

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 1999

OR

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

For the transition period from_____to_____.

Commission File No. 1-13783

INTEGRATED ELECTRICAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

76-0542208

(I.R.S. Employer Identification No.)

515 Post Oak Boulevard
Suite 450
Houston, Texas 77027-9408
(Address of principal executive offices) (zip code)

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

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

The number of shares outstanding as of August 11, 1999, of the issuer's common stock was 35,672,103 and of the issuer's restricted voting common stock was 2,655,709.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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

	September 30, 1998	June 30, 1999
	----- (Audited)	----- (Unaudited)
ASSETS		
Cash	\$ 14,583	\$ 2,965
Accounts receivable, net of allowance of \$4,160 and \$6,310, respectively	146,327	238,674
Inventories, net	6,440	12,426
Costs and estimated earnings recognized in excess of billings on uncompleted contracts	12,502	31,641
Prepaid and other current assets	3,198	3,742
	-----	-----
Total current assets	183,050	289,448
Receivables from related parties	142	157
Goodwill, net	293,066	448,334
Property and equipment, net	23,436	43,721
Other assets	2,774	8,929
	-----	-----
Total assets	\$ 502,468	\$ 790,589
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt and current maturities of long-term debt	\$ 3,823	\$ 2,814
Accounts payable and accrued expenses	69,225	110,377
Income taxes payable	6,686	6,312
Billings in excess of costs and estimated earnings recognized on uncompleted contracts	27,807	37,811
Other current liabilities	489	624
	-----	-----
Total current liabilities	108,030	157,938
Long-term bank debt	89,500	42,500
Other long-term debt, net of current maturities	854	1,094
Senior subordinated notes, net of \$1,170 unamortized discount	--	148,830
Other liabilities	1,380	1,624
	-----	-----
Total liabilities	199,764	351,986
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock	281	351
Restricted common stock	27	27
Additional paid-in capital	291,650	395,002
Retained earnings	10,746	43,223
	-----	-----
Total stockholders' equity	302,704	438,603
	-----	-----
Total liabilities and stockholders' equity	\$ 502,468	\$ 790,589
	=====	=====

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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

	Nine Months Ended June 30,	
	1998	1999
	(Unaudited)	
Revenues	\$ 219,620	\$ 693,146
Cost of services (including depreciation)	173,420	544,798
Gross profit	46,200	148,348
Selling, general & administrative expenses:		
Corporate	1,469	7,225
Field	27,998	70,385
Non-cash, non-recurring compensation charge	17,036	--
Goodwill amortization	1,743	6,457
Income (loss) from operations	(2,046)	64,281
Other (income)/expense:		
Interest expense	269	9,156
Interest income	(288)	(797)
Gain on sale of assets	(195)	(154)
Other income, net	(134)	(330)
Income (loss) before income taxes	(1,698)	56,406
Provision for income taxes	6,443	23,929
Net income (loss)	\$ (8,141)	\$ 32,477
Basic earnings (loss) per share	\$ (0.49)	\$ 0.99
Diluted earnings (loss) per share	\$ (0.49)	\$ 0.97
Shares used in the computation of earnings per share (Note 5)		
Basic	16,757,359	32,832,083
Diluted	16,757,359	33,318,447

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,	
	1998	1999
	(Unaudited)	
Revenues	\$ 115,287	\$ 279,742
Cost of services (including depreciation)	91,294	217,864
Gross profit	23,993	61,878
Selling, general & administrative expenses:		
Corporate	746	3,321
Field	11,444	28,699
Goodwill amortization	1,103	2,514
Income from operations	10,700	27,344
Other (income)/expense:		
Interest expense	235	4,233
Interest income	(201)	(301)
Gain on sale of assets	(180)	(25)
Other income, net	(26)	(176)
Income before income taxes	10,872	23,613
Provision for income taxes	4,491	9,968
Net income	\$ 6,381	\$ 13,645
Basic earnings per share	\$ 0.24	\$ 0.39
Diluted earnings per share	\$ 0.24	\$ 0.39
Shares used in the computation of earnings per share (Note 5)		
Basic	26,475,914	34,966,934
Diluted	27,151,005	35,377,848

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	Common Stock		Restricted Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
BALANCE, September 30, 1998	28,105,363	\$ 281	2,655,709	\$ 27	\$291,650	\$ 10,746	\$302,704
Issuance of stock for							
Acquisitions (unaudited).....	6,924,034	69	--	--	103,061	--	103,130
Options exercised (unaudited).....	60,679	1	--	--	291	--	292
Net income (unaudited)	--	--	--	--	--	32,477	32,477
BALANCE, June 30, 1999 (unaudited)	35,090,076	\$ 351	2,655,709	\$ 27	\$395,002	\$ 43,223	\$438,603

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

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

	Nine Months Ended June 30,	
	1998	1999
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (8,141)	\$ 32,477
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Non-cash, non-recurring compensation charge	17,036	--
Depreciation and amortization	2,918	10,789
Gain on sale of property and equipment	(195)	(154)
Changes in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable	(7,004)	(32,460)
Inventories	548	(1,634)
Costs and estimated earnings recognized in excess of billings on uncompleted contracts	(1,234)	(5,018)
Prepaid expenses and other current assets	632	1,319
Increase (decrease) in		
Accounts payable and accrued expenses	(2,359)	6,042
Billings in excess of costs and estimated earnings recognized on uncompleted contracts	5,882	266
Income taxes payable and other current liabilities	(216)	(5,275)
Other, net	2	(1,256)
Net cash provided by operating activities	7,869	5,096
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(66,588)	(91,867)
Proceeds from sale of property and equipment	686	549
Additions to property and equipment	(2,731)	(8,068)
Collections of notes receivable	475	--
Net cash used in investing activities	(68,158)	(99,386)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of debt	20,626	227,320
Payments of debt	(24,909)	(139,346)
Distributions to accounting acquirer	(17,758)	--
Proceeds from initial public offering	91,513	--
Debt issuance costs	--	(5,329)
Other	--	27
Net cash provided by financing activities	69,472	82,672
NET INCREASE (DECREASE) IN CASH	9,183	(11,618)
CASH, beginning of period	4,154	14,583
CASH, end of period	\$ 13,337	\$ 2,965
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for		
Interest	\$ 161	\$ 2,959
Income taxes	\$ 3,308	\$ 25,608
Non-cash property distribution	\$ 756	\$ --

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

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

	Three Months Ended June 30,	
	1998	1999
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,381	\$ 13,645
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,746	4,256
Gain on sale of property and equipment	(180)	(25)
Changes in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable	(1,716)	(29,581)
Inventories	282	(1,242)
Costs and estimated earnings recognized in excess of billings on uncompleted contracts	(1,835)	26
Prepaid expenses and other current assets	594	1,741
Increase (decrease) in		
Accounts payable and accrued expenses	825	1,651
Billings in excess of costs and estimated earnings recognized on uncompleted contracts	1,534	2,969
Income taxes payable and other current liabilities	(1,378)	(736)
Other, net	63	(164)
Net cash provided by (used in) operating activities	6,316	(7,460)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired	(30,891)	(56,766)
Proceeds from sale of property and equipment	604	228
Additions to property and equipment	(728)	(4,282)
Net cash used in investing activities	(31,015)	(60,820)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of debt	20,000	43,572
Payments of debt	(4,358)	(8,033)
Other	--	76
Net cash provided by financing activities	15,642	35,615
NET DECREASE IN CASH	(9,057)	(32,665)
CASH, beginning of period	22,394	35,630
CASH, end of period	\$ 13,337	\$ 2,965
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for		
Interest	\$ 161	\$ 304
Income taxes	\$ 3,308	\$ 8,178

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. OVERVIEW

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

On January 30, 1998, concurrent with the closing of its initial public offering ("IPO" or "Offering") of common stock, IES acquired 16 companies and related entities engaged in all facets of electrical contracting and maintenance services (collectively, the "Founding Companies" or the "Founding Company Acquisitions"). Subsequent to its IPO, and through June 30, 1999, the Company has acquired 54 additional electrical contracting and maintenance businesses (the "Post IPO Acquisitions"). Of these "Post IPO Acquisitions", 53 were accounted for using the purchase method of accounting (the "Purchased Companies") and one was accounted for using the pooling-of-interests method of accounting (the "Pooled Company").

