanding any other provision in this Agreement, if it becomes unlawful for any Bank to obtain deposits or other funds for making or funding such Bank's ratable share of any LIBOR Tranche in the relevant interbank market, such Bank shall so notify the Borrower and the Agent and such Bank's commitment to create LIBOR Tranches shall be suspended until such condition has passed, all LIBOR Tranches applicable to such Bank shall be converted to the Prime Rate Tranche as of the end of each applicable Interest Period or earlier if necessary, and all subsequent requests for LIBOR Tranches shall be deemed to be requests for Prime Rate Borrowings or continuations and conversions of the Prime Rate Tranche, as applicable, with respect to such Bank.

2.9 Market Failure. Notwithstanding any other provision in this Agreement, if the Agent determines that: (a) quotations of interest rates for the relevant deposits referred to in the definition of "LIBOR" are not being provided in the relevant amounts, or maturities for purposes of determining the rate of interest referred to in the definition of "LIBOR" or (b) the relevant rates of interest referred to in the definition of "LIBOR" which are used as the basis to determine the rate of interest for LIBOR Tranches will not adequately cover the cost to any Bank of making or maintaining such Bank's ratable share of any LIBOR Tranche, then if the Agent so notifies the Borrower, the Agent and the Banks' commitment to create LIBOR Tranches shall be suspended until such condition has passed, all LIBOR Tranches shall be converted to the Prime Rate Tranche as of the end of each applicable Interest Period or earlier if necessary, and all subsequent requests for LIBOR Tranches shall be deemed to be requests for Prime Rate Borrowings or continuations and conversions of the Prime Rate Tranche, as applicable, with respect to such Bank.

2.10 Payment Procedures and Computations.

(a) Payment Procedures. Time is of the essence in this Agreement and the Credit Documents. All payment hereunder shall be made in Dollars. The Borrower shall make each payment under this Agreement and under the Revolving Loan Notes not later than 12:00 noon (local time at the Applicable Lending Office of the Agent) on the day when due to the Agent at the Agent's Applicable Lending Office in immediately available funds. All payments by the Borrower hereunder shall be made without any offset, abatement, withholding, deduction, counterclaim, or reduction. Upon receipt of payment from the Borrower of any principal, interest, or fees due to the Banks, the Agent shall promptly after receipt thereof distribute to the Banks their ratable share of such payments for the account of their respective Applicable Lending Offices. If and to the extent that the Agent shall not have so distributed to any Bank its ratable share of such payments, the Agent agrees that it shall pay interest on such amount for each day after the day when such amount is made available to the Agent by the Borrower until the date such amount is paid to such Bank by the Agent at the Federal Funds Rate in effect from time to time, provided that if such amount is not paid by the Agent by the end of the third day after the Borrower makes such amount available to the Agent, the interest rates specified above shall be increased by a per annum amount equal to 2.00% on the fourth day and shall remain at such increased rate thereafter. Interest on such amount shall be due and payable by the Agent upon demand by such Bank. Upon receipt of other amounts due solely to the Agent, the

Issuing Bank, the Swing Line Lender, or a specific Bank, the Agent shall distribute such amounts to the appropriate party to be applied in accordance with the terms of this Agreement.

(b) Agent Reliance. Unless the Agent shall have received written notice from the Borrower prior to any date on which any payment is due to the Banks that the Borrower shall not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such date an amount equal to the amount then due such Bank. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank, together with interest thereon from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at an interest rate equal to, the Federal Funds Rate in effect from time to time, provided that with respect to such Bank, if such amount is not repaid by such Bank by the end of the second day after the date of the Agent's demand, the interest rates specified above shall be increased by a per annum amount equal to 2.00% on the third day after the date of the Agent's demand and shall remain at such increased rate thereafter.

(c) Sharing of Payments. Each Bank agrees that if it should receive any payment (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker's lien, by counterclaim or cross action, by the enforcement of any right under the Credit Documents, or otherwise) in respect of any obligation of the Borrower to pay principal, interest, fees, or any other obligation incurred under the Credit Documents in a proportion greater than the total amount of such principal, interest, fees, or other obligation then owed and due by the Borrower to such Bank bears to the total amount of principal, interest, fees, or other obligation then owed and due by the Borrower to all of the Banks immediately prior to such receipt, then such Bank receiving such excess payment shall purchase for cash without recourse from the other Banks an interest in the obligations of the Borrower to such Banks in such amount as shall result in a participation by all of the Banks, in proportion with the Banks' respective pro rata shares, in the aggregate unpaid amount of principal, interest, fees, or any such other obligation, as the case may be, owed by the Borrower to all of the Banks; provided that if all or any portion of such excess payment is thereafter recovered from such Bank, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, in proportion with the Banks' respective pro rata shares, but without interest.

(d) Authority to Charge Accounts. The Agent, if and to the extent payment owed to the Agent or any Bank is not made when due, may charge from time to time against any account of the Borrower with the Agent any amount so due. The Agent agrees promptly to notify the Borrower after any such charge and application made by the Agent provided that the failure to give such notice shall not affect the validity of such charge and application.

(e) Interest and Fees. Unless expressly provided for in this Agreement, (i) all computations of interest based on the Prime Rate (including the Base Rate, when applicable) shall be made on the basis of a 365/366 day year, as the case may be, (ii) all computations of interest based on the Federal Funds Rate (including the Base Rate, when applicable) shall be made on the basis of a 360 day year, (iii) all computations of interest based upon the LIBOR shall be made on the basis of a 360 day year, and (iv) all computations of fees shall be made on the basis of a 360 day year, in each case for the actual number of days (including the first day, but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Agent of an interest rate or fee shall be conclusive and binding for all purposes, absent manifest error.

(f) Payment Dates. Whenever any payment shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be. If the time for payment for an amount payable is not specified in this Agreement or in any other Credit Document, the payment shall be due and payable on demand by the Agent or the applicable Bank.

2.11 Taxes.

(a) No Deduction for Certain Taxes. Any and all payments by the Borrower shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, other than taxes imposed on the income and franchise taxes imposed on the Agent, any Bank, or the Applicable Lending Office thereof by any jurisdiction in which any such entity is a citizen or resident or any political subdivision of such jurisdiction (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable to the Agent, any Bank, or the Applicable Lending Office thereof, (i) the sum payable shall be increased as may be necessary so that, after making all required deductions (including deductions applicable to additional sums payable under this Section 2.11), such Person receives an amount equal to the sum it would have received had no such deductions been made; (ii) the Borrower shall make such deductions; and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) Other Taxes. The Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made or from the execution, delivery, or registration of, or otherwise with respect to, this Agreement or the other Credit Documents (other than those which become due as a result of any Bank joining this Agreement as a result of any Assignment and Acceptance, which shall be paid by the Bank which becomes a Bank hereunder as a result of such Assignment and Acceptance).

(c) Foreign Bank Withholding Exemption. Each Bank and Issuing Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it shall deliver to the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor applicable form, as the case may be, certifying in each case that such Bank is entitled to receive payments under this Agreement and the Revolving Loan Notes payable to it, without deduction or withholding of any United States federal income taxes, (ii) if applicable, an Internal Revenue Service Form W-8 or W-9 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding tax, and (iii) any other governmental forms which are necessary or required under an applicable tax treaty or otherwise by law to reduce or eliminate any withholding tax, which have been reasonably requested by the Borrower. Each Bank which delivers to the Borrower and the Agent a Form 1001 or 4224 and Form W-8 or W-9 pursuant to the next preceding sentence further undertakes to deliver to the Borrower and the Agent two further copies of the said letter and Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms, or other manner of certification, as the case may be, on or before the date that any such letter or form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent letter and form previously delivered by it to the Borrower and the Agent, and such extensions or renewals thereof as may reasonably be requested by the Borrower and the Agent certifying in the case of a Form 1001 or 4224 that such Bank is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. If an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any delivery required by the preceding sentence would otherwise be required which renders all such forms inapplicable or which would prevent any Bank from duly completing and delivering any such letter or form with respect to it and such Bank advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax, and in the case of a Form W-8 or W-9, establishing an exemption from United States backup withholding tax, such Bank shall not be required to deliver such letter or forms. The Borrower shall withhold tax at the rate and in the manner required by the laws of the United States with respect to payments made to a Bank failing to provide the requisite Internal Revenue Service forms in a timely manner. Each Bank which fails to provide to the Borrower in a timely manner such forms shall reimburse the Borrower upon demand for any penalties paid by the Borrower as a result of any failure of the Borrower to withhold the required amounts that are caused by such Bank's failure to provide the required forms in a timely manner.

2.12 Change of Lending Office.

(a) Each Bank agrees that if it makes any demand for payment under Section 2.7 or 2.11(a), or if any adoption or change of the type described in Section 2.8 shall occur with respect to it, it will use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions and so long as such efforts would not be disadvantageous to it, as determined in its sole discretion) to designate a different lending office if the making of such a designation would reduce or obviate the need for the Borrower to make payments under Section 2.7 or 2.11(a), or would eliminate or reduce the effect of any adoption or change described in Section 2.8.

(b) If any Bank (including any participant Bank under Section 8.5) shall assert that any adoption or change of the type described in Section 2.8 hereof has occurred with respect to it, or if any Bank (including any participant Bank under Section 8.5) requests compensation under Section 2.7, or if the Borrower is required to pay any additional amount to any Bank or any authority for the account of any Bank pursuant to Section 2.11, then the Borrower may, at its expense and effort, upon notice to such Bank and the Agent, require such Bank to, and such Bank promptly shall, assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 8.5), all its interests, rights, and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Bank, if a Bank accepts such assignment); provided that (i) if such assignee is not a Bank or an Affiliate thereof, the Borrower shall have received the prior written consent of the Agent and the Issuing Bank which consents shall not unreasonably be withheld or delayed, (ii) such Bank shall have received payment of an amount equal to the aggregate outstanding principal of such Bank's Revolving Loan Advances and its participations in Letters of Credit, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (at least to the extent of such outstanding principal) and the Borrower (in the case of all other amounts), and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.7 or payment required to be made pursuant to Section 2.11, such assignment will result in a reduction in such compensation or payments compared to the compensation or payments payable to the assigning Bank. A Bank shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Bank or otherwise, the circumstances entitling the Borrower to require such assignment and delegation no longer exist or cease to apply.

ARTICLE 3. CONDITIONS PRECEDENT.

3.1 Conditions Precedent to Initial Extension of Credit. The obligation of each Bank to make the initial extension of credit under this Agreement, including the making of any Revolving Loan Advances and the issuance of any Letters of Credit, and the obligation of the Swing Line Lender to make any advances under the Swing Line Loan shall be subject to the following conditions precedent:

(a) Documents. The Borrower shall have delivered or shall have caused to be delivered the documents and other items listed on Exhibit F, together with any other documents requested by the Agent to document the agreements and intent of the Credit Documents, each in form and with substance satisfactory to the Agent;

(b) Initial Public Offering; Mergers. The Borrower shall have completed on or before February 15, 1998, an initial public offering with proceeds to the Borrower, net of underwriter's fees and transaction costs, of not less than $69,000,000, and the Agent shall have received evidence satisfactory to the Agent that the mergers and other transactions described in the Registration Statement shall have been completed to the satisfaction of the Agent in conformity with laws and on conditions and terms satisfactory to the Agent; and

(c) Material Adverse Change. No Material Adverse Change shall have occurred since September 30, 1997 (as determined for the Borrower and all of its post initial public offering

Subsidiaries as reflected in the proforma combined financial statements contained in the Registration Statement).

3.2 Conditions Precedent to Each Extension of Credit. The obligation of each Bank to make any extension of credit under this Agreement, including the making of any Revolving Loan Advances and the issuance, increase, or extension of any Letters of Credit, and the obligation of the Swing Line Lender to make any advances under the Swing Line Loan shall be subject to the further conditions precedent that on the date of such extension of credit:

(a) Representations and Warranties. As of the date of the making of any extension of credit hereunder, the representations and warranties contained in each Credit Document shall be true and correct in all material respects as of such date (and the Borrower's request for the making of any extension of credit hereunder shall be deemed to be a restatement, representation, and additional warranty of the representations and warranties contained in each Credit Document as of such date); and

(b) Default. As of the date of the making of any extension of credit hereunder, there shall exist no Default or Event of Default, and the making of the extension of credit would not cause a Default or Event of Default.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES. The Borrower represents and warrants to the Agent and each Bank, and with each request for any extension of credit hereunder, including the making of any Revolving Loan Advances, and the issuance, increase, or extension of any Letters of Credit, again represents and warrants to the Agent and each Bank, as follows:

4.1 Organization. As of the date of this Agreement, each Restricted Entity (a) is duly organized, validly existing, and in good standing under the laws of such Person's respective jurisdiction of organization and (b) is duly licensed, qualified to do business, and in good standing in each jurisdiction in which such Person is organized, owns property, or conducts operations to the extent that any failure to be so licensed, qualified, or in good standing in accordance with this clause (b) could reasonably be expected to cause a Material Adverse Change.

4.2 Authorization. The execution, delivery, and performance by each Credit Party of the Credit Documents to which such Credit Party is a party and the consummation of the transactions contemplated thereby (a) do not contravene the organizational documents of such Credit Party, (b) have been duly authorized by all necessary corporate action of each Credit Party, and (c) are within each Credit Party's corporate powers.

4.3 Enforceability. Each Credit Document to which any Credit Party is a party has been duly executed and delivered by each Credit Party which is a party to such Credit Document and constitutes the legal, valid, and binding obligation of each such Credit Party, enforceable against each such Credit Party in accordance with such Credit Document's terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws at the time in effect affecting the rights of creditors generally and subject to the availability of equitable remedies.

4.4 Absence of Conflicts and Approvals. The execution, delivery, and performance by each Credit Party of the Credit Documents to which such Credit Party is a party and the consummation of the transactions contemplated thereby, (a) do not result in any violation or breach of any provisions of, or constitute a default under, any note, indenture, credit agreement, security agreement, credit support agreement, or other similar agreement to which such Credit Party is a party or any other material contract or agreement to which such Credit Party is a party, (b) do not violate any law or regulation binding on or affecting such Credit Party, (c) do not require any authorization, approval, or other action by, or any notice to or filing with, any governmental authority, and (d) do not result in or require the creation or imposition of any Lien prohibited by this Agreement.

4.5 Investment Companies. No Restricted Entity or Affiliate thereof is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

4.6 Public Utilities. No Restricted Entity or Affiliate thereof is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended. No Restricted Entity or Affiliate thereof is a regulated public utility.

4.7 Financial Condition.

(a) The Borrower has delivered to the Agent the Registration Statement, including therein the proforma combined balance sheet of the Borrower following the public offering of securities contemplated therein and proforma combined statement of income for the periods shown therein, which accurately and completely, in all material respects, present fairly the financial condition of Borrower as of such date.

(b) As of the date of the Registration Statement, there were no material contingent obligations, liabilities for taxes, unusual forward or long-term commitments, or unrealized or anticipated losses of the Borrower or any of the Borrower's Subsidiaries, except as disclosed in the Registration Statement and adequate reserves for such items have been made in accordance with generally accepted accounting principles. No Material Adverse Change has occurred since the date of the Registration Statement. No Default exists.

