Filed Pursuant to Ruler 424(B)(4)
Registration No. 333-38715

PROSPECTUS

7,000,000 SHARES

[INTEGRATED LOGO]

COMMON STOCK

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

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

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

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

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

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

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share..	$13.00	$.91	$12.09
Total(3)..	$91,000,000	$6,370,000	$84,630,000

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."

(2) Before deducting expenses payable by the Company estimated at $4,800,000.

(3) The Company has granted the International Managers and U.S. Underwriters options, exercisable within 30 days after the date hereof, to purchase up to 210,000 and 840,000 additional shares of Common Stock, respectively, solely to cover over-allotments, if any. If such options are exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $104,650,000, $7,325,500 and $97,324,500, respectively. See "Underwriting."

The shares of Common Stock offered hereby are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by the Underwriters against payment therefor, subject to certain conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the share certificates representing the Common Stock will be made in New York, New York on or about January 30, 1998.

MERRILL LYNCH INTERNATIONAL

DONALDSON, LUFKIN & JENRETTE
INTERNATIONAL

SUNTRUST EQUITABLE
SECURITIES

SANDERS MORRIS MUNDY

The date of this Prospectus is January 26, 1998.

[MAP OF LOCATIONS AND OTHER GRAPHICS]
[Map of the Continental United States depicting locations in which the Company maintains offices. Map also denotes states in which the Company conducts business.]

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

[Photograph of modern office building.]

[Photograph of a contemporary home.]

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

[Photograph of a 2-story apartment facility.]

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

[Photograph of showroom of a car dealership.]

[Photograph of concession stand in movie theater.]

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

For United Kingdom purchasers: The shares of Common Stock may not be offered or sold in the United Kingdom other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, whether as principal or agent (except in circumstances that do not constitute an offer to the public within the meaning of the Public Offers of Securities Regulations 1995 or the Financial Services Act 1986), and this Prospectus may only be issued or passed on to any person in the United Kingdom if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the Prospectus may otherwise lawfully be passed on.

PROSPECTUS SUMMARY

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

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

THE COMPANY

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

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

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

INDUSTRY OVERVIEW

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

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

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

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

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

STRATEGY

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

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

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

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

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

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

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

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

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

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

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

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

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

THE OFFERINGS

Common Stock offered:

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

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

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

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

	PRO FORMA YEAR ENDED SEPTEMBER 30, 1997
INCOME STATEMENT DATA:	
Revenues	$ 312,747
Cost of services (including depreciation)	247,772
Gross profit	64,975
Selling, general and administrative expenses(a)	35,938
Goodwill amortization(b)	3,780
Income from operations	25,257
Interest and other income (expense), net(c)	249
Income before income taxes	25,506
Provision for income taxes	11,161
Net income(d)	$ 14,345
Net income per share	$ .65
Shares used in computing pro forma net income per share(e)	22,152,604

	PRO FORMA(F)(G) AS OF SEPTEMBER 30, 1997	
	COMBINED	AS ADJUSTED(H)
BALANCE SHEET DATA:		
Working capital	$(31,780)(i)	$ 43,442
Total assets	240,027	255,792
Long-term debt, net of current maturities	18,541	13,983
Total stockholders' equity	112,413	192,193

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

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

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

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

(e) Includes (i) 12,313,025 shares to be issued to the owners of the Founding Companies, (ii) 1,396,602 shares issued to the management of IES, (iii) 2,655,709 shares of Restricted Common Stock issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children and (iv) 5,667,268 of the 7,000,000 shares to be sold in the Offerings necessary to pay the cash portion of the Acquisitions Consideration and the offering expenses. Also, includes 120,000 shares computed under the treasury stock method related to 300,000 options which are currently outstanding, but excludes any effects from options to purchase 2,343,600 shares which are expected to be granted at the initial public offering price upon consummation of the Offerings. See "Description of Capital Stock."

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

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

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

(i) Includes the estimated $53.4 million of notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds from the Offerings. See "Pro Forma -- As Adjusted" amounts.

SUMMARY INDIVIDUAL FOUNDING COMPANY HISTORICAL FINANCIAL DATA
(IN THOUSANDS)

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

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

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

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

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

RISK FACTORS

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

ABSENCE OF COMBINED OPERATING HISTORY

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

EXPOSURE TO DOWNTURNS IN COMMERCIAL CONSTRUCTION OR HOUSING STARTS

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

RELIANCE ON ACQUISITIONS

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

MANAGEMENT OF GROWTH

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

AVAILABILITY OF ELECTRICIANS

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

COMPETITION

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

ACQUISITION FINANCING

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

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

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

SEASONALITY; FLUCTUATION OF QUARTERLY OPERATING RESULTS

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

CONTROL BY EXISTING MANAGEMENT AND STOCKHOLDERS

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

PROCEEDS OF OFFERINGS AND BENEFITS TO AFFILIATES

Approximately $53.4 million, or approximately 67%, of the net proceeds of the Offerings (net of estimated offering costs, including underwriting discounts and commissions and costs to be incurred by the Company which have been or will be funded by advances from Mr. Snyder), will be paid in cash to the owners of the Founding Companies (who will generally become officers, directors or employees of the Company). Approximately $2.7 million, or 3% of the net proceeds of the Offerings, will be used to pay a portion of the cash transfers related to the Owner Amounts of certain Founding Companies. In addition, approximately $6.4 million, or approximately 8% of the net proceeds of the Offerings, will be used to repay the estimated outstanding indebtedness of the Founding Companies at the closing of the Offerings. Net proceeds available for acquisitions, working capital and general corporate purposes will be approximately $17.3 million, or 22% of the net proceeds of the Offerings. In connection with the Acquisitions, the Company expects to incur approximately $13.3 million in indebtedness to fund a portion of the Owner Amounts which will be retired with new borrowings under the proposed credit facility. See "Use of Proceeds" and "Certain Transactions."

BENEFITS TO FOUNDER AND MANAGEMENT

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

NO PRIOR MARKET, POSSIBLE VOLATILITY OF STOCK

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

DEPENDENCE ON KEY PERSONNEL

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

SHARES ELIGIBLE FOR FUTURE SALE

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

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

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

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

CERTAIN ANTI-TAKEOVER PROVISIONS

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

IMMEDIATE AND SUBSTANTIAL DILUTION

The purchasers of the shares of Common Stock offered hereby will experience immediate dilution in the net tangible book value of their shares of $11.29 per share. See "Dilution." In the event the Company issues additional shares of Common Stock in the future, including shares which may be issued in connection with acquisitions or other public or private financings, purchasers of Common Stock in the Offerings may experience further dilution in the net tangible book value per share of the Common Stock. See "Dilution."

THE COMPANY

IES was founded in June 1997 to create a leading national provider of electrical contracting and maintenance services. Concurrently with and as a condition to the closing of the Offerings, IES will acquire the 16 Founding Companies. The Founding Companies, which have been in business for an average of 18 years, had pro forma combined year ended September 30, 1997 revenues of approximately $312.7 million. The Acquisitions Consideration to be paid by the Company consists of approximately $53.4 million in cash and 12,313,025 shares of Common Stock. The Acquisitions Consideration was determined by negotiations among the Company and representatives of the Founding Companies. See "Certain Transactions." A brief description of each of the Founding Companies is set forth below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby (after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company which have been or will be funded by advances from Mr. Snyder) will be approximately $79.8 million (approximately $92.5 million if the Underwriters' over-allotment options are exercised in full).

Of the $79.8 million net proceeds, the Company estimates that approximately $53.4 million will be used to pay the cash portion of the Acquisitions Consideration, all of which will be paid to former stockholders and other equity owners of the Founding Companies. Approximately $2.7 million of the net proceeds will be used to pay a portion of the cash transfers related to the Owner Amounts of certain Founding Companies. In addition, approximately $6.4 million of the net proceeds will be used to repay the estimated outstanding indebtedness of the Founding Companies at the closing of the Offerings. The estimated outstanding indebtedness to be repaid from the proceeds of the Offerings bears interest at a weighted average interest rate of approximately 8.9% and matures at various dates from December 1997 through October 2012. In connection with the Acquisitions, the Company expects to issue approximately $13.3 million of notes payable to fund a portion of the Owner Amounts. Following the consummation of the Offerings, such notes payable to owners of the Founding Companies will be repaid with borrowings under the proposed credit facility. The Company will use a portion of the proceeds received from the Offerings to repay Mr. Snyder for the $4.8 million estimated offering costs expected to be advanced by him to the Company. Such advances amounted to approximately $1.6 million as of September 30, 1997. The initial $1 million of such advances bears interest at a stated rate (8.5% as of the date of this Prospectus), and additional advances bear interest at LIBOR plus 1.5%. See "Certain Transactions."

The approximately $17.3 million of remaining net proceeds ($30.0 million if the Underwriters' over-allotment options are exercised in full) will be used for working capital and for general corporate purposes, which are expected to include future acquisitions. Pending such uses, the Company intends to invest the net proceeds of the Offerings in short-term, investment-grade, interest-bearing securities. While the Company is continuously considering possible acquisition prospects as part of its growth strategy, the Company is not presently engaged in active negotiations with respect to any particular acquisition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

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

DIVIDEND POLICY

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

CAPITALIZATION

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

	PRO FORMA AS OF SEPTEMBER 30, 1997	
	COMBINED(A)	AS ADJUSTED(B)
	(IN THOUSANDS)	
Current maturities of long-term debt	$ 58,262(c)	$ 365
Long-term debt, net of current maturities(d)	$ 18,541	$ 13,983
Stockholders' equity:		
Preferred Stock: $0.01 par value, 10,000,000 shares authorized; no shares issued and outstanding	--	--
Common Stock: $0.01 par value, 100,000,000 shares authorized; 13,709,627 issued and outstanding, pro forma combined; and 20,709,627 shares issued and outstanding, as adjusted(e)	137	207
Restricted Common Stock: $0.01 par value, 2,655,709 shares authorized, issued and outstanding(f)	26	26
Additional paid-in capital	127,616	207,326
Retained deficit	(15,366)	(15,366)
Total stockholders' equity	112,413	192,193
Total capitalization	$130,954	$206,176

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

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

(c) Includes $53.4 million of notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds of the Offerings.

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

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

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

DILUTION

At September 30, 1997, after giving effect to the Acquisitions as if they had occurred at such date, the deficit in pro forma combined net tangible book value of the Company would have been $39.7 million, or approximately $2.43 per share. The deficit in pro forma combined net tangible book value is equal to the aggregate net tangible book value (tangible assets less total liabilities) of the Company after giving effect to the Acquisitions. The number of shares used for the per share calculation includes the 16,365,336 shares outstanding after the Acquisitions but prior to the Offerings. After giving effect to the Acquisitions and the sale by the Company of the 7,000,000 shares of Common Stock offered hereby (after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company which have been or will be funded by advances from Mr. Snyder), the pro forma combined net tangible book value of the Company would have been $40.0 million, or $1.71 per share. This represents an immediate increase in pro forma net tangible book value of $4.14 per share to existing stockholders and an immediate dilution in net tangible book value of $11.29 per share to new investors purchasing the shares of Common Stock in the Offerings. The following table illustrates this per share dilution:

Initial public offering price per share.....................		$13.00
Pro forma combined net tangible book value per share prior to the Offerings...	$(2.43)	
Increase in pro forma net tangible book value per share attributable to new investors..........................	4.14	
Pro forma combined net tangible book value per share after the Offerings...		1.71
Dilution in net tangible book value per share to new investors...		$11.29

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

	SHARES PURCHASED		TOTAL	AVERAGE PRICE
	NUMBER	PERCENT	CONSIDERATION	PER SHARE
Existing stockholders and owners of Founding Companies(a)(b).................	16,365,336	70.0%	$(39,698,413)	$(2.43)
New investors..............................	7,000,000	30.0	91,000,000	13.00
Total....................................	23,365,336	100.0%	$ 51,301,587	

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

(b) Total consideration paid by Founding Company owners represents the combined owners' equity of the Founding Companies before the Offerings, and has been adjusted to reflect: (i) the payment of $53.4 million in cash to the owners of the Founding Companies as part of the Acquisitions Consideration and (ii) the transfer of the Owner Amounts. See "Certain Transactions."

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

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

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

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

	YEAR ENDED SEPTEMBER 30, 1997
PRO FORMA COMBINED:	
Revenues	$ 312,747
Cost of services (including depreciation)	247,772
Gross profit	64,975
Selling, general and administrative expenses(a)	35,938
Goodwill amortization(b)	3,780
Income from operations	25,257
Interest and other income (expense), net(c)	249
Income before income taxes	25,506
Provision for income taxes	11,161
Net income(d)	$ 14,345
Net income per share	$ .65
Shares used in computing pro forma net income per share(e)	22,152,604

	HISTORICAL(F)						PRO FORMA	
	AS OF DECEMBER 31,					AS OF SEPTEMBER 30,	AS OF SEPTEMBER 30, 1997(G)(H)	
	1992	1993	1994	1995	1996	1997	COMBINED	AS ADJUSTED(I)
BALANCE SHEET DATA:								
Working capital	$1,845	$2,001	$2,134	$2,675	$ 4,671	$ 5,414	$(31,780)(j)	$ 43,442
Total assets	5,570	6,582	8,809	9,357	13,226	24,470	240,027	255,792
Long-term debt, net of current maturities	719	505	927	634	1,295	968	18,541	13,983
Total stockholders' equity	2,224	2,325	1,952	3,104	5,351	8,208	112,413	192,193

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

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

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

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

(e) Includes (i) 12,313,025 shares to be issued to the owners of the Founding Companies, (ii) 1,396,602 shares issued to the management of IES, (iii) 2,655,709 shares of Restricted Common Stock issued to the founder and Chairman of the Board of IES and trusts for the benefit of his children and (iv) 5,667,268 of the 7,000,000 shares sold in the Offerings necessary to pay the cash portion of the Acquisitions Consideration and offering expenses. Also, includes 120,000 shares computed under the treasury stock method related to 300,000 options which are currently outstanding, but excludes any effects from options to purchase 2,343,600 shares which are expected to be granted at the initial public offering price upon consummation of the Offerings. See "Description of Capital Stock."