The financial statements of IES for periods prior to January 30, 1998 (the effective closing date of the acquisitions of the Founding Companies) are the financial statements of Houston-Stafford (the "Accounting Acquirer") as restated for the acquisition of the Pooled Company in June 1998. The operations of the other Founding Companies and IES, acquired by the Accounting Acquirer, have been included in the Company's financial statements beginning February 1, 1998, and the Purchased Companies beginning on their respective dates of acquisition. References herein to the "Company" include IES and its subsidiaries.

The accompanying unaudited condensed historical financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and therefore the financial statements included herein should be reviewed in conjunction with the financial statements and related notes thereto contained in the Company's annual report filed on Form 10-K with the Securities and Exchange Commission. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Actual operating results for the nine and three months ended June 30, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 1999.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There were no significant changes in the accounting policies of the Company during the periods presented. For a description of these policies, refer to Note 2 of the Notes to Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 1998.

SUBSIDIARY GUARANTIES

All of the Company's operating income and cash flow is generated by its wholly owned subsidiaries, which are the subsidiary guarantors of the Company's outstanding 9 3/8% Senior Subordinated Notes due 2009 (the "Senior Subordinated Notes"). The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of the Company; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the Senior Subordinated Notes; (iii) the aggregate assets, liabilities, earnings, and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis; and (iv) the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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. Significant estimates in these financial statements include those regarding revenue recognition for contracts accounted for under the percentage-of-completion method.

2. INITIAL PUBLIC OFFERING AND FOUNDING COMPANY ACQUISITIONS

On January 30, 1998, the Company completed its IPO of its stock, which involved the sale to the public of 7,000,000 shares of the Company's common stock at \$13.00 per share. The Company received net proceeds from the Offering of approximately \$78.8 million. Concurrent with the completion of the Offering, IES acquired the Founding Companies for consideration consisting of \$53.4 million in cash and 12,313,025 shares of common stock. Additionally, on February 5, 1998, the Company sold 1,050,000 shares of its common stock pursuant to the overallotment option granted to the underwriters in connection with the Offering for net proceeds of approximately \$12.7 million. The Company used approximately \$7.6 million of the net proceeds from the Offering to retire outstanding third party debt and approximately \$16.0 million to pay indebtedness incurred by the Founding Companies for distributions to the owners prior to the Acquisitions. The Company used the remaining net proceeds for acquisitions (see Note 3).

3. ACQUISITIONS

For the nine months ended June 30, 1999, the Company has acquired 33 acquisitions accounted for as purchases. The total consideration paid in these transactions was approximately \$91.9 million of cash, net of cash acquired and 6.9 million shares of common stock which exceeded the net tangible assets acquired by \$161.7 million, which amount has been recorded as goodwill in the accompanying consolidated financial statements. The accompanying balance sheets include allocations of the respective purchase prices to the assets acquired and liabilities assumed based on preliminary estimates of fair value and are subject to final adjustment.

The unaudited pro forma data presented below assume that the Founding Company Acquisitions, the Offering, and the Post IPO Acquisitions had occurred at the beginning of each period presented.

	Nine Months Ended June 30,	
	1998	1999
	(in thousands, except per share data)	
Revenues.....	\$ 813,406	\$ 878,150
Net income.....	\$ 30,546	\$ 35,826
Basic earnings per share.....	\$ 0.81	\$ 0.95
Diluted earnings per share.....	\$ 0.80	\$ 0.94

The unaudited pro forma data presented above also reflects pro forma adjustments primarily related to: reductions in general and administrative expenses for contractually agreed reductions in owners' compensation, the reversal of the \$17.0 million non-cash, non-recurring compensation charge which occurred during the quarter ended March 31, 1998, estimated goodwill amortization for the excess of consideration paid over the net assets acquired assuming a 40-year amortization period, interest expense on borrowings incurred to fund acquisitions, elimination of interest income, and additional tax expense based on the Company's effective tax rate.

4. LONG-TERM DEBT

Credit Facility

The Company has a \$175.0 million three-year revolving credit facility with Bank of America, N.A. as agent (the "Credit Facility"). The Credit Facility matures on July 30, 2001, and will be used for working capital, acquisitions, capital expenditures and other corporate purposes. The amounts borrowed under the Credit Facility bear interest at an annual rate equal to either (a) the London interbank offered rate ("LIBOR") plus 1.0% to 2.0%, as determined by the ratio of the Company's total funded debt to EBITDA (as defined), or (b) the higher of (i) the bank's prime rate and (ii) the Federal Funds rate plus 0.5%, plus up to an additional 0.5% as determined by the ratio of the Company's total funded debt to EBITDA. Commitment fees of 0.25% to 0.375%, as determined by the ratio of the Company's total funded debt to EBITDA, are due on any unused borrowing capacity under the Credit Facility. The Company's subsidiaries have guaranteed the repayment of all amounts due under the facility, and the facility is secured by the capital stock of the guarantors and the accounts receivable of the Company and the guarantors. The Credit Facility requires the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibits the payment of cash dividends on the Company's common stock, restricts the ability of the Company to incur other indebtedness and requires the Company to comply with certain financial covenants. Availability of the Credit Facility is subject to customary drawing conditions.

The Credit Facility is used to fund acquisitions, capital expenditures and working capital requirements. Under the terms of the Credit Facility the Company is required to comply with various affirmative and negative covenants including: (i) the maintenance of certain financial ratios, (ii) restrictions on additional indebtedness, and (iii) restrictions on liens, guarantees and dividends.

Senior Subordinated Notes

On January 25, 1999, the Company completed its offering of \$150.0 million Senior Subordinated Notes (the "Notes"). The Notes bear interest at 9 3/8% and mature on February 1, 2009. The Company will pay interest on the Notes on February 1 and August 1 of each year, commencing August 1, 1999. The Notes are unsecured senior subordinated obligations and are subordinated to all existing and future senior indebtedness. The Notes are guaranteed on a senior subordinated basis by all of the Company's subsidiaries. Under the terms of the Notes, the Company is required to comply with various affirmative and negative covenants including: (i) restrictions on additional indebtedness, and (ii) restrictions on liens, guarantees and dividends.

The net proceeds to the Company from the offering of the Notes was approximately \$144.0 million after deducting the debt issuance discount, underwriting commissions and offering expenses. The Company used a portion of the proceeds from the Notes to repay the \$100.0 million indebtedness then outstanding on its Credit Facility. The balance of the proceeds of the Notes, as well as amounts available under the Credit Facility, may be used for general corporate purposes, including but not limited to future acquisitions, capital expenditures and additional working capital.

5. PER SHARE INFORMATION

Basic earnings per share calculations are based on the weighted average number of shares of common stock and restricted voting common stock outstanding. Diluted earnings per share calculations are based on the weighted average number of common shares outstanding and common equivalent shares from the assumed exercise of outstanding stock options.