4.8 Condition of Assets. Each Restricted Entity has good and indefeasible title to substantially all of its owned property and valid leasehold rights in all of its leased property, as reflected in the financial statements most recently provided to the Agent free and clear of all Liens except Permitted Liens. Each Restricted Entity possesses and has properly approved, recorded, and filed, where applicable, all permits, licenses, patents, patent rights or licenses, trademarks, trademark rights, trade names rights, and copyrights which are useful in the conduct of its business and which the failure to possess could reasonably be expected to cause a Material Adverse Change. The material properties used in the operations of each Restricted Entity are in good repair, working order, and condition, normal wear and tear excepted. The properties of each Restricted Entity have not been adversely affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of property or cancellation of contracts, permits, or concessions by a governmental authority, riot, activities of armed forces, or acts of God or of any public enemy in any manner which (after giving effect to any insurance proceeds) could reasonably be expected to cause a Material Adverse Change.

4.9 Litigation. There are no actions, suits, or proceedings pending or, to the knowledge of the Borrower, threatened against any Restricted Entity at law, in equity, or in admiralty, or by or before any governmental department, commission, board, bureau, agency, instrumentality, domestic or foreign, or any arbitrator which could reasonably be expected to cause a Material Adverse Change.

4.10 Subsidiaries. As of the date of this Agreement, the Borrower has no Subsidiaries except as disclosed in Schedule II. The Borrower has no Subsidiaries which have not been disclosed in writing to the Agent.

4.11 Laws and Regulations. Each Restricted Entity is in compliance with all federal, state, and local laws and regulations which are applicable to the operations and property of such Person where the failure to comply with the same could reasonably be expected to cause a Material Adverse Change.

4.12 Environmental Compliance. Each Restricted Entity has been and is in compliance with all Environmental Laws and has obtained and is in compliance with all related permits necessary for the ownership and operation of any such Person's properties, in each case, where the failure to be in compliance with the same could reasonably be expected to cause a Material Adverse Change. Each Restricted Entity has not received notice of and has not been investigated for any violation or alleged violation of any Environmental Law in connection with any such Person's presently or previously owned properties which currently threaten action or suggest liabilities which could reasonably be expected to cause a Material Adverse Change. Each Restricted Entity does not and has not created, handled, transported, used, or disposed of any Hazardous Materials on or about any such Person's properties (nor has any such Person's properties been used for those purposes); has never been responsible for the release of any Hazardous Materials into the environment in connection with any such Person's operations and has not contaminated any properties with Hazardous Materials; and does not and has not owned any properties contaminated by any Hazardous Materials, in each case in any manner which could reasonably be expected to cause a Material Adverse Change.

4.13 ERISA. Each Restricted Entity and each of their respective Commonly Controlled

Entities are in compliance with all provisions of ERISA to the extent that the failure to be in compliance could reasonably be expected to cause a Material Adverse Change. No Restricted Entity nor any of their respective Commonly Controlled Entities participates in or during the past five years has participated in any employee pension benefit plan covered by Title IV of ERISA or any multiemployer plan under Section 4001(a)(3) of ERISA. With respect to the Plans of the Restricted Entities, no Material Reportable Event or Prohibited Transaction has occurred and exists that could reasonably be expected to cause a Material Adverse Change.

4.14 Taxes. Each Restricted Entity has filed all United States federal, state, and local income tax returns and all other domestic and foreign tax returns which are required to be filed by such Person and has paid, or provided for the payment before the same became delinquent of, all taxes due pursuant to such returns or pursuant to any assessment received by such Person except for tax payments being contested in good faith, for which adequate reserves have been established and reported in accordance with general accepted accounting principals, and which could not reasonably be expected to cause a Material Adverse Change. The charges, accruals, and reserves on the books of the Restricted Entities in respect of taxes are adequate in accordance with generally accepted accounting principles.

4.15 True and Complete Disclosure. All factual information furnished by or on behalf of any Credit Party in writing to the Agent or any Bank in connection with the Credit Documents and the transactions contemplated thereby is true and accurate in all material respects on the date as of which such information was dated or certified and does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained therein not misleading. All projections, estimates, and pro forma financial information furnished by any Credit Party were prepared on the basis of assumptions, data, information, tests, or conditions believed to be reasonable at the time such projections, estimates, and pro forma financial information were furnished.

ARTICLE 5. COVENANTS. Until the Agent and the Banks receive irrevocable payment of the Credit Obligations and have terminated this Agreement and each other Credit Document, the Borrower shall comply with and cause compliance with the following covenants:

5.1 Organization. The Borrower shall cause each Restricted Entity to (a) maintain itself as an entity duly organized, validly existing, and in good standing under the laws of such Person's respective jurisdiction of organization and (b) be duly licensed, qualified to do business, and in good standing in each jurisdiction in which such Person is organized, owns property, or conducts operations and which requires such licensing or qualification where failure to be so licensed, qualified, or in good standing as required by this clause (b) could reasonably be expected to cause a Material Adverse Change; provided, however, that nothing in this Section 5.1 shall be interpreted to be violated as a result of a transaction permitted by Section 5.9.

5.2 Reporting. The Borrower shall furnish to the Agent all of the following:

(a) Annual Reports. As soon as available and in any event not later than 90 days after the end of each fiscal year of the Borrower, (i) a copy of the annual audit report for such fiscal year for the Borrower, including therein the consolidated balance sheets of the Borrower as of the end of such fiscal year and the consolidated statements of income, stockholders' equity, and cash flows for the Borrower for such fiscal year, setting forth the consolidated financial position and results of the Borrower for such fiscal year and certified, without any qualification or limit of the scope of the examination of matters relevant to the financial statements, by a nationally recognized certified public accounting firm, (ii) a completed Compliance Certificate duly certified by a Responsible Officer of the Borrower, and (iii) a completed Contract Status Report duly certified by a Responsible Officer of the Borrower;

(b) Quarterly Reports. As soon as available and in any event not later than 45 days after the end of each of the first three fiscal quarters of the Borrower of each year, and in each case in form and substance acceptable to the Agent, (i) a copy of the internally prepared consolidated financial statements of the Borrower for such fiscal quarter and for the fiscal year to date period ending on the last day of such fiscal quarter, including therein the consolidated balance sheets of the Borrower as of the end of such fiscal quarter and the consolidated statements of income, and cash flows for such fiscal quarter and for such fiscal year to date period, setting forth the consolidated financial position and results of the Borrower for such fiscal quarter and fiscal year to date period, all in reasonable detail and duly certified by a Responsible Officer of the Borrower as having been prepared in accordance with generally accepted accounting principles, including those applicable to interim financial reports which permit normal year end adjustments and do not require complete financial notes, (ii) for each such fiscal quarter ending on or after March 31, 1998, a completed Compliance Certificate duly certified by a Responsible Officer of the Borrower, and (iii) for each such fiscal quarter ending on or after March 31, 1998, a completed Contract Status Report duly certified by a Responsible Officer of the Borrower;

(c) Semi-annual Subsidiary Update. As soon as available and in any event not later than 45 days after the end of the second fiscal quarter of the Borrower of each year and 90 days after the end of the fourth fiscal quarter of the Borrower of each year, an update of the information included in Schedule II, including all Subsidiaries acquired by the Borrower since the previous update of such scheduled information.

(d) Acquisition Information. As soon as available prior to the closing of any Acquisition requiring approval of the Majority Banks, and on or prior to the closing of any Acquisition not requiring such approval, a completed Acquisition Certificate duly certified by a Responsible Officer of the Borrower, which the Agent shall forward to the Banks for any Acquisition requiring approval of the Majority Banks (and prior to the consummation of the Acquisition, the Borrower shall, upon request by the Agent, make available to the Agent at the Borrower's offices in Houston, Texas, the acquisition documents regarding the acquired assets, including schedules reflecting litigation liabilities, environmental liabilities, and other assumed liabilities, and any other information regarding the acquired assets as the Agent may reasonably request);

(e) SEC Filings. As soon as available and in any event not later than thirty days after the filing or delivery thereof, copies of all financial statements, reports, and proxy statements which the Borrower shall have sent to its stockholders generally and copies of all regular and periodic reports, if any, which any Restricted Entity shall have filed with the Securities and Exchange Commission;

(f) Defaults. Promptly, but in any event within five Business Days after the discovery thereof, a notice of any facts known to a Responsible Officer of any Restricted Entity which constitute a Default, together with a statement of a Responsible Officer of the Borrower setting forth the details of such facts and the actions which the Borrower has taken and proposes to take with respect thereto (and the Agent shall, promptly upon receipt from the Borrower of a notice pursuant to this Section 5.2(e), forward a copy of such notice to each Bank);

(g) Litigation. Promptly, but in any event within 10 Business Days after the commencement thereof, notice of all actions, suits, and proceedings before any court or governmental department, commission, board, bureau, agency, or instrumentality, domestic or foreign, affecting any Restricted Entity which, if determined adversely, could reasonably be expected to cause a Material Adverse Change;

(h) Material Agreement Default. Promptly, but in any event within 10 Business Days after a Responsible Officer obtains knowledge thereof, notice of any breach by any Restricted Entity of any contract or agreement which breach could reasonably be expected to cause a Material Adverse Change;

(i) Material Changes. Prompt written notice of any other condition or event of which a Responsible Officer of any Restricted Entity has knowledge, which condition or event has resulted or could reasonably be expected to cause a Material Adverse Change; and

(j) Other Information. Such other information respecting the business operations or property of any Restricted Entity, financial or otherwise, as the Agent or the Majority Banks may from time to time reasonably request.

5.3 Inspection. The Borrower shall cause each Restricted Entity to permit the Agent and the Banks to visit and inspect any of the properties of such Restricted Entity, to examine all of such Person's books of account, records, reports, and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances, and accounts with their respective officers, employees, and independent public accountants all at such reasonable times and as often as may be reasonably requested, provided that the Borrower is given at least one Business Day advance notice thereof and reasonable opportunity to be present when independent public accountants or other third parties are contacted, and provided further that so long as no Default or Event of Default exists, the Agent and the Banks shall not exercise the foregoing inspection right more often than once in any calendar year.

5.4 Use of Proceeds. The proceeds of the Revolving Loan Borrowings shall be used by the Borrower for Acquisitions, working capital needs, Capital Expenditures, and for other lawful corporate purposes. The Borrower shall not, directly or indirectly, use any part of such proceeds for any purpose which violates, or is inconsistent with, Regulations G, T, U, or X of the Board of Governors of the Federal Reserve System.

5.5 Financial Covenants. The Agent shall determine compliance with the following financial covenants based upon the applicable Schedule of the most recent Compliance Certificate delivered to the Agent pursuant to Section 5.2(a) or 5.2(b).

(a) Net Worth. The Borrower shall not permit the consolidated Net Worth of the Borrower as of the last day of each fiscal quarter to be less than the sum of (i) 90% of the consolidated Net Worth of the Borrower on the date of the closing of the initial public offering of the Borrower as reflected in the opening balance sheet of the Borrower, plus (ii) 90% of the cumulative quarterly consolidated net income of the Borrower since the initial public offering of the Borrower for each fiscal quarter ending after the date of the initial public offering of the Borrower during which the Borrower has positive consolidated net earnings; plus (iii) 100% of the net proceeds received by Borrower from any sale or issuance of any equity securities of, or any other additions to capital by, the Borrower or its Subsidiaries since the date of the initial public offering of the Borrower; plus (iv) to the extent that the required consolidated Net Worth under this Section 5.5(a) was not increased in clauses (i) through (iii) above as a result of any Acquisition, 100% of any increase in the consolidated Net Worth of the Borrower resulting from any Acquisition. Compliance with this paragraph (a) shall be determined based upon Schedule B of the applicable Compliance Certificate.

(b) Maximum Debt to EBITDA Ratio. As of the last day of each fiscal quarter of the Borrower, the Borrower shall not permit the ratio of (i) the consolidated Debt of the Borrower as of end of such fiscal quarter to (ii) the consolidated EBITDA of the Borrower for the preceding four fiscal quarters then ended, to be greater than 2.50 to 1.00. Compliance with this paragraph (b) shall be determined based upon Schedule B or D, at the Borrower's option, of the applicable Compliance Certificate.

(c) Minimum Fixed Charge Coverage Ratio. As of the last day of each fiscal quarter, the Borrower shall not permit the ratio of (i) the consolidated EBITDA of the Borrower for the preceding four fiscal quarters then ended less consolidated Cash Taxes paid by the Borrower during such period to (ii) (A) the consolidated Interest Expense of the Borrower for the preceding four fiscal quarters then ended plus (B) the aggregate amount of Restricted Payments declared or paid by the Borrower during such period plus (C) the consolidated Capital Expenditures (other than

Capital Expenditures that are deemed to occur solely because of the making of an Acquisition) of the Borrower during such period plus (D) the consolidated current maturities of the Borrower (including Capital Leases) plus (E) the greater of (1) 20% of the outstanding amount of the Revolving Loan as of the last day of such fiscal quarter or (2) $4,000,000, to be less than 1.75 to 1.00. Compliance with this paragraph (c) shall be determined based upon Schedule B or D, at the Borrower's option, of the applicable Compliance Certificate.

(d) Capital Expenditures. The Borrower shall not permit the consolidated Capital Expenditures (other than Capital Expenditures that are deemed to occur because of the making of an Acquisition) of the Borrower during any four quarter period to exceed an amount equal to 6% of the consolidated Net Worth of the Borrower as of the end of the applicable four quarter period. Compliance with this paragraph (d) shall be determined based upon Schedule B of the applicable Compliance Certificate.

5.6 Debt.

(a) The Borrower shall not permit any Restricted Entity to create, assume, incur, suffer to exist, or in any manner become liable, directly, indirectly, or contingently in respect of, any Debt other than Permitted Debt.

(b) The Borrower shall, as soon as available but in any event not less than 10 Business Days prior to the issuance of any preferred stock or subordinated indebtedness, deliver to the Agent a copy of the certificate of designation or subordinated debt documents, as applicable, together with a certificate, signed by a Responsible Officer of the Borrower, certifying that such preferred stock or subordinated indebtedness constitutes Qualified Preferred Stock or Subordinated Debt pursuant to the terms of this Agreement.

5.7 Liens. The Borrower shall not permit any Restricted Entity to create, assume, incur, or suffer to exist any Lien on any of its real or personal property whether now owned or hereafter acquired, or assign any right to receive its income, except for Permitted Liens.

5.8 Other Obligations.

(a) The Borrower shall not permit any Restricted Entity to create, incur, assume, or suffer to exist any obligations in respect of unfunded vested benefits under any pension Plan or deferred compensation agreement in an aggregate outstanding amount in excess of $1,000,000.

(b) The Borrower shall not permit any Restricted Entity to create, incur, assume, or suffer to exist any obligations in respect of Derivatives, other than Derivatives used by any Restricted Entity in such Restricted Entity's respective business operations in aggregate notional quantities not to exceed the reasonably anticipated consumption of such Restricted Entity of the underlying commodity for the relevant period, but no Derivatives which are speculative in nature.

5.9 Corporate Transactions. The Borrower shall not, without the Agent's consent, permit any Restricted Entity to (a) merge, consolidate, or amalgamate with another Person, or liquidate, wind up, or dissolve itself (or take any action towards any of the foregoing), (b) convey, sell, lease, assign, transfer, or otherwise dispose of any of its property, businesses, or other assets outside of the ordinary course of business, or (c) make any Acquisition except that:

(i) Any Subsidiary of the Borrower may merge, consolidate, or amalgamate into the Borrower or any wholly owned Subsidiary of the Borrower, or convey, sell, lease, assign, transfer, or otherwise dispose of any of its assets to the Borrower or any wholly-owned Subsidiary of the Borrower (and if such disposition transfers all or substantially all of the assets of transferring Subsidiary, such subsidiary may then liquidate, wind up, or dissolve itself); provided that the Borrower or the wholly-owned Subsidiary, as applicable, is the surviving or acquiring entity; and

(ii) The Borrower or any Subsidiary of the Borrower may make any Acquisition (by purchase or merger) provided that (A) the Borrower or such Subsidiary of the Borrower is the acquiring or surviving entity, (B) the aggregate of all consideration (other than common stock of the Borrower) paid by the Restricted Entities in connection with any Acquisition made on or after the Acquisition Advance Date does not exceed $10,000,000 without the prior consent of the Majority Banks, (C) the aggregate of all consideration (other than common stock of the Borrower) paid by the Restricted Entities in connection with all Acquisitions during any calendar year (exclusive of any such consideration paid prior to the Acquisition Advance Date) does not exceed $30,000,000 without the prior consent of the Majority Banks, (D) no Default or Event of Default exists and the Acquisition would not reasonably be expected to cause a Default or Event of Default (including any default under Section 5.5 with respect to historical and future proforma financial status and results), and (E) the acquired assets are in substantially the same business as the Borrower; provided that to the extent that the Borrower obtains the consent of the Majority Banks to an Acquisition pursuant to subsections (B) or (C) above, the consideration paid by the Restricted Entities in connection with such Acquisition shall not be included in the calculations of the limitations contained in such subsections.