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

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

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

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

(j) Includes the estimated $53.4 million in notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds from the Offerings. See "Pro Forma -- As Adjusted" amounts.

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

INTRODUCTION

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

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

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

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

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

As a result of the Acquisitions, the excess of the consideration paid over the fair value of the net assets to be acquired, will be recorded as goodwill on the Company's balance sheet. Goodwill will be amortized as a non-cash charge to the income statement over a 40-year period. The pro forma impact of this amortization expense, which is non-deductible for tax purposes, is $3.8 million per year.

SUPPLEMENTAL UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION OF THE FOUNDING COMPANIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Combined Liquidity and Capital Resources

Upon consummation of the Acquisitions and after applying the estimated net proceeds of the Offerings as discussed under "Use of Proceeds," the Company anticipates that it will have approximately $19.1 million of pro forma cash and cash equivalents, $43.4 million of pro forma working capital and no outstanding indebtedness other than debt relating to Owner Amounts and capital lease obligations totaling $14.3 million. The Founding Companies' historical indebtedness of $8.1 million is anticipated to be transferred to the owners of the Founding Companies or otherwise repaid from the proceeds of the Offerings.

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

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

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

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

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

HOUSTON-STAFFORD RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HOUSTON-STAFFORD LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

MILLS RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MILLS LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

BEXAR-CALHOUN RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BEXAR-CALHOUN LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

POLLOCK RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

POLLOCK LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

MUTH RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MUTH LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

DANIEL RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DANIEL LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

AMBER RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AMBER LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

HAYMAKER RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

HAYMAKER LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

SUMMIT RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

SUMMIT LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

THURMAN & O'CONNELL RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THURMAN & O'CONNELL LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

SEASONALITY AND QUARTERLY FLUCTUATIONS

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

BUSINESS

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

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

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

INDUSTRY OVERVIEW

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

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

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

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

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

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

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

STRATEGY

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

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

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

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

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

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

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

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

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

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

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

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

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

COMPANY OPERATIONS

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

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

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

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

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

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

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

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

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

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

MANAGEMENT INFORMATION AND CONTROLS

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

PROPERTY AND EQUIPMENT

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

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

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

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

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

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

COMPETITION

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

REGULATIONS

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

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

LITIGATION

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

EMPLOYEES

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

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DIRECTOR COMPENSATION

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

EXECUTIVE COMPENSATION

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

EMPLOYMENT AGREEMENTS

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

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

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

1997 STOCK PLAN

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

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

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

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

1997 DIRECTORS STOCK PLAN

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

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

CERTAIN TRANSACTIONS

ORGANIZATION OF THE COMPANY

The Company was founded in June 1997 by C. Byron Snyder. In connection with the formation of IES, IES issued to Mr. Snyder, the Snyder Children's Trust and D. Merril Cummings a total of 2,329,600 shares of Common Stock for nominal consideration. The shares issued to the Snyder Children's Trust were subsequently transferred to two separate trusts, each for the benefit of one of Mr. Snyder's children. Mr. Snyder is currently president and a director of the Company. The trustees of the trusts are independent third parties not subject to control by Mr. Snyder. In September 1997, IES issued an additional 442,589 shares to Mr. Snyder and such trusts. The total value of the shares (based upon a value of $9.75 per share) issued to Mr. Snyder and the trusts will be recognized as acquisition costs in connection with the Acquisitions. In October 1997, Mr. Snyder and the trusts exchanged 2,655,709 shares of Common Stock for an equal number of shares of Restricted Common Stock. Mr. Snyder has agreed to advance whatever funds are necessary to effect the Acquisitions and the Offerings. As of September 30, 1997, Mr. Snyder had outstanding advances to the Company in the aggregate amount of approximately $1.6 million at September 30, 1997. The initial $1 million of such advances bears interest at a stated rate (8.5% as of the date of this Prospectus), and additional advances bear interest at LIBOR plus 1.5%. All of Mr. Snyder's advances will be repaid from the net proceeds of the Offerings.

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

Simultaneously with the closing of the Offerings, the Company will acquire by stock purchase all the issued and outstanding capital stock and other equity interests of the Founding Companies, at which time each Founding Company will become a wholly owned subsidiary of the Company. The Acquisitions Consideration was negotiated by the parties and was based primarily upon the pro forma adjusted net income of each Founding Company. The Acquisitions Consideration consists of (i) approximately $53.4 million in cash and (ii) 12,313,025 shares of Common Stock. In addition, the Company intends to repay approximately $6.4 million of the historical indebtedness of the Founding Companies with proceeds from the Offerings. In connection with the Acquisitions, owners of certain of the Founding Companies will receive the Owner Amounts, as described below. The Company expects to issue approximately $13.3 million of notes payable to fund a portion of the Owner Amounts. Following the consummation of the Offerings, such notes payable will be repaid with borrowings under the proposed credit facility.

The consummation of each Acquisition is subject to customary conditions. These conditions include, among others, the accuracy of the representations and warranties by the Founding Companies, their stockholders and the Company; the performance by each of the parties of their respective covenants; and the nonexistence of a material adverse change in the results of operations, financial condition or business of each

Founding Company. There can be no assurance that the conditions to closing of the Acquisitions will be satisfied or waived or that the acquisition agreements will not be terminated prior to consummation.

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

	CASH	SHARES OF COMMON STOCK	TOTAL DEBT
	(DOLLARS IN THOUSANDS)		
Houston-Stafford	$14,526	3,352,039	$1,120
Mills	10,806	2,493,657	400
Bexar-Calhoun	8,075	1,863,397	179
Pollock	985	319,729	1,718
Muth	2,051	473,324	540
Daniel	3,691	851,823	--
Amber	2,308	532,728	747
Haymaker	1,884	434,735	--
Summit	1,793	321,506	794
Thurman & O'Connell	2,165	499,600	95
Rodgers	1,563	360,725	94
Hatfield	903	208,357	331
Ace	828	191,056	--
Reynolds	872	201,191	400
Popp	906	209,158	--
Total	$53,356	12,313,025	$6,418

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

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

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

COMPANY	CASH	SHARES OF COMMON STOCK
Houston-Stafford		
Ben Mueller	$ 4,648,161	1,072,652
Mills		
Jerry Mills	9,306,722	2,147,705
Bexar-Calhoun		
Bob Weik(a)	6,174,713	1,424,935
Pollock		
Jon Pollock	985,493	319,729
Muth		
Richard Muth(b)	1,939,750	447,635
Ace		
Robert Stalvey	413,956	95,528
Total	$23,468,795	5,508,184

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(a) Excludes cash of $322,989 and 74,536 shares of Common Stock to be received by two related trusts in which Mr. Weik may be deemed to have an interest, as to which Mr. Weik disclaims beneficial ownership.

(b) Excludes cash of $111,320 and 25,689 shares of Common Stock to be received by Mr. Muth's wife, Darlene Muth, as to which he disclaims beneficial ownership.

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

TRANSACTIONS INVOLVING CERTAIN OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

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

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

At December 31, 1996, Houston-Stafford owed Mr. Mueller $766,400 related to a promissory note maturing August 2003 and secured by Mr. Mueller's stock in Houston-Stafford, and such obligation and any related obligations shall be terminated at the consummation of the Offerings. Mr. Mueller will receive approximately $4.6 million and 1.1 million shares of Common Stock in connection with the Acquisitions in exchange for such promissory note, as well as 0.2 million shares for his new role as a member of IES management. Houston-Stafford will recognize a non-cash, non-recurring compensation charge of approximately $17.0 million related to the transfer of such cash and shares of Common Stock to Mr. Mueller at the time of the Acquisitions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PRINCIPAL STOCKHOLDERS

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

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

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* Less than one percent.

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

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

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

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

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

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

DESCRIPTION OF CAPITAL STOCK

GENERAL

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

COMMON STOCK AND RESTRICTED COMMON STOCK

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

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

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

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

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

PREFERRED STOCK

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

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

STATUTORY BUSINESS COMBINATION PROVISION

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

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

LIMITATION ON DIRECTORS' LIABILITIES

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

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION AND BYLAW PROVISIONS

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

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

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

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

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

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

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

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

TRANSFER AGENT AND REGISTRAR

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

SHARES ELIGIBLE FOR FUTURE SALE

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

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

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

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

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

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

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

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

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

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

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

DIVIDENDS

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

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

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

SALE OR DISPOSITION OF COMMON STOCK

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

INFORMATION REPORTING AND BACKUP WITHHOLDING

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

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

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

ESTATE TAX

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

UNDERWRITING

Subject to the terms and conditions set forth in the international purchase agreement (the "International Purchase Agreement") among the Company and each of the underwriters named below (the "International Managers"), the Company has agreed to sell to each of the International Managers, and each of the International Managers, for whom Merrill Lynch International is acting as representative (the "Lead Manager"), severally has agreed to purchase from the Company, the aggregate number of shares of Common Stock set forth opposite its name below.

INTERNATIONAL MANAGERS	NUMBER OF SHARES
Merrill Lynch International	350,000
Donaldson, Lufkin & Jenrette International	350,000
SunTrust Equitable Securities Corporation	350,000
Sanders Morris Mundy Inc	350,000
Total	1,400,000

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

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

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

The Lead Manager has advised the Company that the International Managers propose initially to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of $.55 per share. The

International Managers may allow, and such dealers may reallow, a discount not in excess of $.10 per share to certain other dealers. After the Offerings, the initial public offering price, concession and discount may be changed.

The Company has granted the International Managers an option, exercisable by the Lead Manager for 30 days after the date of this Prospectus, to purchase up to an aggregate of 210,000 additional shares of Common Stock at the initial public offering price set forth on the cover page hereof, less the underwriting discount. The International Managers may exercise this option to cover overallotments, if any, made on the sale of the shares of Common Stock offered hereby. If the International Managers exercise this option, each International Manager will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the foregoing table bears to the 1,400,000 shares of Common Stock initially offered hereby. The Company has also granted an option to the U.S. Underwriters, which expires 30 days after the date of this Prospectus, to purchase up to 840,000 additional shares of Common Stock to cover over-allotments, if any, on terms similar to those granted to the International Managers.

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

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

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

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

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

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

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

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

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

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

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

Each International Manager represents and agrees that (a) it has not offered or sold and prior to the expiration of six months from the date hereof, will not offer or sell any shares of Common Stock to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (b) it has complied with and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Common Stock in, from or otherwise involving the United Kingdom, and (c) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue or sale of the Common Stock if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

No action has been or will be taken in any jurisdiction (except in the United States) that would permit a public offering of the shares of Common Stock or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or the shares of Common Stock in any jurisdiction where action for that purpose is required. Accordingly, the shares of Common Stock may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the shares of Common Stock may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Purchasers of the shares of Common Stock offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase, in addition to the offering price set forth on the cover page of this Prospectus.