As of June 30, 1999, the Company had outstanding options to purchase up to a total of approximately 3,808,334 shares of Common Stock, of which 694,183 shares were vested and exercisable, issued pursuant to the Company's stock option plans. The shares used to calculate the historical earnings per share for the periods presented are summarized as follows:

	Nine Months Ended June 30,	
	1998	1999
Weighted average shares outstanding	16,757,359	32,832,083
Weighted average equivalent shares from outstanding stock options	--	486,364
	16,757,359	33,318,447
	=====	=====

	Three Months Ended June 30,	
	1998	1999
Weighted average shares outstanding	26,475,914	34,966,934
Weighted average equivalent shares from outstanding stock options	675,091	410,914
	27,151,005	35,377,848
	=====	=====

Common stock equivalents for the nine month period ended June 30, 1998 are excluded in the calculation of weighted average shares outstanding as the Company recorded a net loss for this period. The number of potentially antidilutive shares excluded from the calculation of fully diluted earning per share for the nine months ended June 30, 1998 was 357,249.

6. COMMITMENTS AND CONTINGENCIES

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

7. SUBSEQUENT EVENTS

Subsequent to June 30, 1999 and through August 11, 1999, the Company acquired four companies for an aggregate consideration of approximately 0.6 million shares of common stock and \$8.7 million in cash, net of cash acquired. The cash portion of such consideration was provided by cash on hand and borrowings under the Company's Credit Facility.

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

INTRODUCTION

The following should be read in conjunction with the response to Part I, Item 1 of this Report. Any capitalized terms used but not defined in this Item have the same meaning given to them in Part I, Item 1. This report on Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on our expectations and involve risks and uncertainties that could cause our actual results to differ materially from those set forth in the statements. Such risks and uncertainties include, but are not limited to, the ability to successfully consummate acquisitions, fluctuations in operating results because of acquisitions and seasonality, national and regional industry and economic conditions, competition and risks entailed in the operation and growth of existing and newly acquired businesses. The foregoing and other factors are discussed in our filings with the SEC including our Annual Report on Form 10-K for the year ended September 30, 1998.

Because of the significant effect of the acquisitions of the Founding Companies (excluding Houston-Stafford) and the acquisitions of the Purchased Companies on our results of operations, our historical results of operations and period-to-period comparisons are not indicative of future results and may not be meaningful. We plan to continue acquiring businesses in the future. The integration of acquired electrical contracting and maintenance businesses and the addition of management personnel to support existing and future acquisitions may positively or negatively affect our results of operations during the period immediately following acquisition.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 1998 COMPARED TO THE NINE MONTHS ENDED JUNE 30, 1999

The following table presents selected historical financial information for the nine months ended June 30, 1998 and 1999. The historical results of operations presented below include the results of operations of Houston-Stafford and the Pooled Company for the nine months ended June 30, 1998, the results of operations of IES and the other Founding Companies beginning February 1, 1998, and the results of operations of the Purchased Companies acquired during the nine months ended June 30, 1998, beginning on their respective dates of acquisition. Our results of operations for the nine months ended June 30, 1999, includes the results of operations for all Purchased Companies owned by IES at October 1, 1998, and the Purchased Companies acquired during the nine months ended June 30, 1999, beginning on their respective dates of acquisition.

	Nine Months Ended June 30,			
	1998	%	1999	%
	(dollars in millions)			
Revenues	\$ 219.6	100%	\$ 693.1	100%
Cost of services	173.4	79%	544.8	79%
Gross profit	46.2	21%	148.3	21%
Selling, general & administrative expenses	29.5	13%	77.6	11%
Non-cash, non-recurring compensation charge	17.0	8%	--	--
Goodwill amortization	1.7	1%	6.5	1%
Income (loss) from operations	\$ (2.0)	(1)%	\$ 64.2	9%

REVENUES. Revenues increased \$473.5 million, or 216%, from \$219.6 million for the nine months ended June 30, 1998, to \$693.1 million for the nine months ended June 30, 1999. The increase in revenues is principally due to the acquisitions of the Founding Companies (excluding Houston-Stafford) and the acquisitions of the Purchased Companies.

GROSS PROFIT. Gross profit increased \$102.1 million, or 221%, from \$46.2 million for the nine months ended June 30, 1998, to \$148.3 million for the nine months ended June 30, 1999. The increase in gross profit was principally due to the acquisitions of the Founding Companies (excluding Houston-Stafford) and the acquisitions of the Purchased Companies. As a percentage of revenues, gross profit remained constant at 21% over both periods.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$48.1 million, or 163%, from \$29.5 million for the nine months ended June 30, 1998, to \$77.6 million for the nine months ended June 30, 1999. This increase in selling, general and administrative expenses was primarily attributable to the acquisitions of the Founding Companies (excluding Houston-Stafford), the acquisitions of the Purchased Companies, increased corporate costs associated with being a public company, partially offset by a non-recurring \$5.6 million bonus paid to the owners of Houston-Stafford during the nine months ended June 30, 1998 but prior to our IPO. Excluding such bonuses and higher corporate costs primarily related to infrastructure development, selling, general and administrative expenses as a percentage of revenues remained constant at 10% over both periods.

INCOME (LOSS) FROM OPERATIONS. Income (loss) from operations increased \$66.2 million, from a \$2.0 million loss for the nine months ended June 30, 1998, to \$64.2 million for the nine months ended June 30, 1999. This increase in income from operations is primarily attributed to internal growth in the operations of the Founding Companies (excluding Houston-Stafford), and the acquisitions of the Purchased Companies, partially offset by the non-recurring owner bonuses and the non-cash, non-recurring compensation charge of \$17.0 million in connection with the Founding Company acquisitions in 1998, and higher corporate costs attributable to infrastructure development. As a percentage of revenues, income from operations (excluding the owner bonuses, the non-cash, non-recurring compensation charge and higher corporate costs noted above) remained constant at 10% over both periods.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 1999

The following table presents selected historical financial information for the three months ended June 30, 1998 and 1999. The historical results of operations presented below include the results of operations of Houston-Stafford, the Pooled Company and the other Founding Companies for the three months ended June 30, 1998 and the Purchased Companies acquired during the three months ended June 30, 1998, beginning on their respective dates of acquisition. Our results of operations for the three months ended June 30, 1999, includes the results of operations for all Purchased Companies owned by IES at January 1, 1999, and the Purchased Companies acquired during the three months ended June 30, 1999, beginning on their respective dates of acquisition.

	Three Months Ended June 30,			
	1998	%	1999	%
	(dollars in millions)			
Revenues	\$ 115.3	100%	\$ 279.7	100%
Cost of services	91.3	79%	217.8	78%
Gross profit	24.0	21%	61.9	22%
Selling, general & administrative expenses	12.2	11%	32.0	11%
Goodwill amortization	1.1	1%	2.5	1%
Income from operations	\$ 10.7	9%	\$ 27.4	10%

REVENUES. Revenues increased \$164.4 million, or 143%, from \$115.3 million for the three months ended June 30, 1998, to \$279.7 million for the three months ended June 30, 1999. The increase in revenues is principally due to the acquisitions of the Purchased Companies.

GROSS PROFIT. Gross profit increased \$37.9 million, or 158%, from \$24.0 million for the three months ended June 30, 1998, to \$61.9 million for the three months ended June 30, 1999. The increase in gross profit was principally due to the acquisitions of the Purchased Companies. As a percentage of revenues, gross profit increased from 21% in 1998 to 22% in 1999, primarily due to the acquisition by the Company of higher-margin information technology (IT) and power line businesses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$19.8 million, or 163%, from \$12.2 million for the three months ended June 30, 1998, to \$32.0 million for the three months ended June 30, 1999. This increase in selling, general and administrative expenses was primarily attributable to the acquisitions of the Purchased Companies and increased corporate costs associated with being a public company. Excluding such higher corporate costs, primarily related to infrastructure development, selling, general and administrative expenses remained constant at 10% over both periods.