5.10 Distributions. The Borrower shall not (a) declare or pay any dividends; (b) purchase, redeem, retire, or otherwise acquire for value any of its capital stock now or hereafter outstanding; or make any distribution of assets to its stockholders as such, whether in cash, assets, or in obligations of it; (c) allocate or otherwise set apart any sum for the payment of any dividend or distribution on, or for the purchase, redemption, or retirement of, any shares of its capital stock; or (d) make any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock, except that the Borrower may make payments of dividends on Qualified Preferred Stock.

5.11 Transactions with Affiliates. The Borrower shall not permit any Restricted Entity to enter into any transaction directly or indirectly with or for the benefit of an Affiliate except transactions with an Affiliate for the leasing of property, the rendering or receipt of services, or the purchase or sale of inventory or other assets in the ordinary course of business if the monetary or business consideration arising from such a transaction would be substantially as advantageous to such Restricted Entity as the monetary or business consideration which such Restricted Entity would obtain in a comparable arm's length transaction.

5.12 Insurance.

(a) The Borrower shall cause each Restricted Entity to maintain insurance with responsible and reputable insurance companies or associations reasonably acceptable to the Agent in such amounts and covering such risks as are usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which such Persons operate. Without limiting the foregoing, the Borrower shall maintain insurance coverage for the Restricted Entities equal to or better than, on an item by item basis for each item, the coverage for the Restricted Entities existing on the date of this Agreement. The Borrower shall deliver to the Agent certificates evidencing such policies or copies of such policies at the Agent's request following a reasonable period to obtain such certificates taking into account the jurisdiction where the insurance is maintained.

(b) All policies representing liability insurance of the Restricted Entities shall name the Agent and the Banks as additional named insureds in a form satisfactory to the Agent. All proceeds of such liability insurance coverage for the Agent and the Banks shall be paid as directed by the Agent to indemnify the Agent or the applicable Bank for the liability covered. In the event that proceeds of property or liability insurance are paid to any Restricted Entity in violation of the foregoing, the Restricted Entity shall hold the proceeds in trust for the Agent, segregate the proceeds from the other funds of such Restricted Entity, and promptly pay the proceeds to the Agent with any necessary endorsement. The Agent shall have the right, but not the obligation, during the existence of an Event of Default, to make proof of loss under, settle and adjust any claim under, and receive the proceeds under the insurance, and the reasonable expenses incurred by the Agent in the adjustment and collection of such proceeds shall be paid by the Borrower. The Borrower irrevocably appoints the Agent as its attorney in fact to take such actions in its name. If the Agent does not take such actions, the Borrower may take such actions subject to the approval of any final action by the Agent. The Agent shall not be liable or responsible for failure to collect or exercise diligence in the collection of any proceeds.

5.13 Investments. The Borrower shall not permit any Restricted Entity to make or hold any direct or indirect investment in any Person, including capital contributions to the Person, investments in the debt or equity securities of the Person, and loans, guaranties, trade credit, or other extensions of credit to the Person, except for Permitted Investments.

5.14 Lines of Business. The Borrower shall not permit the Restricted Entities to change the character of their business as conducted on the date of this Agreement, or engage in any type of business not reasonably related to such business as presently and normally conducted.

5.15 Compliance with Laws. The Borrower shall cause each Restricted Entity to comply with all federal, state, and local laws and regulations which are applicable to the operations and property of such Persons, in each case, where the failure to comply could reasonably be expected to cause a Material Adverse Change.

5.16 Environmental Compliance. The Borrower shall cause each Restricted Entity to comply with all Environmental Laws and obtain and comply with all related permits necessary for the ownership and operation of any such Person's properties, in each case, where the failure to comply could reasonably be expected to cause a Material Adverse Change. The Borrower shall cause each Restricted Entity to promptly disclose to the Agent any notice to or investigation of such Persons for any violation or alleged violation of any Environmental Law in connection with any such Person's presently or previously owned properties which represent liabilities which could reasonably be expected to cause a Material Adverse Change. The Borrower shall not permit any Restricted Entity to create, handle, transport, use, or dispose of any Hazardous Materials on or about any such Person's properties; release any Hazardous Materials into the environment in connection with any such Person's operations or contaminate any properties with Hazardous Materials; or own properties contaminated by any Hazardous Materials, in each case in any manner that could reasonably be expected to cause a Material Adverse Change.

5.17 ERISA Compliance. The Borrower shall cause each Restricted Entity to (i) comply in all material respects with all applicable provisions of ERISA and prevent the occurrence of any Reportable Event or Prohibited Transaction with respect to, or the termination of, any of their respective Plans, in each case, where the failure to do so could reasonably be expected to cause a Material Adverse Change and (ii) not create or participate in any employee pension benefit plan covered by Title IV of ERISA or any multiemployer plan under Section 4001(a)(3) of ERISA.

5.18 Payment of Certain Claims. The Borrower shall cause each Restricted Entity to pay and discharge, before the same shall become delinquent, (a) all taxes, assessments, levies, and like charges imposed upon any such Person or upon any such Person's income, profits, or property by authorities having competent jurisdiction prior to the date on which penalties attach thereto except for tax payments being contested in good faith for which adequate reserves have been established and reported in accordance with generally accepted accounting principals which could not reasonably be expected to cause a Material Adverse Change and (b) all trade payables and current operating liabilities, unless the same are less than 90 days past due or are being contested in good faith, have adequate reserves established and reported in accordance with general accepted accounting principals, and could not reasonably be expected to cause a Material Adverse Change.

5.19 Subsidiaries. Upon the formation or acquisition of any new Subsidiary, the Borrower shall and shall cause such Subsidiary to promptly, but in any event within 30 days after the formation or acquisition of such new Subsidiary, execute and deliver to the Agent such guaranties, security agreements, pledge agreements, amendment agreements, and other documents and agreements as the Agent requests so that such Subsidiary guarantees and secures the Credit Obligations on the same terms as the existing Subsidiaries of the Borrower (including the execution and delivery of a Joinder Agreement in substantially the form of Exhibit G for the purpose of joining such Subsidiary as a party to the Guaranty, the Security Agreement, and, if applicable, the Pledge Agreement, or the execution of such new guaranties, pledge agreements, and security agreements as the Agent determines are necessary to have the same effect in different jurisdictions). In connection therewith and within 30 days after the formation or acquisition of such new Subsidiary, the Borrower shall provide corporate documentation and opinion letters reasonably satisfactory to the Agent reflecting the corporate status of such new Subsidiary of the Borrower and the enforceability of such agreements.

ARTICLE 6. DEFAULT AND REMEDIES.

6.1 Events of Default. Each of the following shall be an "Event of Default" for the purposes of this Agreement and for each of the Credit Documents:

(a) Payment Failure. The Borrower (i) fails to pay when due any principal amounts due under this Agreement or any other Credit Document or (ii) fails to pay when due any interest, fees, reimbursements, indemnifications, or other amounts due under this Agreement or any other Credit Document and such failure has not been cured within five Business Days;

(b) False Representation. Any written representation or warranty made by any Credit Party or any Responsible Officer thereof in this Agreement or in any other Credit Document proves to have been false or erroneous in any material respect at the time it was made or deemed made;

(c) Breach of Covenant. (i) Any breach by the Borrower of any of the covenants contained in Sections 5.1(a) (with respect to the Borrower), 5.2, 5.3, 5.4, 5.6, 5.7, 5.8, 5.9, 5.10, 5.13 or 5.19 or (ii) any breach by any Credit Party of any other covenants contained in this Agreement, or any other Credit Document and such breach is not cured within 30 days following the earlier of knowledge of such breach by a Responsible Officer of such Credit Party or the receipt of written notice thereof from the Agent;

(d) Security and Support Documents. Any Security Document shall at any time and for any reason (other than one within the reasonable control of any Bank) cease to create the Lien on the property purported to be subject to such agreement in accordance with the terms of such agreement, or cease to be in full force and effect, or shall be contested by any party thereto;

(e) Guaranty. (i) the Guaranty shall at any time and for any reason cease to be in full force and effect with respect to any Guarantor (except as permitted under Section 5.9 hereof) or shall be contested by any Guarantor, or any Guarantor shall deny it has any further liability or obligation thereunder, or (ii) any breach by any Guarantor of any of the covenants contained in Section 1 of the Guaranty;

(f) Material Debt Default. (i) Any principal, interest, fees, or other amounts due on any Debt of any Restricted Entity (other than the Credit Obligations) is not paid when due, whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise, and such failure is not cured within the applicable grace period, if any, and the aggregate amount of all Debt of such Persons so in default exceeds $250,000; (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to any Debt of any such Person (other than the Credit Obligations) the effect of which is to accelerate or to permit the acceleration of the maturity of any such Debt, whether or not any such Debt is actually accelerated, and such event or condition shall not be cured within the applicable grace period, if any, and the aggregate amount of all Debt of such Persons so in default exceeds $1,000,000; (iii) any Debt of any such Person shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment) prior to the stated maturity thereof, and the aggregate amount of all Debt of such Persons so accelerated exceeds $1,000,000; or (iv) any default or event of default, however denominated, occurs under the Swing Line Note;

(g) Material Agreement Default. There shall occur any breach by any Restricted Entity of any contract or agreement which breach could reasonably be expected to cause a Material Adverse Change and such breach is not cured within the applicable grace period, if any;

(h) Bankruptcy and Insolvency. (i) there shall have been filed against any Restricted Entity or any such Person's properties, without such Person's consent, any petition or other request for relief seeking an arrangement, receivership, reorganization, liquidation, or similar relief under bankruptcy or other laws for the relief of debtors and such request for relief (A) remains in effect for 60 or more days, whether or not consecutive, or (B) is approved by a final nonappealable order, or (ii) any such Person consents to or files any petition or other request for relief of the type described in clause (i) above seeking relief from creditors, makes any assignment for the benefit of creditors or other arrangement with creditors, or admits in writing such Person's inability to pay such Person's debts as they become due (the occurrence of any Event of Default under clause (i) or (ii) of this paragraph being a "Bankruptcy Event of Default");

(h) Adverse Judgment. The aggregate outstanding amount of judgments against the Restricted Parties not discharged or stayed pending appeal or other court action within 30 days following entry is greater than $250,000; or

(i) Change of Control. There shall occur any Change of Control.

6.2 Termination of Revolving Loan Commitments. Upon the occurrence of any Bankruptcy Event of Default, all of the commitments of the Agent and the Banks hereunder shall terminate. During the existence of any Event of Default other than a Bankruptcy Event of Default, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower all of the commitments of the Agent and the Banks hereunder terminated, whereupon the same shall immediately terminate.

6.3 Acceleration of Credit Obligations. Upon the occurrence of any Bankruptcy Event of Default, the aggregate outstanding principal amount of all loans made hereunder, all accrued interest thereon, and all other Credit Obligations shall immediately and automatically become due and payable. During the existence of any Event of Default other than a Bankruptcy Event of Default, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower the aggregate outstanding principal amount of all loans made hereunder, all accrued interest thereon, and all other Credit Obligations to be immediately due and payable, whereupon the same shall immediately become due and payable. In connection with the foregoing, except for the notice provided for above in this Article VI, the Borrower waives notice of any Default or Event of Default, grace, notice of intent to accelerate, notice of acceleration, presentment, demand, notice of nonpayment, protest, and all other notices.

6.4 Cash Collateralization of Letters of Credit. Upon the occurrence of any Bankruptcy Event of Default, the Borrower shall pay to the Agent an amount equal to the Letter of Credit Exposure to be held in the Letter of Credit Collateral Account for disposition in accordance with Section 2.2(g). During the existence of any Event of Default other than a Bankruptcy Event of Default, the Agent shall at the request of the Majority Banks require by written notice to the Borrower that the Borrower pay to the Agent an amount equal to the Letter of Credit Exposure to be held in the Letter of Credit Collateral Account for disposition in accordance with Section 2.2(g), whereupon the Borrower shall pay to the Agent such amount for such purpose.

6.5 Default Interest. If any Event of Default exists based upon a default in the payment of any amounts owing hereunder, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower that the Credit Obligations specified in such notice shall bear interest beginning on the date specified in such notice until paid in full at the applicable Default Rate for such Credit Obligations, whereupon the Borrower shall pay such interest to the Agent for the benefit of the Agent and the Banks, as applicable, upon demand by the Agent. If any other Event of Default exists, the Agent shall at the request of the Majority Banks declare by written notice to the Borrower that, unless such Event of Default is cured to the satisfaction of the Agent and the Majority Banks on or before the 30th day following the occurrence of such Event of Default, the Credit Obligations specified in such notice shall bear interest beginning on such 30th day until paid in full at the applicable Default Rate for such Credit Obligations, whereupon the Borrower shall, if such Event of Default is not cured by such date, pay such interest to the Agent for the benefit of the Agent and the Banks, as applicable, upon demand by the Agent after such date.

6.6 Right of Setoff. During the existence of an Event of Default, the Agent and each Bank is hereby authorized at any time, to the fullest extent permitted by law, to set off and apply any indebtedness owed by the Agent or such Bank to the Borrower against any and all of the obligations of the Borrower under this Agreement and the Credit Documents, irrespective of whether or not the Agent or such Bank shall have made any demand under this Agreement or the Credit Documents and although such obligations may be contingent and unmatured. The Agent and each Bank, as the case may be, agrees promptly to notify the Borrower after any such setoff and application made by such party provided that the failure to give such notice shall not affect the validity of such setoff and application.

6.7 Actions Under Credit Documents. Following an Event of Default, the Agent shall at the request of the Majority Banks take any and all actions permitted under the other Credit Documents, including the Guaranty and the Security Documents.

6.8 Remedies Cumulative. No right, power, or remedy conferred to the Agent or the Banks in this Agreement and the Credit Documents, or now or hereafter existing at law, in equity, by statute, or otherwise, shall be exclusive, and each such right, power, or remedy shall to the full extent permitted by law be cumulative and in addition to every other such right, power, or remedy. No course of dealing and no delay in exercising any right, power, or remedy conferred to the Agent or the Banks in this Agreement and the Credit Documents, or now or hereafter existing at law, in equity, by statute, or otherwise, shall operate as a waiver of or otherwise prejudice any such right, power, or remedy.