LEGAL MATTERS

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

EXPERTS

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

ADDITIONAL INFORMATION

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

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

INDEX TO FINANCIAL STATEMENTS

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
BASIS OF PRESENTATION

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

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

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

	THURMAN & O'CONNELL	RODGERS	OTHER FOUNDING COMPANIES	IES	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	POST-MERGER ADJUSTMENTS
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$1,160	$ 818	$ 829	$ --	$ (8,952)	$ 1,796	$ 17,325
Accounts receivable	679	623	3,548	--	(1,620)	57,925	--
Less-Allowance	17	15	61	--	--	1,568	--
Accounts Receivable, net	662	608	3,487	--	(1,620)	56,357	--
Costs and profits recognized in excess of billings	52	20	1,088	--	--	6,906	--
Inventories	213	--	344	--	--	5,033	--
Prepaid expenses and other	24	73	213	1,560	(1,719)	5,579	(1,560)
Total current assets	2,111	1,519	5,961	1,560	(12,291)	75,671	15,765
PROPERTY AND EQUIPMENT, NET	301	393	1,057	6	(3,921)	10,559	--
OTHER ASSETS	--	175	--	--	(1,169)	1,646	--
GOODWILL, NET	--	--	--	--	151,020	152,151	--
Total assets	$2,412	$2,087	$7,018	$ 1,566	$133,639	$240,027	$ 15,765

LIABILITIES AND STOCKHOLDERS' EQUITY							
CURRENT LIABILITIES:							
Current maturities of long-term debt	$ 7	$ 36	$ 918	$ --	$ 52,475	$58,262	$(57,897)
Accounts payable and accrued expenses	262	488	2,218	1,565	--	36,097	(1,560)
Billings in excess of costs and profits recognized	361	109	430	--	--	9,669	--
Income taxes payable	--	213	--	--	--	2,354	--
Other	--	--	73	--	406	1,069	--
Total current liabilities	630	846	3,639	1,565	52,881	107,451	(59,457)
LONG-TERM LIABILITIES:							
Long-term debt, net of current maturities	88	58	398	--	15,189	18,541	(4,558)
Deferred income taxes	--	75	5	--	869	1,033	--
Other long-term liabilities and minority interest	--	--	6	--	(2,428)	589	--
Total long-term liabilities	88	133	409	--	13,630	20,163	(4,558)
COMMITMENTS AND CONTINGENCIES							
STOCKHOLDERS' EQUITY:							
Common stock	300	15	42	41	(663)	137	70
Restricted common stock	--	--	--	--	26	26	--
Receivable from stockholders	--	--	--	(40)	40	--	--
Additional paid-in capital	--	--	198	13,618	113,299	127,616	79,710
Retained earnings and unrealized gain/loss on stock	1,394	1,093	2,760	(13,618)	(47,214)	(15,366)	--
Treasury stock	--	--	(30)	--	1,640	--	--
Total stockholders' equity	1,694	1,108	2,970	1	67,128	112,413	79,780
Total liabilities and stockholders' equity	$2,412	$2,087	$7,018	$ 1,566	$133,639	$240,027	$ 15,765

	AS ADJUSTED
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	19,121
Accounts receivable	57,925
Less-Allowance	1,568
Accounts Receivable, net	56,357
Costs and profits recognized in excess of billings	6,906
Inventories	5,033
Prepaid expenses and other	4,019
Total current assets	91,436
PROPERTY AND EQUIPMENT, NET	10,559
OTHER ASSETS	1,646
GOODWILL, NET	152,151
Total assets	$255,792
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current maturities of long-term debt	$ 365
Accounts payable and accrued expenses	34,537
Billings in excess of costs and profits recognized	9,669
Income taxes payable	2,354
Other	1,069
Total current liabilities	47,994
LONG-TERM LIABILITIES:	
Long-term debt, net of current maturities	13,983
Deferred income taxes	1,033
Other long-term liabilities and minority interest	589
Total long-term liabilities	15,605
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock	207
Restricted common stock	26
Receivable from stockholders	--
Additional paid-in capital	207,326
Retained earnings and unrealized gain/loss on stock	(15,366)
Treasury stock	--
Total stockholders' equity	192,193
Total liabilities and stockholders'	

equity...............................	$255,792
	========

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

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

	POLLOCK	SUMMIT	THURMAN & O'CONNELL	RODGERS	OTHER FOUNDING COMPANIES	IES	PRO FORMA ADJUSTMENTS
REVENUES	$20,291	$10,995	$4,049	$3,325	$20,602	$ --	$ --
COST OF SERVICES	16,670	9,454	2,181	1,621	16,103	--	--
Gross profit	3,621	1,541	1,868	1,704	4,499	--	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,895	1,463	503	1,238	3,980	13,618	(19,686)
GOODWILL AMORTIZATION	--	--	--	--	--	--	3,780
INCOME (LOSS) FROM OPERATIONS	726	78	1,365	466	519	(13,618)	15,906
OTHER INCOME (EXPENSE):							
Interest expense	(172)	(79)	(6)	(7)	(87)	--	(255)
Other, net	3	23	70	36	129	--	316
Other income (expense), net	(169)	(56)	64	29	42	--	61
INCOME (LOSS) BEFORE INCOME TAXES	557	22	1,429	495	561	(13,618)	15,967
PROVISION (BENEFIT) FOR INCOME TAXES	214	21	46	178	(51)		7,583
NET INCOME (LOSS)	$ 343	$ 1	$1,383	$ 317	$ 612	$(13,618)	$ 8,384
NET INCOME PER SHARE							
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1)							

	PRO FORMA COMBINED
REVENUES	$ 312,747
COST OF SERVICES	247,772
Gross profit	64,975
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	35,938
GOODWILL AMORTIZATION	3,780
INCOME (LOSS) FROM OPERATIONS	25,257
OTHER INCOME (EXPENSE):	
Interest expense	(1,081)
Other, net	1,330
Other income (expense), net	249
INCOME (LOSS) BEFORE INCOME TAXES	25,506
PROVISION (BENEFIT) FOR INCOME TAXES	11,161
NET INCOME (LOSS)	$ 14,345
NET INCOME PER SHARE	$ .65
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER	

SHARE(1)...	22,152,604
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(1) Includes (a) 2,655,709 shares issued to the IES founder and chairman of the board, (b) 1,396,602 shares issued to management of IES, (c) 12,313,025 shares issued to owners of the Founding Companies and (d) 5,667,268 of the 7,000,000 shares sold in the Offering necessary to pay the cash portion of the Acquisitions consideration and expenses of the Offerings. The 1,332,732 shares excluded reflect an equivalent number of shares related to the net cash proceeds to IES. Additionally, includes 120,000 shares computed under the treasury stock method related to 300,000 options which are currently outstanding.

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

1. GENERAL:

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

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

2. ACQUISITION OF FOUNDING COMPANIES:

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

The following table sets forth the consideration to be paid (a) in cash and (b) in shares of Common Stock to the common stockholders of each of the Founding Companies, other than the accounting acquirer (Houston-Stafford). For purposes of computing the estimated purchase price for accounting purposes, the value of the shares (including 3.9 million of the 4.1 million shares issued to the corporate management of IES, the founder and Chairman of the Board of IES and the trusts for the benefit of his children, which are reflected as additional acquisition cost) was determined using an estimated fair value of $9.75 per share (or $124.6 million), which is less than the initial public offering price of $13.00 per share due primarily to restrictions on the sale and transferability of the shares issued. The total purchase price, including cash consideration of $38.8 million, is $163.4 million. The table does not reflect net transfers of $30.6 million which represents previously undistributed earnings and nonoperating assets and liabilities that will be transferred in connection with the Acquisitions to the owners of the Founding Companies.

	CASH	SHARES OF COMMON STOCK
	(IN THOUSANDS)	
Ace	$ 828	191
Amber	2,308	533
Bexar-Calhoun	8,075	1,863
Daniel	3,691	852
Hatfield	903	208
Haymaker	1,884	435
Mills	10,806	2,494
Muth	2,051	473
Pollock	985	320
Reynolds	872	201
Rodgers	1,563	361
Summit	1,793	321
Popp	906	209
Thurman & O'Connell	2,165	500
Total	$38,830	8,961

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

3. UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS:

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

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

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

(d) Records the purchase of the Founding Companies by IES consisting of notes payable of $38.8 million and 12,780,340 shares of Common Stock valued at $9.75 per share (or $124.6 million) for a total purchase price of $163.4 million resulting in excess purchase price of $151.2 million over the net assets acquired of $12.2 million (see Note 2).

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

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

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

(f) Records the net cash proceeds of $79.8 million from the issuance of shares of IES common stock (based on an initial public offering price of $13.00 per share and net of estimated offering costs, including underwriters commissions and discounts, accounting, legal and other estimated Offerings costs of $11.2 million).

(g) Records payment of the cash portion of the consideration to the stockholders of the Founding Companies of $53.4 million in connection with the Acquisitions (see (b) and (d) above), the expected repayment of remaining historical short- and long-term debt totaling $6.4 million and the payment of $2.7 million of the Owner Amounts.

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

	ADJUSTMENT					PRO FORMA ADJUSTMENTS
	(A)	(B)	(C)	(D)	(E)	
ASSETS						
Current assets --						
Cash and cash equivalents	$ (8,952)	$ --	$ --	$ --	$ --	$ (8,952)
Accounts receivable	(1,620)	--	--	--	--	(1,620)
Prepaid expenses and other	(1,719)	--	--	--	--	(1,719)
Total current assets	(12,291)	--	--	--	--	(12,291)
Property and equipment, net	(3,921)	--	--	--	--	(3,921)
Other assets	(1,169)	--	--	--	--	(1,169)
Goodwill, net	--	--	--	151,020	--	151,020
Total assets	$(17,381)	$ --	$ --	$151,020	$ --	$133,639
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities --						
Current maturities of long-term debt	$ (882)	$ 14,526	$ --	$ 38,831	$ --	$ 52,475
Other	--	--	--	406	--	406
Total current liabilities	(882)	14,526	--	39,237	--	52,881

Long-term debt, net of current maturities....	15,189	--	--	--	--	15,189
Deferred income taxes........................	--	--	--	869	--	869
Other long-term liabilities..................	(1,051)	--	--	(1,377)	--	(2,428)
Total long-term liabilities..........	14,138	--	--	(508)	--	13,630
Stockholders' equity --						
Common stock...............................	--	--	(262)	(401)	--	(663)
Restricted common stock....................	--	--	--	26	--	26
Receivable from stockholders...............	--	--	40	--	--	40
Additional paid-in capital.................	--	(14,526)	(14,521)	125,310	17,036	113,299
Retained earnings..........................	(30,637)	--	13,618	(13,159)	(17,036)	(47,214)
Treasury stock.............................	--	--	1,125	515	--	1,640
Total stockholders' equity...........	(30,637)	(14,526)	--	112,291	--	67,128
Total liabilities and stockholders' equity............................	$(17,381)	$ --	$ --	$151,020	$ --	$133,639

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

	ADJUSTMENT (F)	ADJUSTMENT (G)	POST-MERGER ADJUSTMENTS
ASSETS			
Current assets --			
Cash and cash equivalents	$79,780	$(62,455)	$ 17,325
Prepaid expenses and other	--	(1,560)	(1,560)
Total current assets	79,780	(64,015)	15,765
Total assets	$79,780	$(64,015)	$ 15,765
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities --			
Current maturities of long-term debt	$ --	$(57,897)	$(57,897)
Accounts payable and accrued expenses	--	(1,560)	(1,560)
Total current liabilities	--	(59,457)	(59,457)
Long-term debt, net of current maturities	--	(4,558)	(4,558)
Total long-term liabilities	--	(4,558)	(4,558)
Stockholders' equity --			
Common stock	70	--	70
Additional paid-in capital	79,710	--	79,710
Total stockholders' equity	79,780	--	79,780
Total liabilities and stockholders' equity	$79,780	$(64,015)	$ 15,765

4. UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS ADJUSTMENTS:

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

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

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

	ADJUSTMENT				PRO FORMA
	(A)	(B)	(C)	(D)	ADJUSTMENTS
Selling, general and administrative expenses	$(6,068)	$ --	$(13,618)	$ --	$(19,686)
Goodwill amortization	--	3,780	--	--	3,780
Income (loss) from operations	6,068	(3,780)	13,618	--	15,906
Other income (expense) --					
Interest expense	--	--	(255)	--	(255)
Other, net	--	316	--	--	316
Other income (expense), net	--	316	(255)	--	61
Income (loss) before income taxes	6,068	(3,464)	13,363	--	15,967
Provision for income taxes	--	--	--	7,583	7,583
Net income (loss)	$ 6,068	$(3,464)	$ 13,363	$(7,583)	$ 8,384

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Houston-Stafford Electric, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

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

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

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

LIABILITIES AND STOCKHOLDER'S EQUITY

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

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

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

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

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

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

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION AND BASIS OF PRESENTATION:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

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

Cash and Cash Equivalents

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Supplemental Cash Flow Information (in thousands)

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

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

Inventories

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

Property and Equipment

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

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

Revenue Recognition

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

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

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

Warranty Costs

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

Accounts Receivable and Provision for Doubtful Accounts

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

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

Income Taxes

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

Use of Estimates

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

New Accounting Pronouncement

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

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

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT:

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

6. LEASES:

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

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

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

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. INCOME TAXES:

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

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

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

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

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

8. RELATED-PARTY TRANSACTIONS:

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

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

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

TRANSACTIONS

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

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

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

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

9. EMPLOYEE BENEFIT PLAN:

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

10. FINANCIAL INSTRUMENTS:

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

11. COMMITMENTS AND CONTINGENCIES:

Litigation

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

Insurance

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

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

HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

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

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

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

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

As a condition of the definitive agreement with IES discussed in Note 1, the Company will recognize a non-cash, non-recurring compensation charge of approximately $17.0 million related to the exchange of cash and 1.1 million shares of Common Stock for a note payable by the Company to an officer of the Company, and the issuance of 0.2 million shares to such officer for his new role as IES management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Integrated Electrical Services, Inc.:

We have audited the accompanying balance sheet of Integrated Electrical Services, Inc., a Delaware corporation, as of September 30, 1997, and the related statements of operations, cash flows and stockholders' equity for the period from inception (June 26, 1997) through September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

INTEGRATED ELECTRICAL SERVICES, INC.

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

ASSETS

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC.

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC.

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC.

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

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

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

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

2. STOCKHOLDERS' EQUITY:

Common Stock and Preferred Stock

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

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

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

Restricted Common Stock

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

Stock Plan

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

Directors' Stock Plan

In September 1997, the Company's board of directors and stockholders approved the 1997 Directors' Stock Plan (the Directors' Plan), which provides for the granting or awarding of stock options to nonemployee directors. The number of shares authorized and reserved for issuance under the Directors' Plan is 250,000 shares. The Directors' Plan provides for the automatic grant of options to purchase 5,000 shares to each nonemployee director serving in such capacity at the commencement of the Offerings.