INCOME FROM OPERATIONS. Income from operations increased \$16.7 million or 156%, from \$10.7 million for the three months ended June 30, 1998, to \$27.4 million for the three months ended June 30, 1999. This increase in income from operations is primarily attributed to the acquisitions of the Purchased Companies partially offset by higher corporate costs. As a percentage of revenues, income from operations (excluding the higher corporate costs noted above) increased from approximately 10% in 1998 to 11% in 1999. This increase is primarily

due to the acquisition by the Company of higher-margin IT and power line businesses discussed above.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1999, we had cash of \$3.0 million, working capital of \$131.5 million, \$42.5 million in outstanding borrowings under our Credit Facility, \$2.4 million of letters of credit outstanding, and available capacity under our Credit Facility of \$130.1 million.

During the nine months ended June 30, 1999, we generated \$5.1 million of net cash from operating activities, comprised of net income of \$32.5 million, increased by \$10.8 million of non-cash charges related to depreciation and amortization expense, decreased by a \$32.5 million increase in receivables as a result of revenue growth and the timing of collections, with the balance of the change due to other working capital changes. Net cash used in investing activities was \$99.4 million, including \$91.9 million used for the purchase of businesses, net of cash acquired. Net cash flow provided by financing activities was \$82.7 million, resulting primarily from our offering of \$150.0 million Senior Subordinated Notes, net borrowings under our Credit Facility and reduced by paydowns on debt acquired in connection with the purchase of businesses discussed above.

During the three months ended June 30, 1999, we used \$7.5 million of net cash from operating activities, comprised of net income of \$13.6 million, increased by \$4.3 million of non-cash charges related to depreciation and amortization expense, decreased by a \$29.6 million increase in receivables as a result of revenue growth and the timing of collections, with the balance of the change due to other working capital changes. Net cash used in investing activities was \$60.8 million, including \$56.8 million used for the purchase of businesses, net of cash acquired. Net cash flow provided by financing activities was \$35.6 million, resulting primarily from borrowings under our Credit Facility and reduced by paydowns on debt acquired in connection with the purchase of businesses discussed above.

We have a \$175.0 million three-year revolving credit facility with Bank of America, N.A. as agent (the "Credit Facility"). The Credit Facility will be used for working capital, acquisitions, capital expenditures and other corporate purposes. The amounts borrowed under the Credit Facility bear interest at an annual rate equal to either (a) the London interbank offered rate ("LIBOR") plus 1.0% to 2.0%, as determined by the ratio of our total funded debt to EBITDA (as defined), or (b) the higher of (i) the bank's prime rate and (ii) the Federal Funds rate plus 0.5%, plus up to an additional 0.5% as determined by the ratio of our total funded debt to EBITDA. Commitment fees of 0.25% to 0.375%, as determined by the ratio of our total funded debt to EBITDA, are due on any unused borrowing capacity under the Credit Facility. Our subsidiaries have guaranteed the repayment of all amounts due under the facility, and the facility is secured by the capital stock of the guarantors and the accounts receivable of the Company and the guarantors. The Credit Facility requires the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibits the payment of cash dividends on our common stock, restricts our ability to incur other indebtedness and requires us to comply with certain financial covenants. Availability of the Credit Facility is subject to customary drawing conditions. As of August 11, 1999, we have available borrowing capacity under our Credit Facility of approximately \$114.1 million.

On January 25, 1999, we completed our offering of \$150.0 million Senior Subordinated Notes (the "Notes"). The Notes bear interest at 9 3/8% and will mature on February 1, 2009. We will pay interest on the Notes on February 1 and August 1 of each year, commencing August 1, 1999. The Notes are unsecured Senior Subordinated obligations and are subordinated to all existing

and future senior indebtedness. The Notes are guaranteed on a senior subordinated basis by all of our subsidiaries. Under the terms of the Notes, we are required to comply with various affirmative and negative covenants including: (i) restrictions on additional indebtedness, and (ii) restrictions on liens, guarantees and dividends.

We received net proceeds from the offering of the Notes of approximately \$144.0 million after deducting the debt issuance discount, underwriting commissions and offering expenses. We used a portion of the proceeds from the Notes to repay the \$100.0 million indebtedness then outstanding on our Credit Facility. The balance of the proceeds of the Notes, as well as amounts available under the Credit Facility, may be used for general corporate purposes, including but not limited to, future acquisitions, capital expenditures and additional working capital.

We anticipate that our existing cash, cash flow from operations and proceeds from our Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and planned capital expenditures for property and equipment through the next twelve months.

Through August 11, 1999, we utilized a combination of cash and common stock to acquire 58 companies and the Founding Companies with total pro forma trailing twelve month revenues of approximately \$1.2 billion. The cash component of the consideration paid for these companies was funded with existing cash, borrowings under our bank credit facility and proceeds from the Notes.

We intend to continue to pursue acquisition opportunities. The timing, size or success of any acquisition effort and the associated potential capital commitments cannot be predicted. We expect to fund future acquisitions primarily with working capital, cash flow from operations and borrowings, including any unborrowed portion of the Credit Facility, as well as possible issuances of additional equity. To the extent we fund a significant portion of the consideration for future acquisitions with cash, we may have to increase the amount of the Credit Facility or obtain other sources of financing, including the issuance of additional debt or equity. Capital expenditures for equipment and expansion of facilities are expected to be funded from cash flow from operations and supplemented as necessary by borrowings under the Credit Facility.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Our 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 our business is less subject to seasonal trends, as this work generally is performed inside structures protected from the weather. Our service business is generally not affected by seasonality. In addition, the construction industry has historically been highly cyclical. Our volume of business may be adversely affected by declines in construction projects resulting from adverse regional or national economic conditions. Quarterly results may also be materially affected by the timing of new construction projects and acquisitions and the timing and magnitude of acquisition assimilation costs. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

RECENT ACCOUNTING PRONOUNCEMENTS

On October 1, 1998, we adopted SFAS No. 130 "Reporting Comprehensive Income," which requires the display of comprehensive income and its components in the financial statements. Comprehensive income represents all changes in equity of an entity during the reporting period,

including net income and charges directly to equity which are excluded from net income. There was no difference between our "traditional" and "comprehensive" net income.

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

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which becomes effective for us for our year ended September 30, 2001. SFAS No. 133 requires a company to recognize all derivative instruments (including certain derivative instruments embedded in other contracts) as assets or liabilities in its balance sheet and measure them at fair value. The statement requires that changes in the derivatives' fair value be recognized as current earnings unless specific hedge accounting criteria are met. We are evaluating SFAS No. 133 and the impact on existing accounting policies and financial reporting disclosures. However, we have not to date engaged in activities or entered into arrangements normally associated with derivative instruments.

YEAR 2000

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

Risk of Non-Compliance and Contingency Plans. The major applications which pose the greatest Year 2000 risks for us if implementation of its Year 2000 compliance program is not successful are our financial systems applications, including related third-party software. Potential problems if our Year 2000 compliance program is not successful could include disruptions of our revenue invoicing and collection from our customers and purchasing and payments to our vendors and the inability to perform our other financial and accounting functions. We operate on a decentralized basis with each individual reporting unit having independent information technology (IT) and non-IT systems. Our eight most significant reporting units represent in excess of 50% of our total revenue. Our Year 2000 compliance program is focused on the systems which could materially affect our business. We have completed the assessment of our significant operating units to date and believe that the systems at these companies are or will be Year 2000 compliant. We currently have assessed our remaining Year 2000 risk as low because:

- o we are not dependent on any key customers or suppliers (none represent as much as 5% of the companies sales or purchases, respectfully),
- o we have many separate PC based systems and are not dependent on any one system,
- o many of our processes are performed using spreadsheets and/or other manual processes which are not technologically dependent,

- o we perform construction and service maintenance on site for our customers, the work performed is manual in nature and not dependent on automated information technology systems to be completed, and
- o we currently believe that most of our systems that have Year 2000 compliance issues are based on prepackaged third-party software that will be upgraded at nominal costs through vendor supported upgrades.