6.9 Application of Payments. Prior to the Revolving Loan Maturity Date or any acceleration of the Credit Obligations, all payments made hereunder shall be applied to the Credit Obligations as directed by the Borrower, subject to the rules regarding the application of payments to certain Credit Obligations provided for hereunder and in the Credit Documents. Following the Revolving Loan Maturity Date or any acceleration of the Credit Obligations, all payments and collections shall be applied to the Credit Obligations in the following order:

First, to the payment of the costs, expenses, reimbursements (other than reimbursement obligations with respect to draws under Letters of Credit), and indemnifications of the Agent that are due and payable under the Credit Documents;

Then, ratably to the payment of the costs, expenses, reimbursements (other than reimbursement obligations with respect to draws under Letters of Credit), and indemnifications of the Banks that are due and payable under the Credit Documents;

Then, ratably to the payment of all accrued but unpaid interest and fees and obligations under Interest Hedge Agreements due and payable under the Credit Documents;

Then, ratably to the payment of all outstanding principal and reimbursement obligations for draws under Letters of Credit due and payable under the Credit Documents;

Then, ratably to the payment of any other amounts due and owing with respect to the Credit Obligations; and

Finally, any surplus held by the Agent and remaining after payment in full of all the Credit Obligations and reserve for Credit Obligations not yet due and payable shall be promptly paid over to the Borrower or to whomever may be lawfully entitled to receive such surplus. All applications shall be distributed in accordance with Section 2.10(a).

ARTICLE 7. THE AGENT AND THE ISSUING BANK

7.1 Authorization and Action. Each Bank hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof and of the other Credit Documents, together with such powers as are reasonably incidental thereto. Statements under the Credit Documents that the Agent may take certain actions, without further qualification, means that the Agent may take such actions with or without the consent of the Banks or the Majority Banks, but where the Credit Documents expressly require the determination of the Banks or the Majority Banks, the Agent shall not take any such action without the prior written consent thereof. As to any matters not expressly provided for by this Agreement or any other Credit Document (including, without limitation, enforcement or collection of the Revolving Loan Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the written instructions of the Majority Banks, and such instructions shall be binding upon all Banks and all holders of Revolving Loan Notes; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement, any other Credit Document, or applicable law.

7.2 Reliance, Etc. Neither the Agent, the Issuing Bank, nor any of their respective Related Parties (for the purposes of this Section 7.2, collectively, the "Indemnified Parties") shall be liable for any action taken or omitted to be taken by any Indemnified Party under or in connection with this Agreement or the other Credit Documents, INCLUDING ANY INDEMNIFIED PARTY'S OWN NEGLIGENCE, except for any Indemnified Party's gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent and the Issuing Bank: (a) may treat the payee of any Revolving Loan Note as the holder thereof until the Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to the Agent; (b) may consult with legal counsel (including counsel for the Borrower), independent public accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; (c) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties, or representations made in or in connection with this Agreement or the other Credit Documents; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of this Agreement or any other Credit Document on the part of the Credit Parties or to inspect the property (including the books and records) of the Credit Parties; (e) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement or any other Credit Document; and (f) shall incur no liability under or in respect of this Agreement or any other Credit Document by acting upon any notice, consent, certificate, or other instrument or writing (which may be by telecopier or telex) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

7.3 Affiliates. With respect to its Revolving Loan Commitments, the Revolving Loan Advances made by it, its interests in the Letters of Credit, and the Revolving Loan Notes issued to it, the Agent and the Issuing Bank shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent. The term "Bank" or "Banks" shall, unless otherwise expressly indicated, include the Agent and the Issuing Bank in their individual capacity. The Agent, the Issuing Bank, and their respective Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, any Credit Party, and any Person who may do business with or own securities of any Credit Party, all as if the Agent were not an agent hereunder and the Issuing Bank were not the issuer of Letters of Credit hereunder and without any duty to account therefor to the Banks.

7.4 Bank Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on the Registration Statement and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it shall, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

7.5 Expenses. To the extent not paid by the Borrower, each Bank severally agrees to pay to the Agent and the Issuing Bank on demand such Bank's ratable share of the following: (a) all reasonable out-of-pocket costs and expenses of the Agent and the Issuing Bank in connection with the preparation, execution, delivery, administration, modification, and amendment of this Agreement and the other Credit Documents, including the reasonable fees and expenses of outside counsel for the Agent and the Issuing Bank with respect to advising the Agent and the Issuing Bank as to their respective rights and responsibilities under this Agreement and the Credit Documents, and (b) all out-of-pocket costs and expenses of the Agent and the Issuing Bank in connection with the preservation or enforcement of the rights of the Agent, the Issuing Bank, and the Banks under this Agreement and the other Credit Documents, whether through negotiations, legal proceedings, or otherwise, including fees and expenses of counsel for the Agent and the Issuing Bank. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

7.6 Indemnification. To the extent not reimbursed by the Borrower, each Bank severally agrees to protect, defend, indemnify, and hold harmless the Agent, the Issuing Bank, and each of their respective Related Parties (for the purposes of this Section 7.6, collectively, the "Indemnified Parties"), from and against all demands, claims, actions, suits, damages, judgments, fines, penalties, liabilities, and out-of-pocket costs and expenses, including reasonable costs of attorneys and related costs of experts such as accountants (collectively, the "Indemnified Liabilities"), actually incurred by any Indemnified Party which are related to any litigation or proceeding relating to this Agreement, the Credit Documents, or the transactions contemplated thereunder, INCLUDING ANY INDEMNIFIED LIABILITIES CAUSED BY ANY INDEMNIFIED PARTY'S OWN NEGLIGENCE, but not Indemnified Liabilities which are a result of any Indemnified Party's gross negligence or willful misconduct. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

7.7 Successor Agent and Issuing Bank. The Agent or the Issuing Bank may resign at any time by giving written notice thereof to the Banks and the Borrower and may be removed at any time with or without cause by the Majority Banks upon receipt of written notice from the Majority Banks to such effect. Upon receipt of notice of any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent or Issuing Bank with the consent of the Borrower, which consent shall not be unreasonably withheld. If no successor Agent or Issuing Bank shall have been so appointed by the Majority Banks with the consent of the Borrower, and shall have accepted such appointment, within 30 days after the retiring Agent's or Issuing Bank's giving of notice of resignation or the Majority Banks' removal of the retiring Agent or Issuing Bank, then the retiring Agent or Issuing Bank may, on behalf of the Banks and the Borrower, appoint a successor Agent or Issuing Bank, which shall be, in the case of a successor agent, a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000 and, in the case of the Issuing Bank, a Bank. Upon the acceptance of any appointment as Agent or Issuing Bank by a successor Agent or Issuing Bank, such successor Agent or Issuing Bank shall thereupon succeed to and become vested with all the rights, powers, privileges, and duties of the retiring Agent or Issuing Bank, and the retiring Agent or Issuing Bank shall be discharged from any duties and obligations under this Agreement and the other Credit Documents after such acceptance, except that the retiring Issuing Bank shall remain the Issuing Bank with respect to any Letters of Credit outstanding on the effective date of its resignation or removal and the provisions affecting the Issuing Bank with respect to such Letters of Credit shall inure to the benefit of the retiring Issuing Bank until the termination of all such Letters of Credit. After any Agent's or Issuing Bank's resignation or removal hereunder as Agent or Issuing Bank, the provisions of this Article 7 shall inure to such Person's benefit as to any actions taken or omitted to be taken by such Person while such Person was Agent or Issuing Bank under this Agreement and the other Credit Documents.

ARTICLE 8. MISCELLANEOUS.

8.1 Expenses. The Borrower shall pay on demand of the applicable party specified herein (a) all reasonable out-of-pocket costs and expenses of the Agent and the Issuing Bank in connection with the preparation, execution, delivery, administration, modification, and amendment of this Agreement and the other Credit Documents, including the reasonable fees and expenses of outside counsel for the Agent and the Issuing Bank, and (b) all out-of-pocket costs and expenses of the Agent, the Issuing Bank, and each Bank in connection with the preservation or enforcement of their respective rights under this Agreement and the other Credit Documents, whether through negotiations, legal proceedings, or otherwise, including fees and expenses of counsel for the Agent, the Issuing Bank, and each Bank. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

8.2 Indemnification. The Borrower agrees to protect, defend, indemnify, and hold harmless the Agent, the Issuing Bank, each Bank, and each of their respective Related Parties (for the purposes of this Section 8.2, collectively, the "Indemnified Parties"), from and against all demands, claims, actions, suits, damages, judgments, fines, penalties, liabilities, and out-of-pocket costs and expenses, including reasonable costs of attorneys and related costs of experts such as accountants (collectively, the "Indemnified Liabilities"), actually incurred by any Indemnified Party which are related to any litigation or proceeding relating to this Agreement, the Credit Documents, or the transactions contemplated thereunder, INCLUDING ANY INDEMNIFIED LIABILITIES CAUSED BY ANY INDEMNIFIED PARTY'S OWN NEGLIGENCE, but not Indemnified Liabilities which are a result of any Indemnified Party's gross negligence or willful misconduct. The provisions of this paragraph shall survive the repayment and termination of the credit provided for under this Agreement and any purported termination of this Agreement which does not expressly refer to this paragraph.

8.3 Modifications, Waivers, and Consents. No modification or waiver of any provision of this Agreement or the Revolving Loan Notes, nor any consent required under this Agreement or the Revolving Loan Notes, shall be effective unless the same shall be in writing and signed by the Agent and Majority Banks and the Borrower, and then such modification, waiver, or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no modification, waiver, or consent shall, unless in writing and signed by the Agent, all the Banks, and the Borrower do any of the following: (a) waive any of the conditions specified in Section 3.1 or 3.2, (b) increase the Revolving Loan Commitments of the Banks, (c) forgive or reduce the amount or rate of any principal, interest, or fees payable under the Credit Documents, or postpone or extend the time for payment thereof, (d) release any Guaranty or any material collateral securing the Credit Obligations (except as otherwise permitted or required herein), or (e) change the percentage of Banks required to take any action under this Agreement, the Revolving Loan Notes, or the Security Documents, including any amendment of the definition of "Majority Banks" or this Section 8.3. No modification, waiver, or consent shall, unless in writing and signed by the Agent or the Issuing Bank affect the rights or obligations of the Agent or the Issuing Bank, as the case may be, under the Credit Documents. The Agent shall not modify or waive or grant any consent under any other Credit Document of such action would be prohibited under this Section 8.3 with respect to the Credit Agreement or the Revolving Loan Notes.

8.4 Survival of Agreements. All representations, warranties, and covenants of the Borrower in this Agreement and the Credit Documents shall survive the execution of this Agreement and the Credit Documents and any other document or agreement.

8.5 Assignment and Participation. This Agreement and the Credit Documents shall bind and inure to the benefit of the Borrower and their respective successors and assigns and the Agent and the Banks and their respective successors and assigns. The Borrower may not assign its rights or delegate its duties under this Agreement or any Credit Document.

(a) Assignments. Any Bank may assign to one or more banks or other entities all or any portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Loan Commitments, the Revolving Loan Advances owing to it, the Revolving Loan Notes held by it, and the participation interest in the Letters of Credit owned by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all of such Bank's rights and obligations under this Agreement, (ii) assignments of Revolving Loan Commitments shall be made in minimum amounts of $5,000,000 and be made in integral multiples of $1,000,000 and the assigning Bank, if it retains any Revolving Loan Commitments, shall maintain at least $5,000,000 in Revolving Loan Commitments, (iii) each such assignment shall be to an Eligible Assignee, (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with the Revolving Loan Notes subject to such assignment, and (v) each Eligible Assignee (other than the Eligible Assignee of the Agent) shall pay to the Agent a $3,500 administrative fee. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least three Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto for all purposes and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and (B) such Bank thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of such Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(b) Term of Assignments. By executing and delivering an Assignment and Acceptance, the Bank thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency of value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Credit Party or the performance or observance by any Credit Party of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the Registration Statement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee shall, independently and without reliance upon the Agent, such Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it shall perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(c) The Register. The Agent shall maintain at its address referred to in Section 8.6 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Banks and the Revolving Loan Commitments of each Bank from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent, the Issuing Bank, and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Procedures. Upon its receipt of an Assignment and Acceptance executed by a Bank and an Eligible Assignee, together with the Revolving Loan Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed in the appropriate form, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower shall execute and deliver to the Agent in exchange for the surrendered Revolving Loan Notes a new Revolving Loan Note to the order of such Eligible Assignee in an amount equal to the Revolving Loan Commitment assumed by it pursuant to such Assignment and Acceptance and, if such Bank has retained any Revolving Loan Commitment hereunder, a new Revolving Loan Note to the order of such Bank in an amount equal to the

Revolving Loan Commitment retained by it hereunder. Such new Revolving Loan Notes shall be dated the effective date of such Assignment and Acceptance and shall be in the appropriate form.

(e) Participation. Each Bank may sell participation to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Loan Commitments, the Revolving Loan Advances owing to it, its participation interest in the Letters of Credit, and the Revolving Loan Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement (including, without limitation, its Revolving Loan Commitments to the Borrower hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Revolving Loan Notes for all purposes of this Agreement, (iv) the Borrower, the Agent, and the Issuing Bank and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and (v) such Bank shall not require the participant's consent to any matter under this Agreement, except that upon 10 days' written notice of such participation to the Agent and the Borrower, such Bank may permit the participant to possess consent rights with respect to changes in the principal amount of the Revolving Loan Notes, reductions in fees or interest, extensions of the applicable maturity date, or releases of any collateral or guarantor (except to the extent otherwise permitted herein or in any of the other Credit Documents). The Borrower hereby agrees that participants shall have the same rights under Sections 2.6, 2.7, 2.8, 2.9, 2.10, and 8.2 as a Bank to the extent of their respective participation.

(f) Assignments or Pledges to Federal Reserve Banks. In addition to the foregoing rights of assignment and participation, any Bank may assign or pledge any portion of its rights under this Agreement (including the Revolving Loan Advances owed to such Bank) to any Federal Reserve Bank in accordance with applicable law without notice to or the consent of the Borrower or the Agent, provided that (i) such Bank shall not be relieved of its obligations under this Agreement as a result thereof and (ii) in no event shall the Federal Reserve Bank be entitled to direct the actions of the pledging or assigning Bank under this Agreement.

8.6 Notice. All notices and other communications under this Agreement and the Revolving Loan Notes shall be in writing and mailed by certified mail (return receipt requested), telecopied, telexed, hand delivered, or delivered by a nationally recognized overnight courier, to the address for the appropriate party specified in Schedule I or at such other address as shall be designated by such party in a written notice to the other parties. Mailed notices shall be effective when received. Telecopied or telexed notices shall be effective when transmission is completed or confirmed by telex answerback. Delivered notices shall be effective when delivered by messenger or courier. Notwithstanding the foregoing, notices and communications to the Agent pursuant to Article 2 or 7 shall not be effective until received by the Agent.

8.7 Choice of Law. This Agreement and the Revolving Loan Notes have been prepared, are being executed and delivered, and are intended to be performed in the State of Texas, and the substantive laws of the State of Texas and the applicable federal laws of the United States shall govern the validity, construction, enforcement, and interpretation of this Agreement and the Revolving Loan Notes; provided however, Chapter 15 of the Texas Credit Code does not apply to this Agreement or the Revolving Loan Notes. Each Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 500 (1993 version).

8.8 Forum Selection. THE BORROWER IRREVOCABLY CONSENTS TO THE JURISDICTION OF THE COURTS OF THE STATE OF TEXAS AND OF ANY FEDERAL COURT LOCATED IN SUCH STATE IN CONNECTION WITH ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATED THERETO. THE BORROWER AGREES AND SHALL NOT CONTEST THAT PROPER FORUM AND VENUE FOR ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO ARE IN THE COURTS OF THE STATE OF TEXAS IN HARRIS COUNTY, TEXAS, AND THE FEDERAL COURTS LOCATED IN HARRIS COUNTY, TEXAS. THE BORROWER IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE FOREGOING BASED UPON CLAIMS THAT THE FOREGOING COURTS ARE AN INCONVENIENT FORUM.