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

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

3. STOCK-BASED COMPENSATION:

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

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

4. NEW ACCOUNTING PRONOUNCEMENTS:

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

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

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

5. FOUNDING COMPANY ACQUISITIONS:

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

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

INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

The aggregate consideration that will be paid by IES to acquire the Founding Companies will be approximately $53.4 million in cash and 12.3 million shares of Common Stock. Additionally, approximately 3.9 million of the 4.1 million shares issued to the IES founder and Chairman of the Board and certain trusts, and certain other management, will be reflected as acquisition costs as part of the acquisition transactions.

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Mills Electrical Contractors, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

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

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

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

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

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

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

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

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

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

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

Cash and Cash Equivalents

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

Supplemental Cash Flow Information (in thousands)

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

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Inventories

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

Property and Equipment

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

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

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

Revenue Recognition

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

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

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

Warranty Costs

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Accounts Receivable and Provision for Doubtful Accounts

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

Income Taxes

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

Use of Estimates

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

New Accounting Pronouncement

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

3. PROPERTY AND EQUIPMENT:

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

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

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

Electrical system installation contracts in progress are as follows:

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

5. LINE-OF-CREDIT DEBT:

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

LONG-TERM DEBT

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

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

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

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

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

6. LEASES:

Obligations Under Capital Leases

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

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

Operating Leases

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

7. RELATED-PARTY TRANSACTIONS:

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

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

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

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

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

8. EMPLOYEE BENEFIT PLAN:

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

MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. FINANCIAL INSTRUMENTS:

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

10. COMMITMENTS AND CONTINGENCIES:

Litigation

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

Insurance

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

11. MAJOR CUSTOMERS AND RISK CONCENTRATION:

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

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

Cash and Cash Equivalents

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

12. BACKCHARGE CLAIMS:

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To BW Consolidated, Inc. and Subsidiaries:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

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

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
REVENUES	$23,168	$27,730	$33,023	$32,165	$24,994	$24,136
COST OF SERVICES (including depreciation)	17,967	20,964	25,017	24,976	18,909	18,868
Gross profit	5,201	6,766	8,006	7,189	6,085	5,268
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,091	3,637	3,686	3,766	2,713	2,793
Income from operations	2,110	3,129	4,320	3,423	3,372	2,475
OTHER INCOME (EXPENSE):						
Interest expense	(135)	(120)	(97)	(108)	(73)	(84)
Other	97	263	174	195	137	158
Other income (expense), net	(38)	143	77	87	64	74
NET INCOME BEFORE INCOME TAX AND MINORITY INTEREST	2,072	3,272	4,397	3,510	3,436	2,549
INCOME TAX EXPENSE (BENEFIT)	772	1,238	(28)	72	(67)	33
NET INCOME BEFORE MINORITY INTEREST	1,300	2,034	4,425	3,438	3,503	2,516
MINORITY INTEREST EXPENSE	--	--	250	316	203	269
NET INCOME	$ 1,300	$ 2,034	$ 4,175	$ 3,122	$ 3,300	$ 2,247

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$1,300	$ 2,034	$ 4,175	$ 3,122	$ 3,300	$ 2,247
Adjustments to reconcile net income to net cash provided by operating activities --						
Depreciation and amortization	292	329	426	534	296	404
Loss (gain) on sale of property and equipment	9	(54)	(17)	(3)	(19)	(5)
Deferred tax benefit	--	--	(180)	--	(180)	--
Minority interest expense	--	--	250	316	203	269
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable	(459)	(244)	(1,828)	(663)	(1,115)	50
Inventories	(7)	131	(96)	29	(109)	16
Costs and estimated earnings in excess of billings on uncompleted contracts	80	(13)	4	156	(194)	(42)
Prepaid expenses and other current assets	(3)	4	(5)	(19)	(5)	(19)
Increase (decrease) in --						
Accounts payable and accrued expenses	(153)	141	(187)	(140)	222	269
Billings in excess of costs and estimated earnings on uncompleted contracts	(51)	282	143	34	200	91
Other current liabilities	34	41	36	(112)	(18)	(166)
Net cash provided by operating activities	1,042	2,651	2,721	3,254	2,581	3,114
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	4	141	66	23	63	20
Stockholder receivable	--	(512)	512	--	512	--
Other assets	1	(3)	(6)	(31)	3	(22)
Additions of property and equipment	(485)	(1,001)	(1,160)	(1,068)	(984)	(892)
Net cash used in investing activities	(480)	(1,375)	(588)	(1,076)	(406)	(894)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of short-term debt	643	515	1,832	2,000	632	800
Borrowings of long-term debt	--	--	10	25	24	39
Repayments of short-term debt	(643)	(515)	(1,832)	(2,000)	(632)	(800)
Repayments of long-term debt	(377)	(310)	(219)	(217)	(200)	(198)
Stockholder distributions	--	(32)	(2,556)	(2,451)	(2,222)	(2,117)
Minority interest contributions	--	--	85	935	85	935
Minority interest distributions	--	--	(126)	(165)	(72)	(111)
Purchase of treasury stock	--	(961)	--	--	--	--
Net cash used in financing activities	(377)	(1,303)	(2,806)	(1,873)	(2,385)	(1,452)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	185	(27)	(673)	305	(210)	768
CASH AND CASH EQUIVALENTS, beginning of period	1,022	1,207	1,180	970	1,180	507
CASH AND CASH EQUIVALENTS, end of period	$1,207	$ 1,180	$ 507	$ 1,275	$ 970	$ 1,275
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 137	$ 119	$ 97	$ 108	$ 73	$ 84
Income taxes	744	1,197	132	202	128	198

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

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

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
BALANCE, December 31, 1993	31,151	$ 31	$ 512	$ 2,663	$ --	$ 3,206
Sale of common stock	261	1	30	--	--	31
Net income	--	--	--	1,300	--	1,300
BALANCE, December 31, 1994	31,412	32	542	3,963	--	4,537
Sale of common stock	186	--	24	--	--	24
Net income	--	--	--	2,034	--	2,034
Dividends paid	--	--	--	(32)	--	(32)
Purchase of treasury stock	--	--	--	--	(961)	(961)
BALANCE, December 31, 1995	31,598	32	566	5,965	(961)	5,602
Shares retired upon merger	(26,510)	(27)	154	(127)	--	--
Treasury stock canceled	(5,088)	(5)	(515)	(441)	961	--
Shares issued	1,000	10	--	(10)	--	--
Stock split 20 to 1 and recapitalization (Note 1)	19,000	10	--	(10)	--	--
Distributions to stockholders	--	--	--	(2,556)	--	(2,556)
Net income	--	--	--	4,175	--	4,175
BALANCE, December 31, 1996	20,000	20	205	6,996	--	7,221
Distributions to stockholders (unaudited)	--	--	--	(2,117)	--	(2,117)
Net income (unaudited)	--	--	--	2,247	--	2,247
BALANCE, September 30, 1997	20,000	$ 20	$ 205	$ 7,126	$ --	$ 7,351

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS, ORGANIZATION AND BASIS OF PRESENTATION:

BW Consolidated, Inc. (the Company), a Nevada S Corporation, and Subsidiaries, two of which are Texas limited partnerships, focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed-price contracts with contract terms generally ranging from three to 24 months. The Company performs the majority of its work in Texas.

In January 1996, the original parent company, Bexar Enterprises, Inc., a Nevada C Corporation, was merged with BW Investments, Inc., Bexar Electric Company, Inc., and Calhoun Electric Company, Inc., all wholly owned subsidiaries. The survivor of the merger was Calhoun Electric Company, Inc., a Texas S Corporation, and its 90 percent owned subsidiary, Bexar Electric Company, Ltd. (BEC), a Texas limited partnership. The 10 percent minority interest in the partnership was purchased by employees of Bexar Electric Company, Ltd. An additional 10 percent minority interest in Bexar Electric Company, Ltd. (a Texas limited partnership), was purchased by employees of the Company in January 1997.

In May 1997, Calhoun Electric Company, Inc., a Texas S Corporation, transferred its assets and liabilities to Calhoun Electric Company, Ltd. (CEC), a Texas limited partnership. Subsequent to this transfer, Calhoun Electric Company, Inc., a Texas S Corporation, reorganized as a Nevada S Corporation and changed its name to BW Consolidated, Inc.

The accompanying financial statements present BW Consolidated, Inc. (and its predecessors), together with its majority-owned subsidiaries on a consolidated basis. All significant intercompany activity has been eliminated in consolidation. Additionally, minority interests in subsidiaries of BW Consolidated, Inc. have been reflected as "Minority Interest in Consolidated Subsidiary" in the accompanying consolidated financial statements.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment. Additionally, in October 1997, the majority shareholder of the Company transferred 15 percent of its interest in CEC to a former shareholder of Calhoun Electric Company, Inc. and current employee of CEC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Cash and Cash Equivalents

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

Supplemental Cash Flow Information (in thousands)

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

				YEAR ENDED SEPTEMBER 30,	NINE MONTHS SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
Property and equipment purchased with direct financing	$--	$25	$--	$141	$--	$141
Like-kind exchange of equipment	--	15	6	6	--	6
Employee Stock Option Plan contribution through stock distribution	30	25	--	--	--	--
Exchange of property and equipment for note receivable	--	--	--	18	--	18

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the average cost method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

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

Revenue Recognition

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

Warranty Costs

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

Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company has elected S Corporation status effective January 1, 1996, as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes (see Note 7). The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings (see Note 1).

Use of Estimates

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

New Accounting Pronouncements

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	10	$ 2,783	$ 3,446	$ 3,953
Machinery and equipment	5-10	709	673	684
Land and buildings	40	2,592	2,592	2,941
Furniture, fixtures and office equipment	3-15	680	926	965
		6,764	7,637	8,543
Less -- Accumulated depreciation and amortization		(2,839)	(3,028)	(3,337)
Property and equipment, net		$ 3,925	$ 4,609	$ 5,206

4. DETAIL OF CERTAIN CONSOLIDATED BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 80	$ 82	$105
Additions to costs and expenses	27	127	49
Deductions for uncollectible receivables written off and recoveries	(25)	(90)	(30)
Balance at end of period	$ 82	$119	$124

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$1,134	$1,191	$1,441
Wages	700	407	470
Insurance	238	146	83
Contract costs	141	207	208
Warranty reserve	83	99	97
Other	22	81	101
Total accounts payable and accrued expenses	$2,318	$2,131	$2,400

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Amended contract amount	$15,945	$18,918	$16,983
Revenue recognized to date	7,953	11,105	8,663
Unearned contract amount, backlog	$ 7,992	$ 7,813	8,320
Costs incurred on uncompleted contracts	$ 5,647	$ 8,298	6,433
Estimated earnings	2,306	2,807	2,230
Total contract revenue earned to date	7,953	11,105	8,663
Less -- Billings to date	8,403	11,711	9,278
Net overbilled open contracts	(450)	(606)	(615)
Unbilled completed contracts	30	39	(1)
	$ (420)	$ (567)	$ (616)
Costs and estimated earnings in excess of billings	$ 186	$ 182	$ 224
Billings in excess of costs and estimated earnings	(606)	(749)	(840)
	$ (420)	$ (567)	$ (616)

5. LONG-TERM DEBT:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note payable to a bank, interest at prime plus .75 percent (prime rate at 8.50 percent at September 30, 1997, principal and interest due monthly of $10 maturing in March 2004, secured by certain real estate	$ 678	$632	$586
Note payable to a corporation, interest at 7 percent, principal and interest due monthly of $2 maturing in July 2004, secured by certain real estate	140	128	--
Note payable to a bank, interest at prime, principal and interest due monthly of $3, maturing in November 2003, secured by certain real estate	205	190	179
Note payable to a bank, interest at prime plus .75 percent, principal and interest due monthly of $2 maturing in February 2007, secured by real estate	--	--	$173
Notes payable to manufacturers, interest at 7.9 percent, principal and interest due monthly of $3, maturing in December 1996 and May 1997, secured by certain equipment	43	5	--
Notes payable to a bank, interest at 8.25 percent, principal and interest due monthly of $6, maturing in July and October 1996, secured by certain vehicles and equipment	50	--	--
Various notes payable to a bank, interest ranging from 7.9 percent to 8.25 percent, principal and interest due monthly of $7, maturing in July through November 1996, secured by certain vehicles, machinery and office equipment	49	--	--
Total debt	1,165	955	938
Less -- current maturities	214	94	96
Long-term debt less current maturities	$ 951	$861	$842

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The maturities of long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 96
1999	112
2000	116
2001	126
2002	138
Thereafter	350
	$938

The Company currently has two lines of credit established. The first line of credit for $750,000, secured by BEC accounts receivable, inventory and equipment, requires monthly payments of interest at 1 percent over the prime rate. At December 31, 1995 and 1996 and at September 30, 1997, respectively, there were no advances outstanding against the line and the full $750,000 was available. The note maturity date is April 1998. The second line of credit for $500,000, secured by CEC accounts receivable, inventory, equipment and trucks, requires monthly payments of interest at 1/2 percent over the prime rate. During the 1997, this line of credit agreement was renewed and was increased from $300,000 to $500,000. At December 31, 1995 and 1996, respectively, there were no advances outstanding against the line and the full $300,000 was available. At September 30, 1997, there was no advance outstanding against the line and the full $500,000 was available. The note maturity date is May 1998.