As a result, we believe that our reasonably likely worst case Year 2000 scenario is a temporary inability for us to process the accounting transactions representing our business activity using automated information systems at certain of our operating units.

The goal of our Year 2000 project is to ensure that all of the critical systems and processes which are under our direct control remain functional. However, because certain systems and processes may be interrelated with systems outside of our control, there can be no assurance that all implementations will be successful. Accordingly, as part of our Year 2000 project, contingency and business plans are in the process of being developed to respond to potential failures that may occur. Such contingency and business plans are scheduled to be completed by the fourth quarter of fiscal 1999. To the extent appropriate, such plans will include emergency back up and recovery procedures, remediation of existing systems with system upgrades or installation of new systems and replacing electronic applications with manual processes. Due to the uncertain nature of contingency planning, there can be no assurances that such plans actually will be sufficient to reduce the risk of material impacts on our operations due to Year 2000 issues. We have ongoing information systems development and implementation projects, none of which have experienced delays due to our Year 2000 compliance program.

Compliance Program. In order to address the Year 2000 issue, we have established a project team to assure that key automated accounting systems and related processes will remain functional through year 2000. The team is addressing the project in the following stages: (i) awareness, (ii) assessment, (iii) remediation, (iv) implementation and (v) testing of the necessary modifications. The key automated systems consist of (a) project estimating, management and financial systems applications, (b) supporting hardware and equipment and (c) third-party developed software. The evaluation of our Year 2000 issue includes the evaluation of the Year 2000 exposure of third parties material to our operations. We have retained a Year 2000 consulting firm to manage, direct and assist with the Year 2000 compliance program.

Company State of Readiness. The awareness phase of our Year 2000 project began with a corporate-wide awareness program which will continue to be updated throughout the life of the project. We believe that there is not a material risk related to our non-IT systems because we are primarily a manual service provider and do not rely on these types of systems. The assessment phase of the project involves for both IT and non-IT systems, among other things, efforts to obtain representations and assurances from third parties, including third party vendors, that their hardware and equipment, embedded chip systems and software being used by or impacting us or any of our business units are or will be modified to be Year 2000 compliant. To date, most responses from such third parties have been conclusive. However, because we are not dependent on any key customers or suppliers, we do not believe that a disruption in service with any third party would have a material, adverse effect on our business, results of operations or financial condition. The remediation phase involves identifying the changes which are required to be implemented by system for them to be Year 2000 compliant. The testing and implementation phases involve verifying that changes address the Year 2000 problems identified through testing the system as part of implementing such changes. We expect all phases including testing and certification will be substantially completed by the end of the fourth quarter of Fiscal 1999.

However, we expect a small number of subsidiaries to complete their testing and certification in the first quarter of Fiscal 2000.

Costs to Address Year 2000 Compliance Issues. While the total cost of our Year 2000 project is still being evaluated, we currently estimate that the costs to be incurred in 1999 associated with the assessing and testing applications, hardware and equipment, and third party developed software will be less than \$450,000, which will be funded with existing operating cash flows and which we will deduct from income as incurred. We believe that software vendor Year 2000 releases should address the majority of our Year 2000 issues. To date, we have expended approximately \$145,000 related to our Year 2000 compliance. These costs were primarily related to the assessment, remediation and implementation phases of the project. We expect that the majority of the remaining costs related to our Year 2000 project will be incurred in the fourth quarter of our 1999 fiscal year. Because our internal systems are PC-based, we do not expect the costs of the Year 2000 project to have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk for changes in interest rates. Refer to our Form 10-K for the year ended September 30, 1998 for detailed discussion of this risk. In January 1999, we completed an offering of \$150.0 million of Senior Subordinated Notes (the "Notes"). The Notes bear interest at 9 3/8% and mature on February 1, 2009. We believe the carrying value and fair value of the debt are the same as of June 30, 1999.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS:

3.1 Bylaws of Integrated Electrical Services, Inc. (As Amended)

10.1 Integrated Electrical Services, Inc. 1997 Stock Plan as amended

27.1 Financial Data Schedule

B. REPORTS ON FORM 8-K

A report on Form 8-K was filed with the SEC on April 29, 1999, in connection with the acquisition by the Company of a business. A report on Form 8-K/A was also filed with the SEC on May 21, 1999, in connection with this acquisition.

A report on Form 8-K was filed with the SEC on May 7, 1999, in connection with the acquisition by the Company of four businesses. A report on Form 8-K/A was also filed with the SEC on May 28, 1999, in connection with one of these and two other acquisitions.

A report on Form 8-K was filed with the SEC on May 7, 1999, in connection with two subsidiaries which are significant guarantors of the Company's 9 3/8% Senior Subordinated Notes due 2009.

A report on Form 8-K was filed with the SEC on May 26, 1999, in connection with the acquisition by the Company of three businesses.

A report on Form 8-K was filed with the SEC on June 29, 1999, in connection with the acquisition by the Company of a business.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

SIGNATURES

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

INTEGRATED ELECTRICAL SERVICES, INC.

Date: August 11, 1999

By: /s/ STANLEY H. FLORANCE
Stanley H. Florance
Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Bylaws of Integrated Electrical Services, Inc. (As Amended)
10.1	Integrated Electrical Services, Inc. 1997 Stock Plan as amended
27.1	Financial Data Schedule

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

ARTICLE I

OFFICES

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

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

ARTICLE II

MEETINGS OF STOCKHOLDERS

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

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

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

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

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

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

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

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

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

Section 7. The holders of a majority of the stock issued, outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented.

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

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

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

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

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

ARTICLE III

DIRECTORS

Number, Nomination, Removal

Section 1. The number of Directors shall be fixed from time to time by the Board of Directors, but shall not be less than 1 nor more than 15 persons. The Directors shall be elected at the annual meeting of the stockholders in accordance with the provisions of Section 2 of this Article, and each Director elected shall hold office until his successor is elected and qualified. Directors need not be stockholders.

Section 2. Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, nominations for the election of Directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of Directors generally. Any stockholder entitled to vote in the election of Directors generally may nominate one or more

persons for election as Directors at a meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than 80 days prior to the date of any annual or special meeting. In the event that the date of such annual or special meeting was not publicly announced by the Corporation by mail, press release or otherwise more than 90 days prior to the meeting, notice by the stockholder to be timely must be delivered to the Secretary of the Corporation not later than the close of business on the tenth day following the day on which such announcement of the date of the meeting was communicated to the stockholders.

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

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

Section 3. Subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional Directors under specified circumstances, newly created directorships resulting from any increase in the number of Directors and any vacancy on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining Directors then in office, even though less than a quorum of the Board of Directors. or by a sole remaining Director. Any Director elected or chosen as provided herein shall hold office until the sooner of the following events: (i) the expiration of the term of the directorship to which he is appointed, (ii) such time as his successor is elected and qualified or (iii) his resignation or removal. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of an incumbent Director.

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

power of the outstanding shares of Voting Stock (as defined below), voting together as a single class, may remove such Director or Directors for cause.

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

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

Meetings of the Board of Directors

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

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

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

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

Section 10. Except as provided in these Bylaws to the contrary, at all meetings of the board a majority of the total number of Directors shall constitute a quorum for the transaction of business and the vote of a majority of the Directors entitled to vote and present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the certificate of incorporation shall require a vote of a greater number. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

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

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

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

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

Committees of Directors

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

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

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

Compensation of Directors

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

ARTICLE IV

NOTICES

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

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

ARTICLE V

OFFICERS

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

Section 2. The Board of Directors at its first meeting after each annual meeting of stockholders shall choose a Chairman of the Board of Directors, a chief executive officer, a president, one or more chief operating officers, one or more vice presidents, a secretary and a treasurer.