8.9 Service of Process. IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO, THE BORROWER WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT, OR OTHER PROCESS OR NOTICE AND AGREES THAT SERVICE BY FIRST CLASS MAIL, RETURN RECEIPT REQUESTED, TO THE BORROWER AT ITS ADDRESS FOR NOTICES HEREUNDER, OR ANY OTHER FORM OF SERVICE PROVIDED FOR IN THE TEXAS CIVIL PRACTICE LAW AND RULES THEN IN EFFECT SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE UPON THE BORROWER.

8.10 Waiver of Jury Trial. THE BORROWER IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO.

8.11 Counterparts. This Agreement may be executed in multiple counterparts which together shall constitute one and the same instrument.

8.12 No Further Agreements. THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EXECUTED as of the date first above written.

BORROWER:

INTEGRATED ELECTRICAL SERVICES, INC.

By:

J. Paul Withrow
Vice President and
Chief Accounting Officer

AGENT:

NATIONSBANK OF TEXAS, N.A., as Agent

By:

Albert L. Welch
Vice President

BANKS:

NATIONSBANK OF TEXAS, N.A.

By:

Albert L. Welch
Vice President

Revolving Loan Commitment: $65,000,000

[Execution Version]

GUARANTY
(Subsidiaries of Integrated Electrical Services, Inc.)

This Guaranty dated as of January 30, 1998 ("Agreement"), is made by the undersigned subsidiaries of Integrated Electrical Services, Inc., a Delaware corporation (each a "Guarantor"), in favor of NationsBank of Texas, N.A., in its capacity as agent ("Agent") for certain financial institutions which are or may become parties to the Credit Agreement described below.

INTRODUCTION

This Agreement is given in connection with the Credit Agreement dated as of January 30, 1998 (as modified from time to time, the "Credit Agreement"), among Integrated Electrical Services, Inc., a Delaware corporation ("Borrower"), certain financial institutions which are or may become parties thereto, and the Agent, the defined terms of which are used herein unless otherwise defined herein. It is a condition precedent to the obligation of the Banks to make any extension of credit under the Credit Agreement that the Guarantors execute and deliver this Agreement to the Agent. Each Guarantor is a Subsidiary of the Borrower. Because each Guarantor receives and, as a result of its ownership by the Borrower, expects to continue to receive financial and management support from the Borrower, each Guarantor will obtain substantial benefit from the extensions of credit expected to be made to the Borrower under the Credit Agreement.

Therefore, to induce the Agent and such financial institutions to enter into the Credit Agreement, the Guarantors jointly and severally agree with the Agent as follows:

Section 1. Guaranty. The Guarantors irrevocably and jointly and severally guarantee to the Agent the full payment when due of (a) all principal, interest, fees, reimbursements, indemnifications, and other amounts now or hereafter owed by the Borrower to the Agent and the Banks (and with respect to the Interest Hedge Agreements, the Affiliates of the Banks) under the terms of the Credit Agreement and the other Credit Documents, including amounts owed under the terms of the Credit Agreement and the other Credit Documents for which the Borrower has obtained relief under bankruptcy or other laws providing for relief from creditors, and (b) any increases, extensions, and rearrangements of the foregoing obligations under any amendments, supplements, and other modifications of the documents and agreements creating the foregoing obligations (collectively, the "Guaranteed

Obligations"). This is a guaranty of payment and not merely a guaranty of collection, and each Guarantor is liable as a primary obligor. If any of the Guaranteed Obligations are not punctually paid when due, whether by maturity, acceleration, or otherwise, and the Agent shall notify any Guarantor of such default and make demand for payment hereunder, such Guarantor shall immediately pay to the Agent the full amount of the Guaranteed Obligations which are due and payable. Each Guarantor shall make each payment to the Agent in U.S. Dollars in immediately available funds as directed by the Agent. The Agent is hereby authorized at any time following any demand for payment hereunder to set off and apply any indebtedness owed by the Agent to any Guarantor against any and all of the obligations of such Guarantor under this Agreement. The Agent agrees to promptly notify such Guarantor after any such setoff and application, but the failure to give such notice shall not affect the validity of such setoff and application.

Section 2. Guaranty Absolute.

2.1 This Agreement shall be deemed accepted by the Agent upon receipt, and the obligations of the Guarantors under this Agreement are effective immediately and are continuing and cover all Guaranteed Obligations arising prior to and after the date hereof. This Agreement may not be revoked by any Guarantor and shall continue to be effective with respect to Guaranteed Obligations arising or created after any attempted revocation by any Guarantor.

2.2 Each Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Credit Agreement and the other Credit Documents, regardless of any law, regulation, or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Banks with respect thereto. Each Guarantor agrees that such Guarantor's obligations under this Agreement shall not be released, diminished, or impaired by, and waives any rights which such Guarantor might otherwise have which relate to:

(a) Any lack of validity or enforceability of the Guaranteed Obligations, any Credit Document, or any other agreement or instrument relating thereto; any increase, reduction, extension, or rearrangement of the Guaranteed Obligations; any amendment, supplement, or other modification of the Credit Documents; any waiver or consent granted under the Credit Documents, including waivers of the payment and performance of the Guaranteed Obligations; or any sale, assignment, delegation, or other transfer of the Guaranteed Obligations or the Credit Documents;

(b) Any grant of any security or support for the Guaranteed Obligations or any impairment of any security or support for the Guaranteed Obligations, including any full or partial release, exchange, subordination, or waste of any collateral for the Guaranteed Obligations or any full or partial release of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations; any change in the organization or structure of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations; or the insolvency, bankruptcy, liquidation, or dissolution of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations;

(c) The manner of applying payments on the Guaranteed Obligations or the proceeds of any security or support for the Guaranteed Obligations against the Guaranteed Obligations;

(d) The failure to give notice of the occurrence of any of the events or actions referred to in this Section 2.2, notice of any default or event of default, however denominated, under the Credit Documents, notice of intent to demand, notice of demand, notice of presentment for payment, notice of nonpayment, notice of intent to protest, notice of protest, notice of grace, notice of dishonor, notice of intent to accelerate, notice of acceleration, notice of bringing of action to enforce the payment or performance of the Guaranteed Obligations, notice of any sale or foreclosure of any collateral for the Guaranteed Obligations, notice of any transfer of the Guaranteed Obligations, notice of the financial condition of or other circumstances regarding the Borrower, any Guarantor, or any other Person liable for the Guaranteed Obligations, or any other notice of any kind relating to the Guaranteed Obligations (and the parties intend that no Guarantor shall be considered a "Debtor" as defined in Section 9.105 of the Texas Business and Commerce Code for the purpose of notices required to be given to a Debtor thereunder); or

(e) Any other action taken or omitted which affects the Guaranteed Obligations, whether or not such action or omission prejudices any Guarantor or increases the likelihood that any Guarantor will be required to pay the Guaranteed Obligations pursuant to the terms hereof--it is the unambiguous and unequivocal intention of each Guarantor that such Guarantor shall be obligated to pay the Guaranteed Obligations when due, notwithstanding any occurrence, circumstance, event, action, or omission whatsoever, whether contemplated or uncontemplated, and whether or not particularly described herein.

2.3 This Agreement shall continue to be effective or be reinstated, as the case may be, if any payment on the Guaranteed Obligations must be refunded for any reason including any bankruptcy proceeding. In the event that the Agent or any Bank must refund any payment received against the Guaranteed Obligations, any prior release from the terms of this Agreement given to any Guarantor by the Agent shall be without effect, and this Agreement shall be reinstated in full force and effect. It is the intention of each Guarantor that such

Guarantor's obligations hereunder shall not be discharged except by final payment of the Guaranteed Obligations.

2.4 (a) Each Guarantor is a Subsidiary of the Borrower and receives and, because of its ownership by the Borrower, expects to continue to receive business opportunities, financial support, and management support from the Borrower. Each Guarantor has agreed to enter into this Agreement so that the Borrower can receive the benefits of the Guaranteed Obligations and continue to provide these services to such Guarantor.

(b) In consummating the transactions contemplated by the Credit Documents, no Guarantor intends to disturb, delay, hinder, or defraud either present or future creditors of such Guarantor. Each Guarantor is familiar with, and has independently reviewed books and records regarding, the financial condition of the Borrower and is familiar with the value of the security and support for the payment and performance of the Guaranteed Obligations. Based upon such examination, and taking into account the fairly discounted value of such Guarantor's contingent obligations under this Agreement and the value of the subrogation and contribution claims such Guarantor could make in connection with this Agreement, and assuming each of the transactions contemplated by the Credit Documents is consummated and the Borrower makes full use of the credit facilities thereunder, the present realizable fair market value of the assets of such Guarantor exceeds the total obligations of such Guarantor, and such Guarantor is able to realize upon its assets and pay its obligations as such obligations mature in the normal course of business.

(c) If notwithstanding the foregoing it is judicially determined with respect to any Guarantor that entering into this Agreement would violate Section 548 of the United States Bankruptcy Code or any comparable provisions of any state law, then such Guarantor shall be liable under this Guaranty only for amounts aggregating up to the largest amount that would not render such Guarantor's obligations hereunder subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provisions of any state law.

(d) Each Guarantor agrees that each Guarantor shall have rights of contribution and subrogation against each other Guarantor with respect to any payments made in connection with the Guaranteed Obligations.

Section 3. Unimpaired Collection.

3.1 There are no conditions precedent to the enforcement of this Agreement, except as expressly contained herein. It shall not be necessary for the Agent, in order to enforce payment by any Guarantor under this Agreement, to show any proof of the Borrower's default, to exhaust the Agent's remedies against the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations, to enforce any security or support for the payment or performance of the Guaranteed Obligations, or to enforce any other means of obtaining payment or performance of the Guaranteed Obligations. Each Guarantor waives any rights under Chapter 34 of the Texas Business and Commerce Code, Section 17.001 of the Texas Civil Practice and Remedies Code, and Rule 31 of the Texas Rules of Civil Procedure related to the foregoing. Neither the Agent nor the Banks shall be required to mitigate damages or take any other action to reduce, collect, or enforce the Guaranteed Obligations.

3.2 With respect to each Guarantor, all Subordinated Obligations of such Guarantor (as defined below) shall be subordinate and junior in right of payment and collection to the payment and collection in full of all Guaranteed Obligations as described below:

(a) As used herein, the term "Subordinated Obligations" for such Guarantor means: (i) all present and future indebtedness, liabilities, and obligations of any kind owed by the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations to such Guarantor, including debt obligations, equity obligations, and other contractual obligations requiring payments of any kind to be made to such Guarantor and including any right of subrogation (including any statutory rights of subrogation under Section 509 of the Bankruptcy Code, 11 U.S.C. Section 509, or under Chapter 34 of the Texas Business and Commerce Code), contribution, indemnification, reimbursement, exoneration, or any right to participate in any claim or remedy of the Agent against the Borrower, any Guarantor, or any Person liable for the payment or performance of the Guaranteed Obligations, or any collateral which the Agent now has or may acquire, and (ii) any increases, extensions, and rearrangements of the foregoing obligations under any amendments, supplements, and other modifications of the documents and agreements creating the foregoing obligations.

(b) Until all Guaranteed Obligations have been irrevocably paid in full (and therefore the payment thereof is no longer subject to being set aside or returned under the law), such Guarantor agrees not to take any action to enforce payment of such the Subordinated Obligations of such Guarantor, but this standstill is not intended as a permanent waiver of the subrogation, contribution, indemnification, reimbursement, exoneration, participation, or other rights of such Guarantor.

(c) Upon any receivership, insolvency proceeding, bankruptcy proceeding, assignment for the benefit of creditors, reorganization, arrangement with creditors, sale of assets for creditors, dissolution, liquidation, or marshaling of the assets of the Borrower, any Guarantor, or any other Person liable for the payment or performance of the Guaranteed Obligations, all amounts due with respect to the Guaranteed Obligations shall be paid in full before such Guarantor shall be entitled to collect or receive any payment with respect to the Subordinated Obligations of such Guarantor, and all payments to which such Guarantor would be entitled to collect or receive on the Subordinated Obligations of such Guarantor shall be paid over to the Agent for application to the Guaranteed Obligations.

(d) Following notice from the Agent to the Borrower that an Event of Default exists and that no further payments shall be made on the Subordinated Obligations of such Guarantor until (i) all amounts due with respect to the Guaranteed Obligations shall be paid in full or (ii) the Agent revokes such notice, such Guarantor shall not be entitled to collect or receive any payment with respect to the Subordinated Obligations of such Guarantor.

(e) Any lien, security interest, or assignment securing the repayment of the Subordinated Obligations of such Guarantor shall be fully subordinate to any lien, security interest, or assignment in favor of the Agent which secures the Guaranteed Obligations. At the request of the Agent, such Guarantor will take any and all steps necessary to fully evidence the subordination granted hereunder, including amending or terminating financing statements and executing and recording subordinations of liens.

(f) This is an absolute and irrevocable agreement of subordination and the Agent may, without notice to such Guarantor, take any action described in Section 2.2 without impairing or releasing the obligations of such Guarantor hereunder.

(g) Such Guarantor shall not assign or otherwise transfer to any other Person any interest in the Subordinated Obligations of such Guarantor unless such Guarantor causes the assignee or other transferee to execute and deliver to the Agent a subordination agreement in substantially the form of the subordination provisions in this Agreement.

(h) If any amount shall be paid to such Guarantor in violation of this Section 3.2, such amount shall be held in trust for the benefit of the Agent and immediately turned over to the Agent, with any necessary endorsement, to be applied to the Guaranteed Obligations.

Section 4. Miscellaneous.

4.1 Each Guarantor hereby affirms and shall comply with the representations, warranties, and covenants made by the Borrower in the Credit Agreement to the extent that such representations, warranties, and covenants are applicable to such Guarantor, including all of the representations and warranties in Section 4 of the Credit Agreement and all of the covenants in Section 5 of the Credit Agreement.

4.2 Each Guarantor shall pay to the Agent on demand (a) all reasonable out-of-pocket costs and expenses of the Agent in connection with the preparation, execution, delivery, administration, modification, and amendment of this Agreement and the other Credit Documents to which such Guarantor is a party, including the reasonable fees and out-of-pocket expenses of outside counsel for the Agent with respect to advising the Agent as to its rights and responsibilities under this Agreement and the Credit Documents to which such Guarantor is a party, and (b) all costs and expenses of the Agent in connection with the enforcement of the Agent's rights under this Agreement and the other Credit Documents to which such Guarantor is a party, whether through negotiations, legal proceedings, or otherwise, including fees and expenses of counsel for the Agent. The provisions of this paragraph shall survive any purported termination of this Agreement and the Credit Documents that does not expressly reference this paragraph.

4.3 Each Guarantor agrees to protect, defend, indemnify, and hold harmless the Agent, each Bank, and each of their respective Related Parties (collectively, the "Indemnified Parties"), from and against all demands, claims, actions, suits, damages, judgments, fines, penalties, liabilities, and costs and expenses, including reasonable costs of attorneys and related costs of experts such as accountants (collectively, the "Indemnified Liabilities"), actually incurred by the Indemnified Parties which are related to any litigation or proceeding relating to this Agreement, the Credit Documents, or the transactions contemplated thereunder, INCLUDING INDEMNIFIED LIABILITIES CAUSED BY ANY INDEMNIFIED PARTIES' OWN NEGLIGENCE, but not Indemnified Liabilities which are a result of any Indemnified Parties' gross negligence or willful misconduct or negligence in the handling of money. The provisions of this paragraph shall survive any purported termination of this Agreement and the Credit Documents that does not expressly reference this paragraph.