The Company had an irrevocable letter of credit from a bank in the amount of $199,000 in favor of the Company's workers' compensation carrier. The expiration date was July 1, 1997. Security for this letter of credit consisted of the assignment of $125,000 in certificates of deposit and a second lien on real estate of the Company, and the personal guarantee of the major stockholder.

6. LEASES:

The Company leased undeveloped property from the majority stockholder for storage of equipment and trailers. The lease was entered into on July 1, 1994, and expired on June 30, 1997, and was on a month-to-month basis. The consideration for this lease was $8,000, $17,000, $19,000 and $10,000 in 1994, 1995, 1996 and the year ended September 30, 1997 respectively.

7. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Federal --		
Current	$663	$1,118
Deferred	26	(45)
State --		
Current	83	157
Deferred	--	8
	$772	$1,238

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 34% to income before provision for income taxes as follows:

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995
Provision at the statutory rate	$704	$1,112
State income tax, net of benefit for federal deduction	54	107
Other	14	19
	$772	$1,238

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

	DECEMBER 31, 1995
Deferred income tax assets --	
Allowance for bad debt	$ 4
Accrued liabilities and expenses	122
Total deferred income tax asset	126
Deferred income tax liabilities --	
Property and equipment	(306)
Total deferred income tax liability	(306)
Net deferred income tax liability	$ (180)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31, 1995
Deferred tax assets --	
Current	$ 126
Long-term	--
Total	$ 126
Deferred tax liabilities --	
Current	$ --
Long-term	(306)
Total	$(306)

Effective January 1, 1996, the Company elected S Corporation status for Calhoun Electric and partnership status for Bexar Electric. The Company will no longer be directly responsible for any deferred tax liability which might exist. The removal of the deferred tax liability which existed as of December 31, 1995, is recognized in the 1996 consolidated statement of operations (see Note 2).

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

8. RELATED-PARTY TRANSACTIONS:

Notes receivable from a stockholder consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Note receivable, secured by a second lien on real estate, interest at 7.5 percent, payable in 60 quarterly installments of $3	$107	$ --	$ --
Note receivable, unsecured, interest at 7.45 percent, payments due annually in January of 15 percent of principal plus accrued interest, balance due in January 2000	405	--	--
Total notes receivable from a stockholder	512	--	--
Current portion	42	--	--
Noncurrent portion	$470	$ --	$ --

The Company recognized interest income from a stockholder of $--, $30,000, $13,000 and $5,000 in 1994, 1995, 1996 and for the year ended September 30, 1997, respectively.

9. EQUITY:

In 1991, the Company adopted an employee stock ownership plan (ESOP) for the benefit of the Company's employees. The plan covered substantially all employees of the Company. The Company's contributions to the plan are at the discretion of the board of directors, but may not exceed the maximum allowable deduction permitted under the Internal Revenue Code at the time of the contribution. Under this ESOP plan, employees cannot make contributions to the plan. The Company made a contribution of $35,000 and $25,000 in 1994 and 1995, respectively. Effective December 8, 1995, the Company has requested and received approval from the Internal Revenue Service to terminate the ESOP plan. In accordance with the termination of the ESOP, the Company repurchased as treasury stock 5,088 shares for $961,000.

In 1996, the Company sold a minority interest in the limited partnership of Bexar Electric to certain employees of the Company. The minority interest is considered a limited partner; the minority interest held 10 percent and 20 percent at December 31, 1996 and September 30, 1997, respectively.

10. FINANCIAL INSTRUMENTS:

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

11. COMMITMENTS AND CONTINGENCIES:

Litigation

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

Insurance

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

BW CONSOLIDATED, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 11 percent of total sales to one major customer during the year ended December 31, 1996.

The Company had accounts receivable balances of approximately 15 percent and 14 percent of total accounts receivable from two major customers as of December 31, 1996, and approximately 10% due from one major customer for the year ended September 30, 1997.

The Company had cash and cash equivalents in financial institutions which exceeded the federally insured limits by $911,000, $269,000 and $858,000 at December 31, 1995 and 1996, and September 30, 1997, respectively.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Muth Electric, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

MUTH ELECTRIC, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 53	$ 82	$ 81
Accounts receivable --			
Trade, net of allowance of $55, $63 and $91, respectively	1,718	2,556	3,154
Retainage	417	212	383
Related party	--	74	246
Inventories	750	820	898
Costs and estimated earnings in excess of billings on uncompleted contracts	545	436	675
Prepaid expenses and other current assets	150	140	135
Total current assets	3,633	4,320	5,572
PROPERTY AND EQUIPMENT, net	946	1,140	1,133
Total assets	$4,579	$5,460	$6,705

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Notes payable	$ --	$ 530	$ 540
Accounts payable and accrued expenses	1,621	1,680	2,177
Billings in excess of costs and estimated earnings on uncompleted contracts	305	180	543
Total current liabilities	1,926	2,390	3,260
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $100 par value, 3,000 shares authorized, 737 shares issued and outstanding	74	74	74
Retained earnings	2,579	2,996	3,371
Total stockholder's equity	2,653	3,070	3,445
Total liabilities and stockholder's equity	$4,579	$5,460	$6,705

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

MUTH ELECTRIC, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
REVENUES	$13,466	$16,012	$16,830	$18,779	$12,517	$14,466
COST OF SERVICES (including depreciation)	9,805	12,189	12,834	14,511	9,751	11,428
Gross profit	3,661	3,823	3,996	4,268	2,766	3,038
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,678	2,923	2,957	3,074	2,147	2,264
Income from operations	983	900	1,039	1,194	619	774
OTHER INCOME (EXPENSE):						
Interest income (expense)	6	11	(24)	(27)	(17)	(20)
Other	(79)	(95)	27	1	22	(4)
Other income (expense), net	(73)	(84)	3	(26)	5	(24)
NET INCOME	$ 910	$ 816	$ 1,042	$ 1,168	$ 624	$ 750

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

MUTH ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996	1997	1996	1997
					(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 910	$ 816	$1,042	$ 1,168	$ 624	$ 750
Adjustments to reconcile net income to net cash provided by operating activities --						
Depreciation and amortization	142	185	224	212	194	182
Loss (gain) on sale of property and equipment	(6)	16	(28)	(26)	(16)	(14)
Changes in operating assets and liabilities -- (Increase) decrease in --						
Accounts receivable	(260)	70	(674)	(1,209)	(406)	(941)
Inventories	31	(38)	(70)	(82)	(66)	(78)
Costs and estimated earnings in excess of billings on uncompleted contracts	579	(291)	70	(125)	(44)	(239)
Prepaid expenses and other current assets	(41)	5	10	(81)	96	5
Increase (decrease) in --						
Accounts payable and accrued expenses	(478)	525	59	451	105	497
Billings in excess of costs and estimated earnings on uncompleted contracts	(252)	(95)	(119)	197	47	363
Net cash provided by operating activities	625	1,193	514	505	534	525
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sale of property and equipment	11	5	53	42	34	23
Additions of property and equipment	(201)	(560)	(443)	(226)	(401)	(184)
Net cash used in investing activities	(190)	(555)	(390)	(184)	(367)	(161)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Net borrowings or notes payable	--	--	530	300	240	10
Payments of long-term loan receivable	390	--	--	--	--	--
Distributions to stockholders	(715)	(722)	(625)	(625)	(375)	(375)
Net cash used in financing activities	(325)	(722)	(95)	(325)	(135)	(365)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110	(84)	29	(4)	32	(1)
CASH AND CASH EQUIVALENTS, beginning of period	27	137	53	85	53	82
CASH AND CASH EQUIVALENTS, end of period	$ 137	$ 53	$ 82	$ 81	$ 85	$ 81
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid for --						
Interest	$ 9	$ 4	$ 33	$ 36	$ 25	$ 28

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

MUTH ELECTRIC, INC.

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

	COMMON STOCK			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1993	737	$74	$2,290	$2,364
Distributions to stockholders	--	--	(715)	(715)
Net income	--	--	910	910
BALANCE, December 31, 1994	737	74	2,485	2,559
Distributions to stockholders	--	--	(722)	(722)
Net income	--	--	816	816
BALANCE, December 31, 1995	737	74	2,579	2,653
Distributions to stockholders	--	--	(625)	(625)
Net income	--	--	1,042	1,042
BALANCE, December 31, 1996	737	74	2,996	3,070
Distributions to stockholders (unaudited)	--	--	(375)	(375)
Net income (unaudited)	--	--	750	750
BALANCE, September 30, 1997	737	$74	$3,371	$3,445

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

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Muth Electric, Inc. (the Company), a South Dakota corporation, focuses on providing electrical system installation and repair services primarily for residential and commercial facilities. The Company performs the majority of its contract work under fixed-price contracts with contract terms generally ranging from one to 12 months. The Company performs the majority of its work in South Dakota and surrounding states.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

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

Cash and Cash Equivalents

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

Inventories

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

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the estimated useful life of the asset. Depreciation expense was approximately $142,000, $185,000, $224,000 and $212,000 for the years ended December 31, 1994, 1995, 1996 and September 30, 1997, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

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

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

Warranty Costs

The Company warrants labor and materials for the first year after installation of new electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable, as well as provides a general reserve for potential unknown adjustments.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 9 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5	$ 806	$ 868	$ 890
Machinery and equipment	7	466	635	707
Leasehold improvements	40	409	479	517
Furniture and fixtures	5	403	425	444
		2,084	2,407	2,558
Less -- Accumulated depreciation and amortization		(1,138)	(1,267)	(1,425)
Property and equipment, net		$ 946	$ 1,140	$1,133

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$60	$55	$63
Additions (deductions) to costs and expenses	(5)	8	28
Balance at end of period	$55	$63	$91

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 652	$ 757	$1,258
Accrued compensation and benefits	376	520	435
Other accrued expenses	593	403	484
	$1,621	$1,680	$2,177

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 9,215	$ 7,159	$ 7,250
Estimated earnings, net of losses	1,914	1,277	2,082
	11,129	8,436	9,332
Less -- Billings to date	(10,889)	(8,180)	(9,200)
	$ 240	$ 256	$ 132
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 545	$ 436	$ 675
Less: Billings in excess of costs and estimated earnings on uncompleted contracts	(305)	(180)	(543)
	$ 240	$ 256	$ 132

5. LINE OF CREDIT:

The Company has three lines of credit with a bank totaling $1,140,000 of available credit. The line of credit expires January 1998 and bears interest at 9 percent. The line of credit is unsecured. At September 30, 1997, borrowings outstanding under the line of credit were $540,000.

6. EMPLOYEE BENEFIT PLAN:

The Company has a defined 401(k) contribution profit-sharing plan. The Plan provides for the Company to match one-half of the first 5 percent contributed by each employee. Total contributions by the Company under the plan were approximately $83,000, $93,000 and $85,000 for the years ending December 31, 1995, 1996 and September 31, 1997 respectively. The Company may also make discretionary contributions. The Company declared discretionary contributions of $70,000 and $65,000 for the years ended December 31, 1995 and 1996, respectively, and had accrued approximately $74,000 at December 31, 1996, relating to all contributions to be funded in the subsequent fiscal year.

7. RELATED-PARTY TRANSACTIONS:

The Company periodically will obtain loans from the stockholder to meet current cash needs. The Company will also loan out excess funds to the stockholder. Loans neither to nor from the stockholder are charged interest. A total of $172,000 was due from a stockholder at September 30, 1997.

The Company has an outstanding trade receivable in the amount of $74,000 to a company owned by a member of the stockholder's family.

The Company also provides real estate management services to a company owned by the stockholder.

The Company leases facilities from the Company's stockholder. The leases expire annually. The rent paid under these related-party leases was approximately $95,000, $118,000 and $115,000 for the years ended December 31, 1995 and 1996 and September 30, 1997, respectively.

8. FINANCIAL INSTRUMENTS:

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

MUTH ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

9. COMMITMENTS AND CONTINGENCIES:

Litigation

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

Insurance

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

The Company is self-insured for medical claims up to $20,000 per year per covered individual. Claims in excess of these amounts are covered by a stop-loss policy. The Company has recorded reserves for its portion of self-insured claims based on estimated claims incurred through December 31, 1995 and 1996 or 1997.

10. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company did not have sales greater than 10 percent of total sales to any one customer during the years ended December 31, 1994, 1995 and 1996 or September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers located primarily in the Midwest region. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the Midwest. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Pollock Electric Inc.:

We have audited the accompanying balance sheets of Pollock Electric Inc., a Texas corporation, as of October 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pollock Electric Inc. as of October 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

POLLOCK ELECTRIC INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 302	$ 222	$ 347
Accounts receivable --			
Trade, net of allowance of $96, $178 and $175, respectively	2,204	4,030	4,536
Retainage	99	566	765
Other receivables	40	4	13
Inventories, net	--	--	18
Costs and estimated earnings in excess of billings on uncompleted contracts	399	202	767
Deferred tax asset	161	263	343
Prepaid expenses and other current assets	49	115	198
Total current assets	3,254	5,402	6,987
PROPERTY AND EQUIPMENT, net	280	341	379
Total assets	$3,534	$5,743	$7,366

LIABILITIES AND STOCKHOLDER'S EQUITY

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Notes payable and capital lease obligations	$ 28	$ 67	$ 167
Advances outstanding under line of credit	625	1,350	1,610
Accounts payable and accrued expenses	1,378	3,013	3,335
Income taxes payable	354	181	231
Billings in excess of costs and estimated earnings on uncompleted contracts	234	317	889
Unearned revenue and other current liabilities	14	13	146
Total current liabilities	2,633	4,941	6,378
CAPITAL LEASE OBLIGATIONS, net of current portion	75	75	71
DEFERRED TAX LIABILITY	20	20	21
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $1 par value, 1,000,000 shares authorized, 1,000 shares issued and outstanding	1	1	1
Additional paid-in capital	9	9	9
Retained earnings	796	697	886
Total stockholder's equity	806	707	896
Total liabilities and stockholder's equity	$3,534	$5,743	$7,366

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

POLLOCK ELECTRIC INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,	ELEVEN MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1996	1997
				(UNAUDITED)	
REVENUES	$13,002	$15,816	$20,291	$13,305	$17,780
COST OF SERVICES (including depreciation)	10,602	13,534	16,670	11,646	14,782
Gross profit	2,400	2,282	3,621	1,659	2,998
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,149	2,463	2,895	2,083	2,515
Income (loss) from operations	251	(181)	726	(424)	483
OTHER INCOME (EXPENSE):					
Interest expense	(77)	(104)	(172)	(87)	(155)
Other	--	156	3	154	1
Other income (expense), net	(77)	52	(169)	67	(154)
INCOME (LOSS) BEFORE INCOME TAXES	174	(129)	557	(357)	329
PROVISION (BENEFIT) FOR INCOME TAXES	82	(30)	214	(104)	140
NET INCOME (LOSS)	$ 92	$ (99)	$ 343	$ (253)	$ 189

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

POLLOCK ELECTRIC INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED OCTOBER 31, 1995	YEAR ENDED OCTOBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	ELEVEN MONTHS ENDED SEPTEMBER 30, 1996	ELEVEN MONTHS ENDED SEPTEMBER 30, 1997
				(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ 92	$ (99)	$ 343	$ (253)	$ 189
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization	64	107	131	83	107
Deferred income taxes	(141)	(103)	(35)	(146)	(78)
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	577	(2,257)	(1,479)	(1,492)	(714)
Inventories	--	--	(18)	--	(18)
Costs and estimated earnings in excess of billings on uncompleted contracts	(164)	197	(234)	(134)	(565)
Prepaid expenses and other current assets	(30)	(41)	(78)	(71)	(83)
Increase (decrease) in --					
Accounts payable and accrued expenses	(546)	1,635	1,143	815	323
Income taxes payable	170	(172)	120	(243)	49
Billings in excess of costs and estimated earnings on uncompleted contracts	9	83	19	636	572
Unearned revenue and other current liabilities	(31)	(1)	103	29	133
Net cash provided by (used in) operating activities	--	(651)	15	(776)	(85)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions of property and equipment	(77)	(154)	(175)	(112)	(133)
Net cash used in investing activities	(77)	(154)	(175)	(112)	(133)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net borrowings under line of credit	241	725	484	609	343
Net cash provided by financing activities	241	725	484	609	343
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	164	(80)	324	(279)	125
CASH AND CASH EQUIVALENTS, beginning of period	138	302	23	302	222
CASH AND CASH EQUIVALENTS, end of period	$ 302	$ 222	$ 347	$ 23	$ 347
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 77	$ 104	$ 171	$ 88	$ 155
Income taxes	21	245	38	245	38

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

POLLOCK ELECTRIC INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINED	TOTAL STOCKHOLDER'S
	SHARES	AMOUNT	CAPITAL	EARNINGS	EQUITY
BALANCE, October 31, 1994	1,000	$ 1	$ 9	$ 704	$ 714
Net income	--	--	--	92	92
BALANCE, October 31, 1995	1,000	1	9	796	806
Net income	--	--	--	(99)	(99)
BALANCE, October 31, 1996	1,000	1	9	697	707
Net income (unaudited)	--	--	--	189	189
BALANCE, September 30, 1997	1,000	$ 1	$ 9	$ 886	$ 896

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

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Pollock Electric Inc., a Texas corporation (the Company), provides electrical system installation, data and fiber optic cabling installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed-price contracts, with contract terms generally ranging from one to 12 months. The Company performs the majority of its work in the commercial and industrial markets in Harris County, Texas, and surrounding areas.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

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

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was $64,144, $107,242 and $131,190 for the years ended October 31, 1995 and 1996 and September 30, 1997, respectively.

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

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reasonably estimated.

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

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

Warranty Costs

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

Accounts Receivable and Provision for Doubtful Accounts

Accounts receivable at October 31, 1995 and 1996 and September 30, 1997, include immaterial amounts of claims and unapproved change orders, however, the Company generally does not recognize change orders until they are approved.

The Company provides an allowance for doubtful accounts based upon a percentage of gross sales revenue. In addition, the Company reserves for specific accounts when collection of such accounts is no longer probable.

Income Taxes

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

Use of Estimates

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

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

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

	ESTIMATED USEFUL LIVES IN YEARS	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	4-5	$ 95	$ 132	$ 143
Machinery and equipment	5-7	221	267	331
Computer and telephone equipment	5	161	201	259
Leasehold improvements	5-39	71	107	119
Furniture and fixtures	5-7	15	24	24
		563	731	876
Less -- Accumulated depreciation and amortization		(283)	(390)	(497)
Property and equipment, net		$ 280	$ 341	$ 379

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 68	$ 96	$178
Additions to costs and expenses	59	108	26
Deductions for uncollectible receivables written off and recoveries	(31)	(26)	(29)
Balance at end of period	$ 96	$178	$175

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 944	$2,553	$2,859
Accrued compensation and benefits	301	344	302
Other accrued expenses	133	116	174
	$1,378	$3,013	$3,335

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 1,300	$ 6,592	$ 9,484
Estimated earnings, net of losses	239	742	1,748
	1,539	7,334	11,232
Less -- Billings to date	(1,374)	(7,449)	(11,354)
	$ 165	$ (115)	$ (122)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 399	$ 202	$ 767
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(234)	(317)	(889)
	$ 165	$ (115)	$ (122)

5. LINE OF CREDIT:

The Company has a $2,500,000 line of credit with a bank. At October 31, 1995 and 1996 and September 30, 1997, unpaid borrowings were $625,000, $1,350,000 and $1,610,000, respectively. The line of credit expires February 28, 1998, and bears interest at the bank's prime lending rate plus 1 percent. The line of credit is personally guaranteed by Jon Pollock, sole stockholder and president of the Company, and is secured by all accounts, contract rights, chattel paper, instruments, general intangibles, rights to payments of any kind, all interest of the Company in any goods, and a blanket lien of all property and equipment. The borrowing base is limited to 75 percent of eligible accounts receivable that are outstanding less than 60 days from the invoice date.

Interest is computed monthly on the unpaid balance and is payable monthly. The Company has restrictive and various financial covenants with which the Company was in compliance at September 30, 1997.

6. LEASES:

The Company leases its office space from its sole stockholder and president under a lease agreement with a primary lease term of one year beginning November 15, 1991. At the expiration of the primary lease term, the Company exercised its option to extend the lease for an additional five-year period. Effective November 1, 1995, the lease agreement was modified to include additional office space. The basic rent was increased to $3,000 per month, and the expiration date was extended to November 30, 1998.

In addition to the basic lease cost, the Company must pay insurance, actual taxes, maintenance and other operating costs. The rent paid under this related-party lease was approximately $20,000, $36,000 and $36,000 for the years ended October 31, 1995 and 1996 and September 30, 1997, respectively.

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

	OCTOBER 31,	SEPTEMBER 30,
1997	$36	$--
1998	36	36
1999	3	6
	$75	$42

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Certain vehicles and equipment have been leased under terms that constitute capital leases. Accordingly, the costs of the assets (the lower of the cash purchase price or the present value of the future minimum lease payments) were recorded as an addition to property and the related liabilities were recorded as lease obligations. The assets are amortized using the straight-line method, and interest expense is recorded on the basis of the outstanding lease obligation.

The net present value of future minimum lease payments under the capital leases as recorded in short-term and long-term debt at October 31, 1996 and September 30, 1997, are as follows (in thousands):

Year ending October 31 --	
1997	$ 54
1998	51
1999	32
Total lease payments	137
Less -- Amounts representing interest	(16)
Present value of minimum lease payments	$121
Year ending September 30 --	
1998	$ 71
1999	54
2000	20
2001	7
Total lease payments	152
Less -- Amounts representing interest	(19)
Present value of minimum lease payments	$133

7. INCOME TAXES:

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

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,
	1995	1996	1997
Federal --			
Current	$ 259	$ 72	$ 318
Deferred	(187)	(99)	(122)
State --			
Current	35	10	39
Deferred	(25)	(13)	(21)
	$ 82	$ (30)	$ 214

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

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,
	1995	1996	1997
Income tax expense (benefit) at the statutory rate	$ 61	$ (45)	$ 194
Increase (decrease) resulting from --			
State income taxes, net of related tax effect	6	(2)	12
Nondeductible expenses	15	17	8
	$ 82	$ (30)	$ 214

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Deferred income tax assets --			
Bad debt reserve	$ 42	$ 51	$ 53
Warranty reserve	28	44	49
Contracts	51	50	75
Accrued expenses	40	118	166
Total deferred income tax assets	161	263	343
Deferred income tax liabilities --			
Property and equipment	(17)	(17)	(52)
State taxes	(1)	(4)	(4)
Contracts	(116)	(103)	(208)
Total deferred income tax liabilities	(134)	(124)	(264)
Total deferred income tax assets	$ 27	$ 139	$ 79

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

	OCTOBER 31, 1995	OCTOBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Current	$ 161	$ 263	$ 343
Long-term	--	--	--
Total	161	263	343
Deferred tax liabilities --			
Current	(114)	(104)	(243)
Long-term	(20)	(20)	(21)
Total	(134)	(124)	(264)
Net deferred income tax assets	$ 27	$ 139	$ 79

8. RELATED-PARTY TRANSACTIONS:

The Company leases its office space from its sole stockholder and president. Total payments made under this lease agreement were approximately $20,000, $36,000, and $36,000 for the years ended October 31, 1995 and 1996 and September 30, 1997, respectively. (See Note 6).

In 1995, the Company encouraged its employees to purchase personal computers by making the down payments for the purchases. The employees are repaying the Company through payroll deductions. The outstanding amounts are classified as accounts receivable, other in the accompanying balance sheets.

9. EMPLOYEE BENEFIT PLANS:

Stock Appreciation Plan

On May 4, 1994, the Company adopted a stock appreciation rights plan titled the Stock Unit Plan (the Plan). Under the Plan, stock rights or units were awarded to employees valued at the book value of the

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Company's stock at that date. Subsequent increases in the book value of the stock accrue to the benefit of the officer or employee, while decreases in the book value reduce accrued benefits. Payments of amounts accrued under the Plan are payable at retirement or resignation from the Company, except for cases of termination with cause, at which time the units and benefits are forfeited. Deferred compensation liability accrued under the Plan totaled $11,500, $17,435 and $17,435 at October 31, 1995 and 1996 and September 30, 1997, respectively. The change in the value of the stock appreciation rights under the Plan are recorded as compensation expense as the Company's net book value fluctuates.

Stock Purchase Agreement

The Company has entered into various agreements with certain of its officers to provide for business continuity in the event of the death of the Company's president and sole stockholder. The agreements provide for the purchase of life insurance on the Company's president through split-dollar arrangements and term insurance to provide funds for the officers of the Company to acquire the president's stock in the event of his death. All amounts advanced by the Company to pay premiums that are not subject to reimbursement from the officers shall be collectible by the Company from the net equity of the insurance policy or from the proceeds paid thereon.

Profit-Sharing and 401(k) Plan

Effective November 1, 1994, the Company established a defined contribution plan for its employees. Employees over the age of 21 are eligible to participate after one year of service with the Company. Under this plan, employees may elect to defer up to 15 percent of their salary, subject to Internal Revenue Code limits. The Company may make a discretionary match as well as a discretionary profit-sharing contribution. The Company's contribution for the years ended October 31, 1995 and 1996, totaled $16,970 and $22,466, respectively, and the Company has accrued approximately $21,500 at September 30, 1997, for contributions to be funded in the subsequent fiscal year.

10. FINANCIAL INSTRUMENTS:

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

11. COMMITMENTS AND CONTINGENCIES:

Litigation

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

Insurance

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

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 16 percent of total sales to one major customer during the years ended October 31, 1995 and 1996. During the year ended September 30, 1997, the Company had sales of approximately 11% and 10% of total sales to two major customers.

POLLOCK ELECTRIC INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors located primarily in Harris County, Texas, and surrounding areas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial markets in this geographic region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Charles P. Bagby, Co., Inc.:

We have audited the accompanying balance sheets of Charles P. Bagby, Co., Inc., an Alabama S-Corporation, as of December 31, 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years ended December 31, 1996 and September 30, 1997 and for the nine months ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles P. Bagby, Co., Inc. as of December 31, 1996 and September 30, 1997, and the results of its operations and its cash flows for the years ended December 31, 1996 and September 30, 1997, and for the nine months ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

CHARLES P. BAGBY, CO., INC.