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

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

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

The Chairman of the Board of Directors

Section 6. The Chairman of the Board of Directors of the Corporation shall preside at all meetings of stockholders and the Board of Directors. He shall perform such duties and have

such powers as usually appertain to the office or as the Board of Directors may from time to time prescribe.

The Chief Executive Officer

Section 7. The Chief Executive Officer of the Corporation shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall have the authority to execute all documents and instruments necessary to carry out the management of the business of the Corporation. He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of this Corporation. He shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe. He shall report to the Board of Directors.

The President

Section 8. The President of the Corporation shall perform such duties and have such powers as usually appertain to the office or as the Chief Executive Officer or the Board of Directors may from time to time prescribe. He shall have the authority to execute all documents and instruments necessary to carry out the management of the business of the Corporation. He shall report to the Chief Executive Officer.

The Chief Operating Officers

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

The Vice Presidents

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

The Secretary and the Assistant Secretary

Section 11. The secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board

of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or president, under whose supervision he shall be. He shall have custody of the corporate seal of the Corporation, if any such seal be adopted by resolution of the Board of Directors, and he, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his signature or by the signature of such assistant secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affirming thereof by his signature.

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

The Treasurer and Assistant Treasurer

Section 13. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the president and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as treasurer and of the financial condition of the Corporation.

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

The Vice Chairman of the Board of Directors

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

ARTICLE VI

CERTIFICATES OF STOCK

Section 1. Every holder of stock in the Corporation shall be entitled to a certificate, signed by, or in the name of the Corporation by, the Chairman of the Board, the chief executive officer, the president or a vice president and the secretary or an assistant secretary of the Corporation, certifying the number of shares owned by him in the Corporation. Any signature

on the certificate may be a facsimile. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class of stock, the designations, preferences, and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

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

Lost Certificates

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

Transfers of Stock

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

Fixing Record Date

Section 5. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting prior to March 1, 1998, or entitled to receive

payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Registered Stock Holders

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

ARTICLE VII

GENERAL PROVISIONS

Dividends

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

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

Checks

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

Fiscal Year

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

Seal

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

Interested Directors and Officers

Section 6.

(a) No contract or transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its Directors or officers are Directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or officer is present at or participates in the meeting of the board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purposes, if;

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

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

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

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

ARTICLE VIII

AMENDMENTS

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

ARTICLE IX

INDEMNIFICATION AND INSURANCE

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC.
1997 STOCK PLAN
(AS AMENDED AND RESTATED THROUGH JULY 28, 1999)

SECTION 1. Purpose of the Plan.

The Integrated Electrical Services, Inc. 1997 Stock Plan (the "Plan") is intended to promote the interests of Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), by encouraging officers, employees, directors and consultants of the Company, its subsidiaries and affiliated entities to acquire or increase their equity interest in the Company and to provide a means whereby employees may develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to remain with and devote their best efforts to the business of the Company thereby advancing the interests of the Company and its stockholders. The Plan is also contemplated to enhance the ability of the Company, its subsidiaries and affiliated entities to attract and retain the services of individuals who are essential for the growth and profitability of the Company.

SECTION 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

"Affiliate" shall mean (i) any entity that, directly or through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, as determined by the Committee.

"Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Performance Award, Phantom Shares, Bonus Shares, Other Stock-Based Award or Cash Award. All Awards, other than ISOs, shall be granted solely under the Incentive Plan. Options and ISOs may be granted only under the ISO Plan.

"Award Agreement" shall mean any written agreement, contract, or other instrument or document evidencing any Award, which may, but need not, be executed or acknowledged by a Participant.

"Board" shall mean the Board of Directors of the Company.

"Bonus Shares" shall mean an award of Shares granted pursuant to Section 6(e) of the Plan.

"Cash Award" shall mean an award payable in cash granted pursuant to Section 6(g) of the Plan.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations thereunder.

"Committee" shall mean the Compensation Committee of the Board.

"Consultant" shall mean any individual who renders consulting services or advice to the Company or an Affiliate for a fee, including any individual who is a member of the Board or the Board of Directors of an Affiliate.

"Employee" shall mean any employee of the Company or an Affiliate or any person who has been extended an offer of employment by the Company or an Affiliate.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean, with respect to Shares, the closing price of a Share quoted on the Composite Tape, or if the Shares are not listed on the New York Stock Exchange, on the principal United States securities exchange registered under the Exchange Act on which such stock is listed, or if the Shares are not listed on any such stock exchange, the last sale price, or if none is reported, the highest closing bid quotation on the National Association of Securities Dealers, Inc., Automated Quotations System or any successor system then in use on the Date of Grant, or if none are available on such day, on the next preceding day for which are available, or if no such quotations are available, the fair market value on the date of grant of a Share as determined in good faith by the Board. In the event the Shares are not publicly traded at the time a determination of its fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.

"Incentive Plan" shall mean the 1997 Incentive Stock Plan set forth herein, which shall constitute a separate and distinct plan from the ISO Plan also set forth herein.

"Incentive Stock Option" or "ISO" shall mean an option granted under the ISO Plan that is intended to qualify as an "incentive stock option" under Section 422 of the Code or any successor provision thereto.

"ISO Plan" shall mean the 1997 Incentive Stock Option Plan set forth herein, which shall constitute a separate and distinct plan from the Incentive Plan also set forth herein.

"1997 Stock Plan" shall mean the ISO Plan and the Incentive Plan.

"Non-Qualified Stock Option" or "NQO" shall mean an option granted under the Incentive Plan that is not intended to be an Incentive Stock Option.

"Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

"Other Stock-Based Award" shall mean an award granted pursuant to Section 6(h) of the Plan that is not otherwise specifically provided for, the value of which is based in whole or in part upon the value of a Share.

"Participant" shall mean any Employee or Consultant granted an Award under the Plan.

"Performance Award" shall mean any right granted under Section 6(d) of the Plan.

"Person" shall mean individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

"Phantom Shares" shall mean an Award of the right to receive Shares issued at the end of a Restricted Period which is granted pursuant to Section 6(f) of the Plan.

"Restricted Period" shall mean the period established by the Committee with respect to an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant.

"Restricted Stock" shall mean any Share, prior to the lapse of restrictions thereon, granted under Sections 6(c) of the Plan.

"Rule 16b-3" shall mean Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

"SEC" shall mean the Securities and Exchange Commission, or any successor thereto.

"Shares" or "Common Shares" or "Common Stock" shall mean the common stock of the Company, \$0.01 par value, and such other securities or property as may become the subject of Awards under the Plan.

"Stock Appreciation Right" or "Right" shall mean any right to receive the appreciation of Shares granted under Section 6(b) of the Plan.

"Substitute Award" shall mean Awards granted in assumption of, or in substitution for, outstanding awards previously granted by (i) a company acquired by the Company or one or more of its Affiliates, or (ii) a company with which the Company or one or more of its Affiliates combines.

SECTION 3. Administration.

The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the following, the Committee, in its sole discretion, may delegate any or all of its powers and duties under the Plan, including the power to grant Awards under the Plan, to the Chief Executive Officer and the President of the Company, or either of them, subject to such limitations on such delegated powers and duties as the Committee may impose. Upon any such delegation all references in the Plan to the "Committee", other than in Section 7, shall be deemed to include the Chief Executive Officer and the President, or either of them; provided, however, that such delegation shall not limit the Chief Executive Officer's or the President's right to receive Awards under the Plan. Notwithstanding the foregoing, the Chief Executive Officer and the President may not grant Awards to, or take any action with respect to any Award previously granted to, a person who is an officer or a member of the Board. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, any stockholder and any Employee.

SECTION 4. Shares Available for Awards.