4.4 Each Guarantor agrees that this Agreement shall be governed by the laws of the State of Texas. If any provision in this Agreement is held to be unenforceable, such provision shall be severed and the remaining provisions shall remain in full force and effect. All representations, warranties, and covenants of any Guarantor in this Agreement shall survive the execution of this Agreement and any other contract or agreement. The Agent's remedies under this Agreement and the Credit Documents to which any Guarantor is a party shall be cumulative, and no delay in enforcing this Agreement and the Credit Documents to which such Guarantor is a party shall act as a waiver of the Agent's rights thereunder. The provisions of this Agreement may be waived or amended only in a writing signed by the party against whom enforcement is sought. This Agreement shall bind and inure to the benefit of each Guarantor and the Agent and their respective successors and assigns. Each Guarantor may not assign its rights or delegate its duties under this Agreement. The Agent may assign its rights and delegate its duties under this Agreement in accordance with the terms of the Credit Agreement. This Agreement may be executed in multiple counterparts each of which shall constitute one and the same agreement. Unless otherwise specified, all notices and other communications between such Guarantor and the Agent provided for in this Agreement and the Credit Documents to which such Guarantor is a party shall be in writing, including telecopy, and delivered or transmitted to the addresses set forth below, or to such other address as shall be designated by such Guarantor or the Agent in written notice to the other party. Notice sent by telecopy shall be deemed to be given and received when receipt of such transmission is acknowledged, and delivered notice shall be deemed to be given and received when receipted for by, or actually received by, an authorized officer of such Guarantor or the Agent, as the case may be.

If to any Guarantor:

[Guarantor]
c/o Integrated Electrical Services, Inc.
2301 Preston
Houston, Texas 77003
Attn: Jim P. Wise, Assistant Treasurer
telephone: 713-222-1875
telecopier: 713-222-1214

If to the Agent:

NationsBank of Texas, N.A.,
as Agent under the Credit Agreement
dated as of January 30, 1998, among
Integrated Electrical Services, Inc., the financial
institutions parties thereto, and the Agent
700 Louisiana, 7th Floor
Houston, Texas 77002
Attn: Mr. Albert L. Welch, Vice President
telephone: 713-247-6631
telecopier: 713-247-7748

4.5 Any present or future Subsidiary of the Borrower may become a Guarantor under and a party to this Agreement by executing and delivering to the Agent a Joinder

Agreement in accordance with Section 5.19 of the Credit Agreement or by otherwise assuming in writing in favor of the Agent the liabilities of a Guarantor under this Agreement. Upon execution and delivery of a Joinder Agreement or otherwise assuming the liabilities of a Guarantor under this Agreement such Subsidiary shall be deemed to be a Guarantor under this Agreement and a party to this Agreement for all purposes hereunder.

4.6 WAIVER OF JURY TRIAL. EACH GUARANTOR IRREVOCABLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THE CREDIT DOCUMENTS OR ANY TRANSACTIONS RELATING THERETO.

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THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

EXECUTED as of the date first above written.

ACE ELECTRIC, INC.
AMBER ELECTRIC, INC.
BW CONSOLIDATED, INC.
B/W CEC, INC.
B/W BEC, INC.
B/W CEC, LLC
B/W BEC, LLC
DANIEL ELECTRICAL CONTRACTORS, INC.
DANIEL ELECTRICAL OF TREASURE COAST, INC.
HATFIELD ELECTRIC, INC.
HAYMAKER ELECTRIC, LTD.
HOUSTON-STAFFORD ELECTRIC, INC.
STARK INVESTMENTS, INC.
MILLS ELECTRICAL CONTRACTORS, INC.
FORT WORTH REGIONAL ELECTRICAL SYSTEMS, L.L.C
MUTH ELECTRIC, INC.
POLLOCK ELECTRIC, INC.
REYNOLDS ELECTRIC CORP.
RODGERS ELECTRIC CO., INC.
SUMMIT ELECTRIC OF TEXAS, INC.
THOMAS POPP & CO., INC.
THURMANN & O'CONNELL CORP.
INTEGRATED ELECTRICAL FINANCE, INC.

By:

Jim P. Wise
Assistant Treasurer

[Execution Version]

PLEDGE AGREEMENT
(Integrated Electrical Services, Inc., and certain Subsidiaries)

This Pledge Agreement dated as of January 30, 1998 ("Agreement"), is made by Integrated Electrical Services, Inc., a Delaware corporation ("Borrower") and the undersigned subsidiaries of the Borrower (the Borrower and each such undersigned subsidiary, individually, a "Pledgor," and collectively, the "Pledgors"), in favor of NationsBank of Texas, N.A., as agent under the Credit Agreement described below ("Secured Party").

INTRODUCTION

Reference is made to the Credit Agreement dated as of January 30, 1998 (as modified from time to time, the "Credit Agreement"), among the Borrower, certain financial institutions which are or may become parties thereto (the "Banks"), and the Secured Party. It is a condition precedent to the obligation of the Banks to make any extension of credit under the Credit Agreement that the Pledgors shall have entered into this Agreement. Therefore, in consideration of the credit expected to be received in connection with the Credit Agreement, the Pledgors jointly and severally agree with the Secured Party as follows:

Section 1. Definitions. The terms "deposit account," "account," "general intangible," "security," "instrument," "document," "chattel paper," "equipment," "fixture," "inventory," "goods," and "proceeds" shall have the meanings specified by Article 9 of the Uniform Commercial Code ("UCC"). Capitalized terms used but not defined herein shall have the meanings set forth in the Credit Agreement. As used herein, the following terms shall have the following meanings:

"Collateral" means the Pledged Securities, Records, and Proceeds.

"Pledged Securities" means all of the issued and outstanding shares of stock of each Subsidiary of the Borrower (including those indirect Subsidiaries of the Borrower which are direct Subsidiaries of the other Pledgors), including in each case the shares described on the attached Schedule I, together with all dividends, cash, instruments, and other proceeds from time to time received or otherwise distributed in respect of the foregoing, including stock rights, options, rights to subscribe, dividends, liquidating dividends, stock dividends, new securities, or other properties or benefits to which any Pledgor may become entitled to receive on account of such property.

"Proceeds" means all present and future proceeds of the Pledged Securities, whether arising from the collection, sale, exchange, assignment, or other disposition of any Pledged Securities, the realization upon any Pledged Securities, or any other transaction or occurrence, including all claims of such Pledgor against third parties for impairment, loss, or damage to any Pledged Securities, all proceeds payable under any put, call, hedge, or other protection for the value of any Pledged Securities, and all rights under any indemnity, warranty, or guaranty of or for any of the foregoing, whether such proceeds are represented as money, deposit accounts, accounts, general intangibles, securities, instruments, documents, chattel paper, inventory, equipment, fixtures, or goods.

"Records" means all present and future contracts, accounting records, files, computer files, computer programs, and other records relating to the Pledged Securities and Proceeds.

"Secured Obligations" means (a) all principal, interest, premium, fees, reimbursements, indemnifications, and other amounts now or hereafter owed by the Borrower to the Secured Party and the Banks (and with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under the Credit Agreement and the other Credit Documents, (b) all amounts now or hereafter owed by any other Pledgor to the Secured Party and the Banks (and with respect to the Interest Hedge Agreements, any Affiliates of the Banks) under the Guaranty, this Agreement, and the other Credit Documents, and (c) any increases, extensions, renewals, replacements, and rearrangements of the foregoing obligations under any amendments, supplements, and other modifications of the agreements creating the foregoing obligations or any increases, extensions, renewals, replacements, and rearrangements of the foregoing obligations.

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of Texas, as amended from time to time, and any successor statute.

Section 2. Security Interest.

2.1 Grant of Security Interest. Each Pledgor hereby grants to the Secured Party a security interest in all of such Pledgor's right, title, and interest in and to the Collateral to secure the payment and performance of the Secured Obligations.

2.2 Pledgors Remain Liable. Anything herein to the contrary notwithstanding: (a) each Pledgor shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform its obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by Secured Party of any rights hereunder shall not release any Pledgor from any obligations under the contracts and agreements included in the Collateral; and (c) Secured Party shall not have any obligation under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Secured Party be obligated to perform or fulfill any of the obligations of any Pledgor thereunder, including any obligation to make any inquiry as to the nature or sufficiency of any payment such Pledgor may be entitled to receive thereunder, to present or file any claim, or to take any action to collect or enforce any claim for payment thereunder.

Section 3. General Provisions. Each Pledgor represents and warrants to and agrees with the Secured Party as follows:

3.1 Ownership. Each Pledgor has good and indefeasible title to the Collateral free from any liens, security interests, assignments, options, adverse claims, restrictions, and other encumbrances whatsoever. The shares of stock representing the Pledged Securities are duly authorized and validly issued and are fully paid and nonassessable. The Pledged Securities constitute 100% of the issued and outstanding shares of capital stock of each Subsidiary of the Borrower (including those indirect Subsidiaries of the Borrower which are direct Subsidiaries of the other Pledgors). No effective pledge or other transfer regarding the Pledged Securities of any Pledgor is in effect. No recorded financing statement or similar recording or filing covering any part of the Collateral is in effect or on file in any recording office, except those filed in connection with this Agreement. No Pledgor shall, without the prior written consent of the Secured Party, grant any lien, security interest, assignment, option, restriction, claim, or other encumbrance on or against the Collateral, or lease, sell, or otherwise transfer any of its rights in the Collateral, except (a) as permitted under Section 5.9(i) of the Credit Agreement, or (b) to the Secured Party pursuant to the terms of this Agreement.

3.2 Perfection. All certificates or instruments representing the Pledged Securities of the applicable Pledgor have been delivered to the Secured Party in a form suitable for transfer by delivery, or accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Secured Party, and each Pledgor shall deliver to the Secured Party in such manner all certificates and instruments representing the Pledged Securities of such Pledgor acquired by such Pledgor after the date of this Agreement. No other authorization, approval, or other action is necessary to allow such Pledgor to perform its obligations hereunder, or to permit the Secured Party to exercise its rights and remedies hereunder (except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally).

3.3 Priority. The security interest created by this Agreement is first priority, and each Pledgor shall preserve and maintain the status of such security interest to the end that this Agreement shall remain a first priority security interest in the Collateral.

3.4 Use and Condition.

(a) So long as no Default or Event of Default shall exist and until the Borrower has received notice from the Secured Party pursuant to Section 4.1(c) of this Agreement (which notice the Borrower shall promptly forward to the other Pledgors), each Pledgor shall be entitled to receive and retain any cash dividends distributed in respect of the Pledged Securities of such Pledgor, provided that any: (i) non-cash dividends, instruments, and other property received or otherwise distributed in respect of or in substitution for any such Pledged Securities; (ii) cash dividends and other distributions in connection with a partial or total liquidation or dissolution of an issuer of any such Pledged Securities or in connection with a reduction of capital, capital surplus, or paid-in-surplus of an issuer of such Pledged Securities; and (iii) cash distributed in respect of a redemption of principal of, or in exchange for, any such Pledged Securities, shall be promptly delivered to the Secured Party for disposition in accordance with Section 4.3 and shall, if received by any Pledgor, be received in trust for the benefit of the Secured Party, be segregated from the other property or funds of such Pledgor, and be promptly delivered to the Secured Party as Collateral in the same form as so received, with any necessary endorsement.

(b) With regard to the Pledged Securities of each Pledgor, so long as no Default or Event of Default shall exist and until the Borrower has received notice from the Secured Party pursuant to Section 4.1(d) of this Agreement (which notice the Borrower shall promptly forward to the other Pledgors), each Pledgor shall be entitled to exercise any voting and other consensual rights pertaining to the Pledged Securities of such Pledgor for any purpose not inconsistent with the terms of this Agreement. The Secured Party shall execute and deliver (or cause to be executed and delivered) to such Pledgor all proxies and other instruments that such Pledgor may reasonably request to enable such Pledgor to exercise the voting and other rights which it is entitled to exercise hereunder and to receive the dividends or interest payments which it is authorized to receive and retain hereunder.

3.5 Further Assurances.

(a) Each Pledgor agrees that at any time such Pledgor shall promptly execute and deliver all further agreements, and take all further action, that may be necessary or that the Secured Party may reasonably request, in order to further evidence the security interests granted or purported to be granted hereunder and perfect and protect the same or to enable the Secured Party to exercise and enforce its rights and remedies hereunder. Without limiting the foregoing, each Pledgor shall at the Secured Party's reasonable request: (i) mark conspicuously any tangible Collateral with a legend, in form and substance satisfactory to the Secured Party, indicating that such Collateral is subject to the security interest granted or purported to be granted hereunder; and (ii) execute stock powers, pledge registration requests, financing statements, amendments and continuations of financing statements, and such other documents and agreements as the Secured Party may reasonably request in order to perfect and preserve the security interests granted or purported to be granted hereunder. Each Pledgor shall furnish to the Secured Party from time to time any statements and schedules further identifying and describing any of the Collateral and such other reports in connection with the Collateral as the Secured Party may reasonably request.

(b) During the existence of an Event of Default, each Pledgor agrees that, if such Pledgor fails to perform under this Agreement, the Secured Party may, but shall not be obligated to, after written request to such Pledgor to perform, perform such Pledgor's obligations under this Agreement and any expenses reasonably incurred by the Secured Party in performing such Pledgor's obligations shall be paid by such Pledgor. Any such performance by the Secured Party may be made by the Secured Party in reasonable reliance on any statement, invoice, or claim, without inquiry into the validity or accuracy thereof. The amount and nature of any expense of the Secured Party hereunder shall be conclusively established, absent manifest error, by a certificate of any officer of the Secured Party.

(c) Each Pledgor irrevocably appoints the Secured Party as such Pledgor's attorney in fact, with full authority to act during the existence of an Event of Default for such Pledgor and in the name of such Pledgor, to take any action and execute any agreement which the Secured Party deems necessary or advisable to accomplish the purposes of this Agreement, including taking actions the Secured Party is expressly authorized to take pursuant to this Agreement (such as the matters described in paragraph (b) above), instituting proceedings the Secured Party deems necessary or desirable to enforce the rights of the Secured Party with respect to this Agreement, and taking actions with respect to receiving, endorsing, and collecting instruments made payable to such Pledgor representing any dividend, interest payment, or other distribution in respect of the Pledged Securities of such Pledgor and giving full discharge for the same. Provided, that the Secured Party shall first request in writing that such Pledgor take actions and such Pledgor shall, after reasonable opportunity, have failed to do so.

(d) The powers conferred on the Secured Party under this Agreement are solely to protect its rights under this Agreement and shall not impose any duty upon it to exercise any such powers. Except as elsewhere provided hereunder, the Secured Party shall have no duty as to any of the Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to the Collateral. The Secured Party shall have no responsibility for (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders, or other matters relative to any Pledged Securities, whether or not the Secured Party has or is deemed to have knowledge of such matters, or (ii) taking any necessary steps to preserve rights against any parties with respect to any Pledged Securities.

Section 4. Remedies. During the continuation of any Event of Default:

4.1 Interim Remedies.

(a) The Secured Party may exercise all the rights and remedies of a secured party under the UCC.

(b) The Secured Party may prosecute actions in equity or at law for the specific performance of any covenant or agreement herein contained or in aid of the execution of any power herein granted or for the enforcement of any other appropriate legal or equitable remedy.

(c) Following written notice to the Borrower (which notice the Borrower shall promptly forward to the other Pledgors) and to the extent specified in such written notice, all rights of the Pledgors to receive cash dividends shall cease, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to receive such cash dividends. All cash dividends received by any Pledgor in violation of the foregoing shall be received in trust for the benefit of the Secured Party, shall be segregated from other funds of such Pledgor, and shall be promptly paid over to the Secured Party to be held as Pledged Securities in the same form as so received (with any necessary endorsement).