BALANCE SHEETS
(IN THOUSANDS)

ASSETS

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 624	$ 851
Accounts receivable --		
Trade, net of allowance of $42 and $48, respectively	1,186	1,289
Retainage	444	602
Notes receivable, related party	2	15
Costs and estimated earnings in excess of billings on uncompleted contracts	167	755
Prepaid expenses and other current assets	359	323
Total current assets	2,782	3,835
PROPERTY AND EQUIPMENT, net	221	246
Total assets	$3,003	$4,081

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$1,402	$1,821
Billings in excess of costs and estimated earnings on uncompleted contracts	66	366
Total current liabilities	1,468	2,187
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Common stock, $1 par value, 1,000 shares authorized and outstanding	1	1
Retained earnings	1,534	1,893
Total stockholder's equity	1,535	1,894
Total liabilities and stockholder's equity	$3,003	$4,081

The accompanying notes are an integral part of these financial statements.

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,	YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1997	1996	1997
			(UNAUDITED)	
REVENUES	$7,634	$11,772	$5,105	$ 9,243
COST OF SERVICES (including depreciation)	6,412	9,920	4,419	7,927
Gross profit	1,222	1,852	686	1,316
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	680	1,140	364	824
Income from operations	542	712	322	492
OTHER INCOME (EXPENSE):				
Other	39	(2)	37	(4)
Other income (expense), net	39	(2)	37	(4)
NET INCOME	$ 581	$ 710	$ 359	$ 488

The accompanying notes are an integral part of these financial statements.

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996	1997
			(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 581	$ 710	$ 359	$ 488
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation and amortization	21	23	15	17
Changes in operating assets and liabilities -- (Increase) decrease in --				
Accounts receivable	(764)	(879)	(159)	(274)
Costs and estimated earnings in excess of billings on uncompleted contracts	(15)	(697)	94	(588)
Prepaid expenses and other current assets	(136)	83	(183)	36
Increase (decrease) in --				
Accounts payable and accrued expenses	130	1,131	(582)	419
Billings in excess of costs and estimated earnings on uncompleted contracts	51	315	37	301
Other, net	30	12	20	2
Net cash provided by (used in) operating activities	(102)	698	(399)	401
CASH FLOWS FROM INVESTING ACTIVITIES:				
Additions of property and equipment	(20)	(48)	(16)	(54)
Net cash used in investing activities	(20)	(48)	(16)	(54)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Short-term borrowings	--	230	--	230
Payments on short-term borrowings	--	(230)		(230)
Distributions to shareholders	(360)	(480)	(10)	(120)
Net cash used in financing activities	(360)	(480)	(10)	(120)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(482)	170	(425)	227
CASH AND CASH EQUIVALENTS, beginning of period	1,106	681	1,106	624
CASH AND CASH EQUIVALENTS, end of period	$ 624	$ 851	$ 681	$ 851
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest	$ 1	$ 10	$ 1	$ 10

The accompanying notes are an integral part of these financial statements.

CHARLES P. BAGBY, CO., INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1995	1,000	$ 1	$1,283	$1,284
Distributions to shareholder	--	--	(360)	(360)
Net unrealized gains	--	--	30	30
Net income	--	--	581	581
BALANCE, December 31, 1996	1,000	1	1,534	1,535
Distributions to shareholder	--	--	(120)	(120)
Net unrealized gains (losses)	--	--	(9)	(9)
Net income	--	--	488	488
BALANCE, September 30, 1997	1,000	$ 1	$1,893	$1,894

The accompanying notes are an integral part of these financial statements.

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Charles P. Bagby, Co., Inc. (an Alabama S-Corporation), and its majority-owned subsidiary, Haymaker Electric, Ltd. (collectively, the "Company"), focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under cost-plus-fee contracts and fixed price contracts, with contract terms generally ranging from two to 18 months. The Company performs the majority of its work in the state of Alabama. All significant intercompany activity has been eliminated in consolidation.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was $21,000 for the year ended December 31, 1996, and $23,000 for the year ended September 30, 1997.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company is an Alabama sub-chapter S corporation and is not subject to federal income tax. The earnings of the Company are taxable to the individual stockholder.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5-6	$ 52	$ 84
Machinery and equipment	5-10	33	33
Buildings and leasehold improvements	40	208	208
Furniture and fixtures	3-10	83	93
		376	418
Less -- Accumulated depreciation and amortization		(155)	(172)
Property and equipment, net		$ 221	$ 246

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$22	$26
Additions to costs and expenses	20	22
Balance at end of period	$42	$48

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 685	$1,120
Accrued compensation and benefits	175	624
Other accrued expenses	542	77
	$1,402	$1,821

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 4,304	$ 5,937
Estimated earnings, net of losses	546	1,321
	4,850	7,258
Less -- Billings to date	(4,749)	(6,869)
	$ 101	$ 389
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 167	$ 755
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(66)	(366)
	$ 101	$ 389

CHARLES P. BAGBY, CO., INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT:

The Company has a $650,000 line of credit with a bank. The line of credit expires June 30, 1998, and bears interest at 1 percent over the prime lending rate. The line of credit is secured by a stockholder of a partner corporation. No borrowings were outstanding under this line of credit at December 31, 1996 or September 30, 1997.

6. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan. The plan provides for the Company to match 3 percent of the gross salary of each employee subject to certain limitations. All participants are immediately fully vested. Total contributions by the Company under the plan were approximately $51,000 for the year ended December 31, 1996, and $106,000 for the year ended September 30, 1997.

7. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, a line of credit and short-term borrowings. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

8. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

9. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales comprising approximately 10%, 11% and 11% of total sales to three major customers during the years ended December 31, 1996 and September 30, 1997.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Amber Electric, Inc.:

We have audited the accompanying balance sheets of Amber Electric, Inc., a Florida corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amber Electric, Inc. as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

AMBER ELECTRIC, INC.

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 83	$ 565	$ 988
Accounts receivable --			
Trade, net of allowance of $28, $40 and $51, respectively	1,159	1,382	2,365
Retainage	468	518	470
Inventories	39	28	25
Costs and estimated earnings in excess of billings on uncompleted contracts	25	151	119
Employee advances (Note 8)	2	29	4
Note receivable, related party (Note 8)	--	--	123
Deferred tax asset	36	65	63
Prepaid expenses and other current assets	22	--	54
Total current assets	1,834	2,738	4,211
PROPERTY AND EQUIPMENT, net	284	380	516
NOTE RECEIVABLE, related party (Note 8)	37	58	--
Total assets	$2,155	$3,176	$4,727

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 96	$ 133	$ 179
Line of credit	101	--	--
Accounts payable and accrued expenses	696	1,157	1,276
Income taxes payable	3	244	676
Billings in excess of costs and estimated earnings on uncompleted contracts	355	408	196
Note payable, related party (Note 8)	--	100	--
Deferred tax liability	129	97	122
Total current liabilities	1,380	2,139	2,449
LONG-TERM DEBT, net of current maturities	573	538	568
DEFERRED TAX LIABILITY	38	45	52
COMMITMENTS AND CONTINGENCIES (Note 11)			
STOCKHOLDER'S EQUITY:			
Common stock, $1 par value, 7,500 shares authorized, 1,100 shares issued and outstanding	1	1	1
Retained earnings	597	887	2,091
Treasury stock, 539 shares, at cost	(434)	(434)	(434)
Total stockholder's equity	164	454	1,658
Total liabilities and stockholder's equity	$2,155	$3,176	$4,727

The accompanying notes are an integral part of these financial statements.

AMBER ELECTRIC, INC.

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
REVENUES	$ 9,728	$13,878	$16,386	$10,572	$13,080
COST OF SERVICES (including depreciation)	8,635	12,215	13,415	8,710	9,910
Gross profit	1,093	1,663	2,971	1,862	3,170
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	957	1,160	1,379	978	1,197
Income from operations	136	503	1,592	884	1,973
OTHER INCOME (EXPENSE):					
Interest expense	(65)	(51)	(45)	(51)	(45)
Other	24	36	69	10	43
Other income (expense), net	(41)	(15)	24	(41)	(2)
INCOME BEFORE PROVISION FOR INCOME TAXES	95	488	1,616	843	1,971
PROVISION FOR INCOME TAXES	36	198	632	333	767
NET INCOME	$ 59	$ 290	$ 984	$ 510	$ 1,204

The accompanying notes are an integral part of these financial statements.

AMBER ELECTRIC, INC.

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 59	$ 290	$ 984	$ 510	$ 1,204
Adjustments to reconcile net income to net cash provided by operating activities --					
Depreciation and amortization	62	87	172	61	146
Bad debt expense	17	35	37	9	11
(Gain) Loss on sale of property and equipment	--	5	--	4	(1)
Increase in cash surrender value of life insurance policy	(14)	--	--	--	--
Deferred income taxes	(41)	24	89	(31)	34
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	(299)	(308)	(1,142)	(112)	(946)
Inventories	15	11	11	3	3
Costs and estimated earnings in excess of billings on uncompleted contracts	(6)	(126)	35	(129)	32
Employee advances	14	(27)	13	(15)	25
Prepaid expenses and other current assets	(7)	22	(13)	(19)	(54)
Note receivable, related party	--	(21)	(65)	(21)	(65)
Increase (decrease) in --					
Accounts payable and accrued expenses	20	461	392	188	119
Billings in excess of costs and estimated earnings on uncompleted contracts	304	53	12	(171)	(212)
Income taxes payable	49	163	218	377	432
Other, net	4	1	(6)		(7)
Net cash provided by operating activities	177	670	737	654	721
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property and equipment	5	2	8	2	8
Additions of property and equipment	(155)	(190)	(323)	(157)	(290)
Net cash used in investing activities	(150)	(188)	(315)	(155)	(282)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Note payable, related party	--	100	--	--	(100)
Borrowings of line of credit	101	--	--	--	--
Payments of line of credit	(125)	(101)	--	(101)	--
Borrowings of long-term debt	104	131	236	95	200
Payments of long-term debt	(74)	(130)	(163)	(83)	(116)
Net cash provided by (used in) financing activities	6	--	73	(89)	(16)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33	482	495	410	423
CASH AND CASH EQUIVALENTS, beginning of period	50	83	493	83	565
CASH AND CASH EQUIVALENTS, end of period	$ 83	$ 565	$ 988	$ 493	$ 988
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 65	$ 51	$ 45	$ 51	$ 45
Income taxes	27	10	303	8	301

The accompanying notes are an integral part of these financial statements.

AMBER ELECTRIC, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDER'S EQUITY
BALANCE, December 31, 1994	1,100	$1	$ 538	$(434)	$ 105
Net income	--	--	59	--	59
BALANCE, December 31, 1995	1,100	1	597	(434)	164
Net income	--	--	290	--	290
BALANCE, December 31, 1996	1,100	1	887	(434)	454
Net income (unaudited)	--	--	1,204	--	1,204
BALANCE, September 30, 1997	1,100	$1	$2,091	$(434)	$1,658

The accompanying notes are an integral part of these financial statements

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Amber Electric, Inc. (the Company), a Florida corporation, focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from two to 12 months. The Company performs the majority of its work in central Florida.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line and declining-balance methods over the estimated useful lives of the related assets. Leasehold improvements are capitalized and amortized over the estimated useful life of the asset. Depreciation and amortization expense was approximately $62,000, $87,000 and $172,000 for the years ended December 31, 1995, 1996, and September 30, 1997, respectively.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for one year after servicing of existing electrical systems.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and are measured using enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	3-7	$ 430	$ 541	$ 631
Machinery and equipment	3-7	101	78	99
Leasehold improvements	5-39	76	74	87
Furniture and fixtures	3-7	121	91	191
		728	784	1,008
Less - Accumulated depreciation and amortization		(444)	(404)	(492)
Property and equipment, net		$ 284	$ 380	$ 516

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$ 17	$ 28	$ 40
Additions to costs and expenses	17	35	11
Deductions for uncollectible receivables written off and recoveries	(6)	(23)	--
Balance at end of period	$ 28	$ 40	$ 51

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$ 537	$ 882	$1,006
Accrued compensation and benefits	84	110	187
Other accrued expenses	75	165	83
	$ 696	$ 1,157	$1,276

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 1,912	$ 2,100	$ 1,582
Estimated earnings, net of losses	333	258	192
	2,245	2,358	1,774
Less -- Billings to date	(2,575)	(2,615)	(1,851)
	$ (330)	$ (257)	$ (77)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 25	$ 151	$ 119
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(355)	(408)	(196)
	$ (330)	$ (257)	$ (77)

5. LONG-TERM DEBT:

Long-term debt consists of notes payable to various banks. The debt is secured by certain equipment. The notes are payable in monthly installments including interest at rates ranging from 8 percent to 10.9 percent.

The Company has a note payable to a former stockholder payable in monthly installments of $4,333, including interest at 7.5 percent, due August 2004. The debt is guaranteed by the majority stockholder. The balance of such debt was approximately $330,000, $302,000 and $279,000 at December 31, 1995, 1996 and September 30, 1997, respectively.