(a) Shares Available. Subject to adjustment as provided in Section 4(c), (1) the number of Shares with respect to which Awards may be granted under the Incentive Plan shall be the greater of (i) 2,500,000 or (ii) 15% of the aggregate number of Shares and shares of Restricted Voting Common Stock outstanding determined immediately after the grant of such Award less 1,000,000 and (2) the number of Shares with respect to which Options may be granted under the ISO Plan shall be 1,000,000 Shares. If any Award under either plan is forfeited or otherwise terminates or is canceled without the delivery of Shares or other consideration, then

the Shares covered by such Award, to the extent of such forfeiture, termination or cancellation, shall again be Shares with respect to which Awards may be granted under such plan.

(b) Sources of Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or of treasury Shares.

(c) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, in each case, that with respect to Awards of Incentive Stock Options and Awards intended to qualify as performance based compensation under Section 162(m)(4)(C) of the Code, no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or would cause such Award to fail to so qualify under Section 162(m) of the Code, as the case may be, or any successor provisions thereto; and provided, further, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 5. Eligibility.

Any Employee or Consultant shall be eligible to be designated a Participant. However, no Employee or Consultant may receive Options and/or Stock Appreciation Rights under the Plan with respect to more than 250,000 Shares during any calendar year. The maximum amount of compensation that may be paid to any Participant with respect to any single Award that is not an Option or Stock Appreciation and which is intended to qualify as "performance based" compensation under Section 162(m) of the Code in any calendar year shall not exceed \$4.0 million, determined as of the date of grant of such Award.

SECTION 6. Awards.

(a) Options. Subject to the provisions of the Plan, the Committee shall have the authority to determine the Participants to whom Options shall be granted, the number of Shares to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee at the time the Option is granted.

(ii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, and the method or methods by which, and the form or forms (which may include, without limitation, cash, check acceptable to the Company, Shares already-owned for more than six months, outstanding Awards, Shares that would otherwise be acquired upon exercise of the Option, a "cashless-broker" exercise (through procedures approved by the Company), other securities or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which payment of the exercise price with respect thereto may be made or deemed to have been made.

(iii) Incentive Stock Options. The terms of any Incentive Stock Option, which may be granted only under the ISO Plan, shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. Notwithstanding anything in Section 5 or elsewhere in the Plan to the contrary, Incentive Stock Options may be granted only to employees of the Company and its parent corporation and subsidiary corporations, within the meaning of Section 424 of the Code.

(b) Stock Appreciation Rights. Subject to the provisions of the Plan, the Committee shall have the authority to determine the Participants to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Stock Appreciation Right Award, the grant price thereof and the conditions and limitations applicable to the exercise thereof. A Stock Appreciation Right may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to another Award. A Stock Appreciation Right granted in tandem with or in addition to another Award may be granted either at the same time as such other Award or at a later time.

(i) Grant Price. The grant price of a Stock Appreciation Right shall be determined by the Committee on the date of grant.

(ii) Other Terms and Conditions. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine, at or after the grant of a Stock Appreciation Right, the term, methods of exercise, methods of settlement, and any other terms and conditions of any Stock Appreciation Right. Any such determination by the Committee may be changed by the Committee from time to time and may govern the exercise of Stock Appreciation Rights granted or exercised prior to such determination as well as Stock Appreciation Rights granted or exercised thereafter. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it shall deem appropriate.

(c) Restricted Stock. Subject to the provisions of the Plan, the Committee shall have the authority to determine the Participants to whom Restricted Stock shall be granted, the number of Shares of Restricted Stock to be granted to each such Participant, the duration of the Restricted Period during which, and the conditions, including performance criteria, if any, under

which, the Restricted Stock may be forfeited to the Company, and the other terms and conditions of such Awards.

(i) Dividends. Dividends paid on Restricted Stock may be paid directly to the Participant, may be subject to risk of forfeiture and/or transfer restrictions during any period established by the Committee or sequestered and held in a bookkeeping cash account (with or without interest) or reinvested on an immediate or deferred basis in additional shares of Common Stock, which credit or shares may be subject to the same restrictions as the underlying Award or such other restrictions, all as determined by the Committee in its discretion.

(ii) Registration. Any Restricted Stock may be evidenced in such manner as the Committee shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Restricted Stock granted under the Plan, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

(iii) Forfeiture and Restrictions Lapse. Except as otherwise determined by the Committee or the terms of the Award that granted the Restricted Stock, upon termination of a Participant's employment (as determined under criteria established by the Committee) for any reason during the applicable Restricted Period, all Restricted Stock shall be forfeited by the Participant and re-acquired by the Company. The Committee may, when it finds that a waiver would be in the best interests of the Company and not cause such Award, if it is intended to qualify as performance based compensation under Section 162(m) of the Code, to fail to so qualify under Section 162(m) of the Code, waive in whole or in part any or all remaining restrictions with respect to such Participant's Restricted Stock. Unrestricted Shares, evidenced in such manner as the Committee shall deem appropriate, shall be issued to the holder of Restricted Stock promptly after the applicable restrictions have lapsed or otherwise been satisfied.

(iv) Transfer Restrictions. During the Restricted Period, Restricted Stock will be subject to the limitations on transfer as provided in Section 6(j)(iii).

(d) Performance Awards. The Committee shall have the authority to determine the Participants who shall receive a Performance Award, which shall be denominated as a cash amount at the time of grant and confer on the Participant the right to receive payment of such Award, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish with respect to the Award.

(i) Terms and Conditions. Subject to the terms of the Plan and any applicable Award Agreement, the Committee shall determine the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award and the amount of any payment or transfer to be made pursuant to any Performance Award.

(ii) Payment of Performance Awards. Performance Awards may be paid (in cash and/or in Shares, in the sole discretion of the Committee) in a lump sum or in

installments following the close of the performance period, in accordance with procedures established by the Committee with respect to such Award.

(e) Bonus Shares. The Committee shall have the authority, in its discretion, to grant Bonus Shares to Participants. Each Bonus Share shall constitute a transfer of an unrestricted Share to the Participant, without other payment therefor, as additional compensation for the Participant's services to the Company.

(f) Phantom Shares. The Committee shall have the authority to grant Awards of Phantom Shares to Participants upon such terms and conditions as the Committee may determine.

(i) Terms and Conditions. Each Phantom Share Award shall constitute an agreement by the Company to issue or transfer a specified number of Shares or pay an amount of cash equal to a specified number of Shares, or a combination thereof to the Participant in the future, subject to the fulfillment during the Restricted Period of such conditions, including performance objectives, if any, as the Committee may specify at the date of grant. During the Restricted Period, the Participant shall not have any right to transfer any rights under the subject Award, shall not have any rights of ownership in the Phantom Shares and shall not have any right to vote such shares.

(ii) Dividends. Any Phantom Share award may provide that any or all dividends or other distributions paid on Shares during the Restricted Period be credited in a cash bookkeeping account (without interest) or that equivalent additional Phantom Shares be awarded, which account or shares may be subject to the same restrictions as the underlying Award or such other restrictions as the Committee may determine.

(g) Cash Awards. The Committee shall have the authority to determine the Participants to whom Cash Awards shall be granted, the amount, and the terms or conditions, if any, as additional compensation for the Participant's services to the Company or its Affiliates. A Cash Award may be granted (simultaneously or subsequently) separately or in tandem with another Award and may entitle a Participant to receive a specified amount of cash from the Company upon such other Award becoming taxable to the Participant, which cash amount may be based on a formula relating to the anticipated taxable income associated with such other Award and the payment of the Cash Award.

(h) Other Stock-Based Awards. The Committee may also grant to Participants an Other Stock-Based Award, which shall consist of a right which is an Award denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares as is deemed by the Committee to be consistent with the purposes of the Plan. Subject to the terms of the Plan, the Committee shall determine the terms and conditions of any such Other Stock-Based Award.