(d) Following written notice to the Borrower (which notice the Borrower shall promptly forward to the other Pledgors) and to the extent specified in such written notice, all rights of the Pledgors to exercise the voting and other consensual rights which they would otherwise be entitled to exercise pursuant to this Agreement shall cease, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to exercise such voting and other consensual rights.

(e) Following written notice to the Borrower (which notice the Borrower shall promptly forward to the other Pledgors) and to the extent specified in such written notice, the Secured Party shall have the right, without further notice to any Pledgor, to transfer or to register, in the name of the Secured Party or any of its nominees, any of the Pledged Securities. In addition, the Secured Party shall have the right at any time to exchange the certificates or instruments representing the Pledged Securities for certificates or instruments of smaller or larger denominations.

(f) The Secured Party may require any Pledgor to promptly assemble any tangible Collateral of such Pledgor and make it available to the Secured Party at a place to be designated by the Secured Party. The Secured Party may occupy any premises owned or leased by any Pledgor where the Collateral is assembled for a reasonable period in order to effectuate its rights and remedies hereunder or under law, without obligation to such Pledgor with respect to such occupation. The Secured Party shall have no obligation to take any action to assemble or otherwise take control of the Collateral, whether for the purposes of sale or otherwise.

(g) The Secured Party may take any action permitted under the Credit Agreement or other Credit Documents, including declaring the unpaid portion of the Secured Obligations to be immediately due and payable under the terms of the Credit Agreement.

4.2 Foreclosure.

(a) The Secured Party may foreclose on the Collateral in any manner permitted by the courts of or in the State of Texas. If the Secured Party should institute a suit for the collection of the Secured Obligations and for the foreclosure of this Agreement, the Secured Party may at any time before the entry of a final judgment dismiss the same, and take any other action permitted by this Agreement.

(b) The Secured Party may exercise all the rights and remedies of a secured party under the UCC, including foreclosure.

(i) If, in the opinion of the Secured Party, there is any question that a public or semipublic sale or distribution of any Collateral will violate any state or federal securities law, the Secured Party in its discretion (A) may offer and sell securities privately to purchasers who will agree to take them for investment purposes and not with a view to distribution and who will agree to imposition of restrictive legends on the certificates representing the security, or (B) may, if lawful, sell such securities in an intrastate offering under Section 3(a)(11) of the Securities Act of 1933, as amended, and no sale so made in good faith by the Secured Party shall be deemed to be not "commercially reasonable" because so made. Each Pledgor shall cooperate fully with Secured Party in all respects in selling or realizing upon all or any part of the Collateral. In addition, each Pledgor shall fully comply with the securities laws of the United States, the State of Texas, and other states and take such actions as may be necessary to permit the Secured Party to sell or otherwise dispose of any securities pledged hereunder in compliance with such laws.

(ii) The Secured Party may sell, after notice to the Debtor, any Collateral at public or private sale, at the office of the Secured Party or elsewhere, for cash or credit and upon such other terms as the Secured Party deems commercially reasonable. The Secured Party may sell any Collateral at one or more sales, and the security interest granted hereunder shall remain in effect as to the unsold portion of the Collateral. Each Pledgor hereby deems ten days advance notice of the time and place of any public or private sale reasonable notification, recognizing that if the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, shorter notice may be reasonable. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any sale by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. In the event that any sale hereunder is not completed or is defective in the opinion of the Secured Party, the Secured Party shall have the right to cause subsequent sales to be made hereunder. Any statements of fact or other recitals made in any bill of sale, assignment, or other document representing any sale hereunder, including statements relating to the occurrence of an Event of Default, acceleration of the Secured Obligations, notice of the sale, the time, place, and terms of the sale, and other actions taken by the Secured Party in relation to the sale shall be conclusive evidence of the truth of the matters so stated. The Secured Party may delegate to any agent the performance of any acts in connection with any sale hereunder, including the sending of notices and the conduct of the sale.

4.3 Application of Proceeds. Unless otherwise specified herein, any cash proceeds received by the Secured Party from the sale of, collection of, or other realization upon any part of the Collateral shall be applied by the Secured Party in accordance with and in the manner specified by Section 6.9 of the Credit Agreement.

4.4 Waiver of Certain Rights. To the full extent each Pledgor may do so, no Pledgor shall insist upon, plead, claim, or take advantage of any law providing for any appraisement, valuation, stay, extension, or redemption, and each Pledgor hereby waives and releases the same, and all rights to a marshaling of the assets of such Pledgor, including the Collateral, or to a sale in inverse order of alienation in the event of foreclosure of the liens and security interests hereby created. No Pledgor shall assert any right under any law pertaining to the marshaling of assets, sale in inverse order of alienation, the administration of estates of decedents or other matters whatever to defeat, reduce, or affect the right of the Secured Party under the terms of this Agreement.

Section 5. Miscellaneous.

5.1 Notices. All notices and other communications from the Secured Party to any Pledgor provided for in this Agreement shall be delivered or transmitted to the Borrower, and shall be deemed delivered to any such Pledgor upon delivery to the Borrower. All notices and other communications between the parties provided for in this Agreement shall be delivered or transmitted as provided in the Credit Agreement to the applicable address set forth therein.

5.2 General. This miscellaneous provisions contained in Article 8 of the Credit Agreement are incorporated herein as if fully set forth herein. This Agreement may be executed in multiple counterparts each of which shall constitute one and the same agreement.

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

Executed as of the date first above written.

Pledgors:

INTEGRATED ELECTRICAL SERVICES, INC.

By: ----------------------------------
J. Paul Withrow
Vice President and
Chief Accounting Officer

BW CONSOLIDATED, INC.

By: ----------------------------------
Jim P. Wise
Assistant Treasurer

MILLS ELECTRICAL CONTRACTORS, INC.

By: ----------------------------------
Jim P. Wise

Assistant Treasurer

Secured Party:

NATIONSBANK OF TEXAS, N.A., as Agent

By:

Albert L. Welch
Vice President

[Execution Version]

PROMISSORY NOTE
(NationsBank of Texas, N.A.)

$65,000,000 Houston, Texas January 30, 1998

For value received, the undersigned INTEGRATED ELECTRICAL SERVICES, INC., a Delaware corporation ("Borrower"), hereby promises to pay to the order of NATIONSBANK OF TEXAS, N.A. ("Bank"), the principal amount of Sixty-Five Million and No/100 Dollars ($65,000,000) or, if less, the aggregate outstanding principal amount of the Revolving Loan Advances (as defined in the Credit Agreement referred to below) made by the Bank to the Borrower, together with accrued but unpaid interest on the principal amount of each such Revolving Loan Advance from the date of such Revolving Loan Advance until such principal amount is paid in full, at such interest rates, and at such times, as are specified in the Credit Agreement.

This Note is one of the Notes referred to in, and is entitled to the benefits of, and is subject to the terms of, the Credit Agreement dated as of January 30, 1998 (as the same may be modified from time to time, the "Credit Agreement"), among the Borrower, the financial institutions parties thereto ("Banks"), and NationsBank of Texas, N.A., as agent for the Banks ("Agent"). Capitalized terms used herein but not defined herein shall have the meanings specified by the Credit Agreement. The Credit Agreement, among other things, (a) provides for the making of Revolving Loan Advances by the Bank to the Borrower from time to time, the indebtedness of the Borrower resulting from each such Revolving Loan Advance being evidenced by this Note, and (b) contains provisions for acceleration of the maturity of this Note upon the happening of certain events stated in the Credit Agreement and for prepayments of principal prior to the maturity of this Note upon the terms and conditions specified in the Credit Agreement.

Both principal and interest are payable to the Agent in the currency, at the times, in the locations, and in the manner specified in the Credit Agreement. The Bank shall record all Revolving Loan Advances and payments of principal made under this Note, but no failure of the Bank to make such recordings shall affect the Borrower's repayment obligations under this Note.

It is contemplated that because of prepayments there may be times when no indebtedness is owed under this Note. Notwithstanding such prepayments, this Note shall remain valid and shall be in force as to Revolving Loan Advances made pursuant to the Credit Agreement after such prepayments.

It is the intention of the Bank and the Borrower to conform strictly to any applicable usury laws. Accordingly, the terms of the Credit Agreement relating to the prevention of usury will be strictly followed.

EXECUTED as of the date first above written.

INTEGRATED ELECTRICAL SERVICES, INC.

By:

J. Paul Withrow
Vice President and
Chief Accounting Officer

[Execution Version]

PROMISSORY NOTE
(Swing Line)

$5,000,000.00 January 30, 1998

INTEGRATED ELECTRICAL SERVICES, INC., a Delaware corporation ("Borrower"), for value received, hereby promises to pay to the order of NATIONSBANK OF TEXAS, N.A. ("Lender"), the principal sum of FIVE MILLION AND NO/100 DOLLARS ($5,000,000.00) or, if less, the outstanding principal amount advanced under this Promissory Note ("Note") and interest thereon, all as required by this Note.

This Note is the Swing Line Note referred to in, and is entitled to the benefits of, and is subject to the terms of, the Credit Agreement dated as of January 30, 1998 (as modified from time to time, the "Credit Agreement"), among the Borrower, the financial institutions parties thereto ("Banks"), and NationsBank of Texas, N.A., as agent for the Banks ("Agent"). Capitalized terms used herein but not defined herein shall have the meanings specified by the Credit Agreement.

Subject to the terms of this Note, the Lender shall from time to time prior to the Maturity Date (hereinafter defined) make advances ("Advances") to the Borrower under this Note. The aggregate outstanding principal amount of such advances shall not exceed the face amount of this Note. The Borrower shall request Advances by providing the Lender with notice not later than 11:00 a.m., Houston, Texas, time on the date of the requested Advance. The request must specify the amount of the requested Advance and the date of funding for such Advance. The Lender shall, before 4:00 p.m., Houston, Texas, time on the date of such Advance, make such Advance available to the Borrower in immediately available funds at the Borrower's account with the Lender.

Subject to the terms hereof, the Borrower may prepay the Advances on this Note by providing the Lender with notice of the intended prepayment not later than 11:00 a.m., Houston, Texas, time on the date of prepayment, specifying the amount and the date of such prepayment. Each partial prepayment of the Advances shall be in a minimum amount of $100,000 or an integral multiple thereof or, if the aggregate outstanding principal amount of the Advances would be less than $100,000 following the prepayment, in the remaining aggregate outstanding principal amount of the Advances, together with accrued interest to the date of such prepayment on the principal amount prepaid. Amounts prepaid shall be applied in the inverse order of maturity.

Notwithstanding anything herein to the contrary, the Borrower shall pay to the Lender the outstanding principal balance of this Note on January 31, 2001 ("Maturity Date").

It is contemplated that because of prepayments there may be times when no indebtedness is owed under this Note. Notwithstanding such prepayments, this Note shall remain valid and shall be in force as to Advances made pursuant to the Credit Agreement after such prepayments.

The Advances shall bear interest at a per annum rate equal to the difference of (a) (i) the Adjusted Base Rate in effect from time to time plus (ii) the Applicable Margin for the Prime Rate Tranche in effect from time to time, calculated on the basis of a 365/366-day year for the actual number of days elapsed, minus (b) the Applicable Margin for Commitment Fees in effect from time to time, calculated on the basis of a 360-day year for the actual number of days elapsed.

The Borrower shall pay to the Lender all accrued but unpaid interest on the aggregate outstanding principal amount of the Advances on the last day of each calendar quarter, when the Advances are prepaid in full, and on the Maturity Date.

The Lender shall record in its records all Advances made under this Note and all payments of principal and interest on the Advances. Any failure of the Lender to make such recordings, however, shall not affect the Borrower's repayment obligations. The Lender's records shall be presumptive evidence of the principal and interest owed by the Borrower.

The Borrower shall make each payment required under this Note not later than 12:00 noon, Houston, Texas, time on the date when due in Dollars to the Lender at such location as is specified by the Lender in writing in immediately available funds. During the existence of an Event of Default, the Borrower hereby authorizes the Lender, if and to the extent payment is not made when due under this Note, to charge from time to time against any account of the Borrower with the Lender any amount so due. Whenever any payment to be made under this Note shall be stated to be due on a day other than a day on which the Lender is open for business in Houston, Texas ("Business Day"), such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of the payment of interest. All payments shall be applied as directed by the Borrower or, if not directed by the Borrower, as determined by the Lender.

Each of the following shall be an "Event of Default" for the purposes of this Note: (a) the Borrower (i) fails to pay when due any principal amounts due under this Note or (ii) fails to pay when due any interest or other amounts due under this Note and such failure has not been cured within five Business Days, (b) there shall occur any Event of Default under the Credit Agreement, or (c) the Lender shall resign or be removed as Agent under the Credit Agreement.

During the continuation of any Event of Default, the Lender may declare by written notice to the Borrower all of the commitments of the Lender hereunder terminated (whereupon the same shall terminate) and the Lender may declare by written notice to the Borrower the aggregate outstanding principal amount of the Advances, all accrued interest thereon, and all other amounts payable by the Borrower under this Note to be immediately due and payable (whereupon the same shall immediately and automatically become due and payable). Upon the occurrence of any Event of Default relating to bankruptcy or insolvency, all of the commitments of the Lender hereunder shall terminate, and the aggregate outstanding principal amount of all Advances made under this Note, all accrued interest thereon, and all other amounts payable by the Borrower under this Note shall immediately and automatically become due and payable.

Except for the notices provided for above and in the Credit Agreement, the Borrower waives notice of intent to demand, demand, presentment for payment, notice of nonpayment, protest, notice of setoff, notice of protest, notice of dishonor, notice of intent to accelerate, notice of acceleration, and all other notices in connection with the foregoing.

During the existence of an Event of Default, the Lender is authorized at any time, to the fullest extent permitted by law, to setoff and apply any indebtedness owed by the Lender to the Borrower against any and all of the obligations of the Borrower under this Note, irrespective of whether or not the Lender shall have made any demand under this Note and although such obligations may be contingent and unmatured. Following an Event of Default, the Lender may exercise (a) all of its rights under this Note and the Credit Agreement (including Section 2.3(b) thereof) (such agreements being the "Loan Documents") and (b) all other rights at law or in equity. During the existence of an Event of Default, all payments and collections shall be applied in the order determined by the Lender.

No right, power, or remedy conferred to the Lender in the Credit Agreement or any Loan Document, or now or hereafter existing at law, in equity, by statute, or otherwise shall be exclusive, and each such right, power, or remedy shall to the full extent permitted by law be cumulative and in addition to every other such right, power or remedy. No course of dealing and no delay in exercising any right, power, or remedy conferred to the Lender in this Note, or now or hereafter existing at law, in equity, by statute, or otherwise shall operate as a waiver of or otherwise prejudice any such right, power, or remedy. No notice to or demand upon the Borrower shall entitle the Borrower to similar notices or demands in the future.

If the Borrower fails to pay when due any amount payable under this Note, at the request of the Lender the amount not paid when due shall bear interest beginning on the date due until paid in full at the rate otherwise set for outstanding principal hereunder plus 2.00%.

It is the intention of the Lender and the Borrower to conform strictly to any applicable usury laws. Accordingly, the terms of the Credit Agreement relating to the prevention of usury will be strictly followed.