(i) Replacement Grants. Awards may be granted from time to time in substitution for similar awards held by employees of other corporations who become Participants as the result of a merger or consolidation of the employing corporation with the Company or any subsidiary, or the acquisition by the Company or any subsidiary of the assets of the employing corporation, or the acquisition by the Company or any subsidiary or an affiliate of stock of the employing

corporation. The terms and conditions of substitute Awards granted may vary from the terms and conditions set forth in the Plan, to the extent the Committee, at the time of grant, deems it appropriate to conform, in whole or in part, to the provisions of awards in substitution for which they are granted.

(j) General.

(i) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(ii) Forms of Payment by Company Under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine, including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments.

(iii) Limits on Transfer of Awards.

(A) Except as provided in (C) below, each Award, and each right under any Award, shall be exercisable only by the Participant during the Participant's lifetime, or, if permissible under applicable law, by the Participant's guardian or legal representative as determined by the Committee.

(B) Except as provided in (C) below, no Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution (or, in the case of Restricted Stock, to the Company) and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate.

(C) Notwithstanding anything in the Plan to the contrary, to the extent specifically provided by the Committee with respect to a grant, a Nonqualified Stock Option may be transferred to immediate family members or related family trusts, limited partnerships or similar entities or on such terms and conditions as the Committee may establish.

(iv) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee; provided, that in no event shall the term of any Award exceed a period of 10 years from the date of its grant.

(v) Share Certificates. All certificates for Shares or other securities of the Company or any Affiliate delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Shares or other securities are then listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(vi) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.

(vii) Delivery of Shares or other Securities and Payment by Participant of Consideration. No Shares or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award Agreement (including, without limitation, any exercise price, tax payment or tax withholding) is received by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, Shares, other securities, other Awards or other property, withholding of Shares, cashless exercise with simultaneous sale, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalents and the Fair Market Value of any such Shares or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid pursuant to the Plan or the applicable Award Agreement to the Company.

(viii) Performance Criteria and Payment Limits. The Committee shall establish performance goals applicable to those Awards (other than Options and Rights) the payment of which is intended by the Committee to qualify as "performance-based compensation" as described in Section 162(m)(4)(C) of the Code. Until changed by the Committee, the performance goals shall be based upon the attainment of such target levels of net income, cash flows, return on equity, profit margin or sales, stock price, and/or earnings per share as may be specified by the Committee. Which factor or factors to be used with respect to any grant, and the weight to be accorded thereto if more than one factor is used, shall be determined by the Committee at the time of grant. With respect to any Restricted Stock Award, Phantom Stock Award, or Cash Award granted in tandem with, and expressed as a percentage of, a Share-denominated Award, which is intended to qualify as "performance-based compensation", the maximum payment to any Participant with respect to such Award in any calendar year shall be an amount (in cash and/or in Shares) equal to the Fair Market Value of the number of Shares subject to such Award.

SECTION 7. Amendment and Termination.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Agreement or in the Plan:

(i) Amendments to the Plan. The Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan without the consent of any stockholder, Participant, other holder or beneficiary of an Award, or other Person; provided, however, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company no such amendment, alteration, suspension, discontinuation, or termination shall be made that would increase the total number of Shares available for Awards under the Plan, except as provided in Section 4(c) of the Plan.

(ii) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award theretofore granted, provided no change, other than pursuant to Section 7(iii), in any Award shall reduce the benefit to Participant without the consent of such Participant. Notwithstanding the foregoing, with respect to any Award intended to qualify as performance-based compensation under Section 162(m) of the Code, no adjustment shall be authorized to the extent such adjustment would cause the Award to fail to so qualify.

(iii) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4(c) of the Plan) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. Notwithstanding the foregoing, with respect to any Award intended to qualify as performance-based compensation under Section 162(m) of the Code, no adjustment shall be authorized to the extent such adjustment would cause the Award to fail to so qualify.

SECTION 8. Change in Control.

Notwithstanding any other provision of this Plan to the contrary, in the event of a Change in Control of the Company all outstanding Awards automatically shall become fully vested immediately prior to such Change in Control (or such earlier time as set by the Committee), all restrictions, if any, with respect to such Awards shall lapse, and all performance criteria, if any, with respect to such Awards shall be deemed to have been met in full. For purposes of this Plan, a "Change in Control" shall be deemed to occur:

(i) if any person, entity or group (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Act"), other than the Company or its subsidiaries or an employee benefit plan of the Company or its subsidiaries, acquires, directly or indirectly, the beneficial ownership (as defined in Section 13(d) of the Act) of any voting security of the Company and immediately after

such acquisition such person is, directly or indirectly, the beneficial owner of voting securities representing 20% or more of the total voting power of all of the then outstanding voting securities of the Company entitled to vote generally in the election of directors;

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

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

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

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

SECTION 9. General Provisions.

(a) No Rights to Awards. No Employee, Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Employees, Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards need not be the same with respect to each recipient.

(b) Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities, Shares that would otherwise be issued pursuant to such Award, other Awards or other property) of any applicable taxes payable in respect of an Award, its exercise, the lapse of restrictions thereon, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. In addition, the Committee may provide, in an Award Agreement, that the Participant may direct the Company to satisfy such Participant's tax obligation through the withholding of Shares otherwise to be acquired upon the exercise or payment of such Award.

(c) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any

liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.

(d) Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable Federal law.

(e) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(f) Other Laws. The Committee may refuse to issue or transfer any Shares or other consideration under an Award if, acting in its sole discretion, it determines that the issuance of transfer or such Shares or such other consideration might violate any applicable law or regulation or entitle the Company to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary.

(g) No Trust or Fund Created. Neither the Plan nor the Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.

(h) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(i) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(j) Parachute Tax Gross-Up. To the extent that the grant, payment, or acceleration of vesting or payment, whether in cash or stock, of any Award made to a Participant under the Plan (a "Benefit") is subject to a golden parachute excise tax under Section 4999(a) of the Code (a "Parachute Tax"), the Company shall pay such person an amount of cash (the "Gross-up Amount") such that the "net" Benefit received by the person under this Plan, after paying all applicable Parachute Taxes (including those on the Gross-up Amount) and any federal or state taxes on the Gross-up Amount, shall be equal to the Benefit that such person would have received if such Parachute Tax had not been applicable.

(k) Separate Plans. The Company intends to establish herein two separate and distinct plans: (i) the ISO Plan and (ii) the Incentive Plan; however, except where expressly provided otherwise, the provisions of this document shall apply equally to each such plan. Notwithstanding the foregoing, the provisions of this document shall be administered and construed in the manner necessary for the ISO Plan set forth herein to comply with the requirements of Section 422 of the Code.

SECTION 10. Effective Date of the Plan.

The Incentive Plan shall be effective as of the date of its original approval by the Board; the ISO Plan shall be effective as of the date it is separately approved by the Board.

SECTION 11. Term of the Plan.

No Award shall be granted under the Plan after the 10th anniversary of the original approval date of the Incentive Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under such Award, shall extend beyond such termination date.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF INTEGRATED ELECTRICAL SERVICES, INC. AS OF JUNE 30, 1999, AND FOR THE NINE MONTHS ENDED JUNE 30, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS	SEP-30-1999	OCT-01-1998	JUN-30-1999
			2,965
			0
	244,984		
		6,310	
		12,426	
	289,448		57,632
		13,911	
		790,589	
157,938			150,000
	0		0
			378
		438,225	
790,589			693,146
	693,146		544,798
		628,865	
	(1,281)		
		0	
	9,156		
		56,406	
		23,929	
32,477			0
		0	
			0
		32,477	
		0.99	
		0.97	