This Note shall be governed by the laws of the State of Texas without regard to any principles of conflicts of laws. If any provision in this Note is held to be unenforceable, such provision shall be severed and the remaining provisions shall remain in full force and effect. All representations, warranties, and covenants of the Borrower in this Note shall survive the execution of this Note, the other Loan Documents, and any other contract or agreement. The Lender's remedies under this Note and the Loan Documents shall be cumulative, and no delay in enforcing this Note or the other Loan Documents shall act as a waiver of the Lender's rights hereunder. The provisions of this Note may be waived or amended only in a writing signed by the party against whom enforcement of such waiver or amendment is sought. This Note shall bind the Borrower and the Borrower's successors and assigns and shall inure to the benefit of the Lender and the Lender's successors and assigns. The Borrower may not assign the Borrower's rights or delegate the Borrower's duties under this Note or the other Loan Documents. The Lender may assign and participate the Lender's rights and delegate the Lender's duties under this Note. Unless otherwise specified, all notices provided for in this Note shall be made in accordance with the terms of the Credit Agreement.

THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EXECUTED as of the date first above written.

INTEGRATED ELECTRICAL SERVICES, INC.

By: ______________________________
J. Paul Withrow
Vice President and
Chief Accounting Officer

EXHIBIT 10.6

AGREEMENT

For good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, the undersigned hereby agrees as follows:

1. TRANSFER RESTRICTIONS.

1.1 TRANSFER RESTRICTIONS. Unless otherwise agreed by Integrated Electrical Services, Inc. (the "Company"), except for transfers to immediate family members who agree to be bound by the restrictions set forth herein (or trusts for the benefit of the undersigned or family members, or trusts in which the undersigned is both the grantor and the beneficiary, the trustees of which so agree), for a period of two years from the date of issuance, except pursuant to Section 3 hereof, the undersigned shall not sell, assign, exchange, transfer, appoint, or otherwise dispose of any shares of common stock of the Company sold and issued by the Company or transferred to the undersigned prior to the date of this Agreement (the "Restricted Stock"). The certificates evidencing the Restricted Stock will bear a legend substantially in the form set forth below and containing such other information as the Company may deem necessary or appropriate.

THE SHARES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, EXCHANGED, TRANSFERRED, DISTRIBUTED, APPOINTED OR OTHERWISE DISPOSED OF WITHOUT THE WRITTEN CONSENT OF THE COMPANY, AND THE ISSUER SHALL NOT BE REQUIRED TO GIVE EFFECT TO ANY ATTEMPTED SALE, ASSIGNMENT, EXCHANGE, TRANSFER, DISTRIBUTION, APPOINTMENT OR OTHER DISPOSITION PRIOR TO SEPTEMBER 4, 1999. UPON THE WRITTEN REQUEST OF THE HOLDER OF THIS CERTIFICATE, THE ISSUER AGREES TO REMOVE THIS RESTRICTIVE LEGEND (AND ANY STOP ORDER PLACED WITH THE TRANSFER AGENT) AFTER THE DATE SPECIFIED ABOVE.

2. FEDERAL SECURITIES ACT REPRESENTATIONS

2.1 COMPLIANCE WITH LAW. The undersigned acknowledges that the shares of Restricted Stock have not been and will not be registered under the Securities Act of 1933, as amended (the "1933 Act") (except as provided in Section 3 hereof) and therefore may not be resold without compliance with the 1933 Act. The Restricted Stock was acquired solely for the undersigned's own respective account, for investment purposes only, and with no present intention of distributing, selling or otherwise disposing of it in connection with a distribution. The undersigned covenants, warrants and represents that none of the Restricted Stock will be offered, sold, assigned, pledged, hypothecated, transferred or otherwise disposed of except after full compliance with all of the applicable provisions of the 1933 Act and the rules and regulations of the SEC. All the Restricted Stock shall bear the following legend in addition to the legend required under Section 1 of this Agreement:

THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY ONLY BE SOLD OR OTHERWISE TRANSFERRED IF THE HOLDER HEREOF COMPLIES WITH THE ACT AND APPLICABLE SECURITIES LAW.

3. REGISTRATION RIGHTS

3.1 PIGGYBACK REGISTRATION RIGHTS. At any time following the date hereof, whenever the Company proposes to register any common stock of the Company for its own or others account under the 1933 Act for a public offering, other than (i) any shelf or other registration of shares to be used as consideration for acquisitions of additional businesses by the Company and (ii) registrations relating to employee benefit plans, the Company shall give the undersigned prompt written notice of its intent to do so. Upon the written request of the undersigned given within 10 days after receipt of such notice, the Company shall cause to be included in such registration all of the Restricted Stock (including any stock issued as or issuable upon the conversion or exchange of any convertible security, warrant, right or other security which is issued by the Company as a stock split, dividend or other distribution with respect to, or in exchange for, or in replacement of such common stock) which the undersigned requests, other than shares of common stock of the Company which may be sold under Rule 144(k) (or any similar or successor provision) promulgated under the 1933 Act, and other than shares of common stock of the Company that have been theretofore sold by the undersigned in accordance with the 1933 Act. If the Company is advised in writing in good faith by any managing underwriter of an underwritten offering of the securities being offered pursuant to any registration statement under this section that the number of shares to be sold by persons other than the Company is greater than the number of such shares which can be offered without adversely affecting the success of the offering, the Company may reduce pro rata (among the undersigned and all other selling security holders in the offering) the number of shares offered for the accounts of such persons (based upon the number of shares held by such person) to a number deemed satisfactory by such managing underwriter. If the undersigned disapproves of the terms of the underwriting, he may elect to withdraw therefrom by written notice to the Company and the managing underwriter. The undersigned's shares of Restricted Stock so withdrawn shall also be withdrawn from registration.

3.2 REGISTRATION PROCEDURES. Whenever the Company is required to register shares of common stock pursuant to Section 3, the Company will, as expeditiously as possible:

(i) Prepare and file with the SEC a registration statement with respect to such shares and use its best efforts to cause such registration statement to become effective (provided that before filing a registration statement or prospectus or any amendments or supplements or term sheets thereto, the Company will furnish a representative of the undersigned with copies of all such documents proposed to be filed) as promptly as practical;

(ii) Notify the undersigned of any stop order issued or threatened by the SEC and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered;

(iii) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for a period of not less than 120 days, cause the prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 474 under the 1933 Act; and comply with the provisions of the 1933 Act applicable to it with respect to the disposition of all securities covered by such registration statement during the applicable period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement or supplement to the prospectus;

(iv) Furnish to the undersigned such number of copies of such registration statement, each amendment and supplement thereto and the prospectus included in such registration statement (including each preliminary prospectus and any term sheet associated therewith), and such other documents as the undersigned may reasonably request in order to facilitate the disposition of the relevant shares;

(v) Make "generally available to its security holders" (within the meaning of Rule 158) an earnings statement satisfying the provisions of Section 11(a) of the 1933 Act and Rule 158 thereunder no later than 90 days after the end of the 12-month period beginning with the first day of the Company's first fiscal quarter commencing after the effective date of the registration statement;

(vi) Make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of the registration statement at the earliest possible moment;

(vii) If requested by the managing underwriter or underwriters, if any, or any participating selling stockholder, promptly incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriter or underwriters or any participating selling stockholder, as the case may be, reasonably requests to be included therein, including, without limitation, information with respect to the number of shares of common stock of the Company being sold by participating selling stockholders to any underwriter or underwriters, the purchase price being paid therefor by such underwriter or underwriters and with respect to any other terms of an underwritten offering of the shares of common stock to be sold in such offering, and promptly make all required filings of such prospectus by supplement or post-effective amendment;

(viii) Make available for inspection by participating selling stockholders, any underwriter participating in any disposition pursuant to such registration statement, and the counsel retained by the participating selling stockholders, counsel for the underwriters and any accountant or other agent retained by participating selling stockholders or any such underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company (the "Records"), as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such Inspectors in connection with such registration statement; provided, that records which the Company determines, in good faith, to be confidential and which the Company notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in the registration statement or (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction after delivery of sufficient notice to the Company to enable the Company to contest such subpoena or order;

(ix) Take all other steps reasonably necessary to effect the registration of the shares of common stock of the Company contemplated hereby;

(x) Use its best efforts to register or qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the undersigned, and to keep such registration or qualification effective during the period such registration statement is required to be kept effective, provided that the Company shall not be required to become subject to taxation, to qualify generally to do business or to file a general consent to service of process in any such states or jurisdictions;

(xi) Cause all such shares of common stock of the Company to be listed or included not later than the date of the first sale of shares of common stock of the Company under such registration statement on any securities exchanges or trading systems on which similar securities issued by the Company are then listed or included; and

(xii) Notify the undersigned at any time when a prospectus relating thereto is required to be delivered under the 1933 Act within the period that the Company is required to keep the registration statement effective of the happening of any event as a result of which the prospectus included in such registration statement (as then in effect), together with any associated term sheet, contains an untrue statement of a material fact or omits to state any fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus or any preliminary prospectus, in light of the circumstances under which they were made) not misleading, and, at the request of the undersigned, the Company promptly will prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of the covered shares, such prospectus will not contain an untrue statement of material fact or omit to state any fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus or any preliminary prospectus, in light of the circumstances under which they were made) not misleading.

All expenses incurred in connection with the registration under this Article 3 and compliance with securities and blue sky laws (including all registration, filing, listing, escrow agent, qualification, legal, printer and accounting fees, but excluding underwriting commissions and discounts), shall be borne by the Company.

3.3 INDEMNIFICATION.

(a) In connection with any registration under Section 3.1, the Company shall indemnify, to the extent permitted by law, the undersigned (an "Indemnified Party") against all losses, claims, damages, liabilities and expenses arising out of or resulting from any untrue or alleged untrue statement of material fact contained in any registration statement, prospectus or preliminary prospectus or associated term sheet or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading except insofar as the same are caused by or contained in or omitted from any information furnished in writing to the Company by such Indemnified Party expressly for use therein or by any Indemnified Parties' failure to deliver a copy of the registration statement or prospectus or any amendment or supplements thereto after the Company has furnished such Indemnified Party with a sufficient number of copies of the same.

(b) In connection with any registration under Section 3.1, the undersigned shall furnish to the Company in writing such information concerning the undersigned and his proposed offering of shares as is reasonably requested by the Company for use in any such registration statement or prospectus and will indemnify, to the extent permitted by law, the Company, its directors and officers and each person who controls the Company (within the meaning of the 1933 Act) against any losses, claims, damages, liabilities and expenses resulting from any untrue or alleged untrue statement of a material fact or any omission or alleged omission to state therein a material fact required to be stated in the registration statement or prospectus or any amendment thereof or supplement thereto or necessary to make the statements therein not misleading, but only to the extent that such untrue or alleged untrue statement or omission or alleged omission is contained in or omitted from information so furnished in writing to the Company by the underwriter expressly for use in the registration statement. Notwithstanding the foregoing, the liability of the undersigned under this Section 3.3 shall be limited to an amount equal to the net proceeds actually received by the undersigned from the sale of the relevant shares covered by the registration statement.

(c) Any person entitled to indemnification hereunder will (i) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in such indemnified parties' reasonable judgment, a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. Any failure to give prompt notice shall deprive a party of its right to indemnification hereunder only to the extent that such failure shall have adversely affected the indemnifying party. If the defense of any claim is assumed, the indemnifying party will not be subject to any liability for any settlement made without its consent (but such consent shall not be unreasonably withheld). An indemnifying party that is not entitled or elects not, to assume the defense of a claim, will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party, a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim.

3.4 UNDERWRITING AGREEMENT. In connection with each registration pursuant to Section 3.1 covering an underwritten registered offering, the undersigned agrees to enter into a written agreement with the managing underwriters in such form and containing such provisions as are customary in the securities business for such an arrangement between such managing underwriters and companies of the Company's size and investment stature, including indemnification; provided, however, that the undersigned shall be exempt and excluded from any indemnification of the managing underwriters other than with respect to information provided by the undersigned to the Company or the managing underwriters.

3.5 TRANSFER OF RIGHTS. The right to cause the Company to register shares of common stock under this Agreement may be assigned to a transferee or assignee of the undersigned to the extent that such transferee or assignee is a member of the immediate family of the undersigned, or a trust or partnership for the benefit of any such persons.

3.6 RULE 144 REPORTING. With a view to making available the benefits of certain rules and regulations of the SEC that may permit the sale of common stock of the Company to the public without registration, the Company agrees to use its reasonable efforts to:

(i) make and keep public information regarding the Company available as those terms are understood and defined in Rule 144 under the 1933 Act for a period of six years beginning 90 days following the effective date of the Registration Statement on Form S-1 (No. 333-38715) of the Company (the "Registration Statement");

(ii) file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the Securities and Exchange Act of 1934, as amended (the "1934 Act"), at any time after it has become subject to such reporting requirements; and

(iii) so long as the undersigned owns any restricted common stock of the Company, furnish to the undersigned forthwith upon written request a written statement by the Company as to its compliance with the current public information requirements of Rule 144 (at any time from and after 90 days following the effective date of the Registration Statement, and of the 1933 Act and the 1934 Act (any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed as the undersigned may reasonably request in availing himself of any rule or regulation of the SEC allowing the undersigned to sell any such shares without registration.

4. GENERAL

4.1 SUCCESSORS AND ASSIGNS. This Agreement and the rights of the parties hereunder may not be assigned (except by operation of law) and shall be binding upon and shall inure to the benefit of the parties hereto, the successors of the Company, and the heirs and legal representatives of the undersigned.

4.2 NOTICES. All notices or communication required or permitted hereunder shall be in writing and may be given by depositing the same in United States mail, addressed to the party to be notified, postage prepaid and registered or certified with return receipt requested, or by delivering the same in person to an officer or agent of such party.

(a) If to the Company addressed to it at:

Integrated Electrical Services, Inc.
2301 Preston
Houston, Texas 77003
Attention: General Counsel

(b) If to the undersigned, addressed to him at:

____
____
____

or to such other address or counsel as any party hereto shall specify pursuant to this section from time to time.

4.3 GOVERNING LAW. This Agreement shall be construed in accordance with the laws of the State of Texas, excluding any conflicts of law, rule or principle that might refer same to the laws of another jurisdiction.

4.4 REFORMATION AND SEVERABILITY. In case any provision of this Agreement shall be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as to most nearly retain the intent of the parties, and if such modification is not possible, such provision shall be severed from this Agreement, and in either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby. No provision of this Agreement shall be interpreted or construed against any party solely because that party or its legal representative drafted such provision.

The parties hereto have entered into and executed this Agreement as of January 30, 1998.

By: ------------------------------------
Name: C. Byron Snyder

INTEGRATED ELECTRICAL SERVICES, INC.

By: ------------------------------------
Name: ----------------------------------
Title: ----------------------------------

SCHEDULE A

PARTIES TO FORM OF AGREEMENT

Party	Expiration Date
C. Byron Snyder	September 4, 1999
Gregg Layton Snyder Trust	September 4, 1999
Worth Byron Snyder Trust	September 4, 1999
D. Merril Cummings	September 4, 1999
Jon Pollock	September 4, 1999
Jerry Mills	September 4, 1999
Ben Mueller	September 4, 1999
Jim P. Wise	September 4, 1999
John F. Wombwell	September 4, 1999
John S. Stanfield	September 4, 1999
J. Paul Withrow	October 16, 1999

EXHIBIT 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports dated November 14, 1997 on the financial statements of the following businesses included in or made a part of this registration statement: Integrated Electrical Services, Inc.; BW Consolidated, Inc. and Subsidiaries; Houston-Stafford Electric, Inc. and Consolidated Entity; Mills Electrical Contractors, Inc. and Subsidiary; Muth Electric, Inc.; Amber Electric, Inc.; Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc.; Pollock Electric Inc.; Thurman & O'Connell Corporation; Charles P. Bagby, Co., Inc.; Summit Electric of Texas, Incorporated; and Rodgers Electric Company, Inc.; and to all references to our firm included in this registration statement.

ARTHUR ANDERSEN LLP

Houston, Texas

January 23, 1998