The Company also has a note payable outstanding to an individual with a 5 percent stated interest rate and an 8.12 percent imputed interest rate. The note is payable in monthly installments of principal and interest of $1,893, collateralized by equipment and inventories, and is due February 2005. The balance of the note was approximately $168,000, $153,000 and $142,000 at December 31, 1995, 1996 and September 30, 1997, respectively.

The maturities of long-term debt as of September 30, 1997, are as follows (in thousands):

Year ending December 31 --	
1998	$179
1999	155
2000	115
2001	76
2002	70
Thereafter	152
	$747

At September 30, 1997 and December 31, 1996, the Company had a $500,000 line of credit with a bank, collateralized by accounts receivable and certain other assets. Interest is payable monthly at the bank's prime rate (8.5 percent at September 30, 1997). The agreement stipulates a minimum interest rate of 8 percent. Any amounts available are limited to 75 percent of eligible accounts receivable, as defined. At September 30, 1997 and December 31, 1996, the entire amount of the line remains available to be borrowed. The line of credit is subject to a continuing guarantee by the Company's majority stockholder. The line of credit is due on demand, but in no event no later than July 5, 1998.

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

At December 31, 1995, the maximum amount available under such line of credit was approximately $99,000 as the Company had a $200,000 line of credit with the bank.

6. LEASES:

The Company leases office space from the majority stockholder under a month-to-month operating lease. Rent expense incurred under this related-party lease was approximately $67,000, $81,000 and $83,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

There are no future minimum lease payments under this operating lease.

7. INCOME TAXES (IN THOUSANDS):

Federal income taxes are as follows:

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997
Federal --			
Current	$ 1	$224	$510
Deferred	30	(54)	32
State --			
Current	--	27	95
Deferred	5	1	(5)
	$ 36	$198	$632

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 35 percent to income before provision for income taxes as follows:

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997
Provision at the statutory rate	$33	$171	$565
Increase resulting from --			
State income taxes, net of related federal benefit	3	19	59
Permanent differences, primarily meals and entertainment	--	8	8
	$36	$198	$632

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following:

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Allowance for doubtful accounts	$ 11	$ 17	$ 20
Other accrued expenses not deducted for tax purposes	25	48	43
Total	36	65	63
Deferred tax liabilities --			
Accounting for long-term contracts	(129)	(97)	(122)
Bases differences on property and equipment and capital lease accounting	(38)	(45)	(52)
Total	(167)	(142)	(174)
Net deferred income tax liabilities	$(131)	$ (77)	$(111)

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Deferred tax assets --			
Current	$ 36	$ 65	$ 63
Long-term	--	--	--
Total	36	65	63
Deferred tax liabilities --			
Current	(129)	(97)	(122)
Long-term	(38)	(45)	(52)
Total	(167)	(142)	(174)
Net deferred tax liability	$(131)	$(77)	$(111)

8. RELATED-PARTY TRANSACTIONS:

During 1995, the Company transferred its interest in the cash surrender value of life insurance policies in exchange for a note receivable bearing annual interest of 4 percent to a partnership controlled by the majority stockholder of the Company. The entire principal and accrued interest is due August 2005. The Company continues to pay premiums for this policy, also increasing the receivable.

The Company had a note payable to the majority stockholder at December 31, 1996, which represented a bonus to the stockholder and was loaned to the Company without interest attached. The balance was subsequently paid to the stockholder.

The Company will advance money to employees on occasion. Advanced amounts are based on certain levels of employment and are repaid to the Company based on a variety of repayment plans.

9. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit-sharing plan. The plan provides for the Company to match, on a discretionary basis, one-half of the first 4 percent contributed by each employee. Total

AMBER ELECTRIC, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

contributions by the Company under the plan were approximately $31,000, $44,000 and $56,000 for the years ending December 31, 1995, 1996 and September 30, 1997, respectively. The Company had accrued approximately $5,000 at September 30, 1997, for contributions to be funded in the subsequent fiscal year.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, employee advances, notes receivable, a line of credit, accounts payable, notes payable and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

The Company provides for workers' compensation insurance through a partially self-insured plan whereby the Company is responsible for certain incurred losses with a maximum of 125 percent of standard state-rated workers' compensation premiums. Estimated claims incurred during the years ended December 31, 1995, 1996 and September 30, 1997 were not material. Accordingly, the Company has not recorded any reserves for its portion of self-insurance claims. During 1997, the Company enrolled in a secured individual preferred dividend safety incentive program for workers' compensation with a maximum premium of 100 percent of the total normal state-rated premium. Employee health insurance is provided for under a fully insured medical plan consisting of HMO and POS programs.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 16 percent of total sales to one major customer for the year ended December 31, 1995, sales of approximately 15 and 13 percent of total sales to two major customers for the year ended December 31, 1996, and sales of approximately 22 percent of total sales to one major customer during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are real estate operations, general contractors, etc., located primarily in central Florida. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the central Florida region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Daniel Electrical Contractors, Inc. and
Daniel Electrical of Treasure Coast Inc.:

We have audited the accompanying combined balance sheets of Daniel Electrical Contractors, Inc., a Florida corporation, and Daniel Electrical of Treasure Coast Inc., a Florida corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related combined statements of operations, cash flows and stockholder's equity for the years then ended and for the nine months ended September 30, 1997. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., as of December 31, 1995 and 1996 and September 30, 1997, and the combined results of their operations and their cash flows for the years then ended and for the nine months ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 62	$ 411	$ 917
Investments	393	694	1,504
Accounts receivable --			
Trade, net of allowance of $68, $69 and $115, respectively	1,819	1,444	3,443
Retainage, net of allowance of $ -- , $12 and $12, respectively	815	1,353	1,294
Employee receivables (Note 7)	8	17	30
Inventories	103	84	23
Costs and estimated earnings in excess of billings on uncompleted contracts	119	719	510
Prepaid expenses and other current assets	24	35	166
Total current assets	3,343	4,757	7,887
PROPERTY AND EQUIPMENT, net	322	371	541
Total assets	$3,665	$5,128	$8,428
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 46	$ 34	$ 62
Accounts payable and accrued expenses	1,325	946	1,840
Billings in excess of costs and estimated earnings on uncompleted contracts	121	752	1,370
Deposit on contract in progress	--	500	--
Other current liabilities (Note 7)	477	114	81
Total current liabilities	1,969	2,346	3,353
LONG-TERM DEBT, net of current maturities	42	52	102
OTHER LONG-TERM LIABILITIES (Note 7)	483	483	483
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDER'S EQUITY:			
Common stock, $1 and $0.01 par value, 7,500 and 2,000 shares authorized, 7,500 and 100 shares issued and outstanding at December 31, 1995, 1996, and September 30, 1997 for Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., respectively	8	8	8
Retained earnings	1,110	2,111	4,131
Unrealized gain on securities	53	128	351
Total stockholder's equity	1,171	2,247	4,490
Total liabilities and stockholder's equity	$3,665	$5,128	$8,428

The accompanying notes are an integral part of these combined financial statements.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
REVENUES	$12,049	$12,585	$18,409	$8,846	$14,670
COST OF SERVICES (including depreciation)	11,725	9,713	13,518	6,675	10,480
Gross profit	324	2,872	4,891	2,171	4,190
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,502	1,884	2,316	1,360	1,792
Income (loss) from operations	(1,178)	988	2,575	811	2,398
OTHER INCOME (EXPENSE):					
Interest expense	(46)	(73)	(60)	(58)	(45)
Other	71	86	100	48	62
Other income (expense), net	25	13	40	(10)	17
NET INCOME (LOSS)	$(1,153)	$ 1,001	$ 2,615	$ 801	$ 2,415

The accompanying notes are an integral part of these combined financial statements.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1997
				(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$(1,153)	$1,001	$ 2,615	$ 801	$2,415
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization	113	125	141	100	116
Provision for bad debts	29	205	229	23	47
Loss on abandonment of leasehold improvements	--	--	34	--	34
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	423	(185)	(1,606)	(577)	(1,998)
Inventories	14	19	37	43	61
Costs and estimated earnings in excess of billings on uncompleted contracts	733	(600)	45	(436)	209
Prepaid expenses and other current assets	25	(11)	(158)	17	(130)
Increase (decrease) in --					
Accounts payable and accrued expenses	(567)	(379)	667	(151)	895
Deposits on contracts in progress	--	500	(500)	500	(500)
Billings in excess of costs and estimated earnings on uncompleted contracts	(92)	631	548	701	618
Other current liabilities	(42)	(87)	(68)	(8)	11
Net cash provided by (used in) operating activities	(517)	1,219	1,984	1,013	1,778
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of investments	(31)	(306)	(889)	(3)	(586)
Additions of property and equipment	(97)	(175)	(444)	(84)	(353)
Net cash used in investing activities	(128)	(481)	(1,333)	(87)	(939)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings of long-term debt	350	17	171	--	154
Payments of long-term debt	(44)	(406)	(175)	(323)	(92)
Distributions to stockholders	--	--	(395)	--	(395)
Net cash provided by (used in) financing activities	306	(389)	(399)	(323)	(333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(339)	349	252	603	506
CASH AND CASH EQUIVALENTS, beginning of period	401	62	665	62	411
CASH AND CASH EQUIVALENTS, end of period	$ 62	$ 411	$ 917	$ 665	$ 917
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 20	$ 113	$ 102	$ 18	$ 7

The accompanying notes are an integral part of these combined financial statements.

DANIEL ELECTRICAL CONTRACTORS INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

COMBINED STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK			UNREALIZED GAIN (LOSS) ON SECURITIES	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT	RETAINED EARNINGS		
BALANCE, December 31, 1994	7,500	$8	$ 2,263	$(13)	$ 2,258
Issuance of stock in Daniel Electrical of Treasure Coast Inc.	100	--	--	--	--
Change in unrealized gain on securities	--	--	--	66	66
Net loss	--	--	(1,153)	--	(1,153)
BALANCE, December 31, 1995	7,600	8	1,110	53	1,171
Change in unrealized gain on securities	--	--	--	75	75
Net income	--	--	1,001	--	1,001
BALANCE, December 31, 1996	7,600	8	2,111	128	2,247
Distributions to stockholders	--	--	(395)	--	(395)
Change in unrealized gain on securities	--	--	--	223	223
Net income	--	--	2,415	--	2,415
BALANCE, September 30, 1997	7,600	$8	$ 4,131	$351	$ 4,490

The accompanying notes are an integral part of these combined financial statements.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc., (collectively, the Company), both Florida corporations focuses on providing electrical system installation and repair services primarily for residential and mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts with contract terms generally ranging from six to 18 months. The Company performs the majority of its work in Dade County, Florida.

The combined financial statements include the accounts of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc. These entities are related by virtue of common ownership. All material intercompany transactions and balances have been eliminated in combination.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings)of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1996 are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments in securities are classified as securities available for sale and consist of equity securities. Unrealized holding gains and losses on securities available-for-sale are reported as net amount as a separate component of stockholder's equity.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

lesser of the life of the lease or the estimated useful life of the asset. Depreciation and amortization expense was $113,000, $125,000 and $141,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

Revenue Recognition

The Company recognizes revenue when services are performed, except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. Consequently, the accompanying financial statements of the Company do not include a provision for current or deferred income taxes. The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 10 for discussion of significant estimates reflected in the Company's combined financial statements.

New Accounting Pronouncement

Effective November 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairments would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the combined financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Transportation equipment	5	$ 446	$ 517	$ 597
Machinery and equipment	5	120	134	151
Computer and telephone equipment	5	92	114	141
Leasehold improvements	5	116	144	209
Furniture and fixtures	5	26	29	29
		800	938	1,127
Less -- Accumulated depreciation and amortization		(478)	(567)	(586)
Property and equipment, net		$ 322	$ 371	$ 541

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$47	$ 68	$ 87
Additions to costs and expenses	29	205	229
Deductions for uncollectible receivables written off and recoveries	(8)	(192)	(189)
Balance at end of period	$68	$ 81	$ 127

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$1,009	$686	$1,296
Accrued compensation and benefits	76	28	180
Other accrued expenses	240	232	364
	$1,325	$946	$1,840

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$6,197	$ 8,381	$ 11,760
Estimated earnings, net of losses	1,238	2,993	4,120
	7,435	11,374	15,880
Less -- Billings to date	(7,437)	(11,407)	(16,740)
	$ (2)	$ (33)	$ (860)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 119	$ 719	$ 510
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(121)	(752)	(1,370)
	$ (2)	$ (33)	$ (860)

5. LONG-TERM DEBT:

Long-term debt consists of installment obligations collateralized by certain transportation and computer equipment, and due in various monthly installments, including interest ranging from 6 percent to 11 percent.

The maturities of long-term debt at September 30, 1997, are as follows (in thousands):

1998	$ 62
1999	44
2000	36
2001	15
2002	7
	$164

The Company has a $400,000 open line of credit with a bank. The line of credit bears interest based upon the prime lending rate, which was 8.25% at September 30, 1997. The line of credit is secured by the Company's investment in securities and borrowings under such line of credit are due on demand. No borrowings were outstanding under this line of credit at September 30, 1997.

6. LEASES:

In February of 1997, the Company leased its Miami facility from a Limited Partnership which is controlled by the Company's stockholder. Prior to February 1997, the Company leased office space from a

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

third party, and such lease expired January 1997. The rent paid under this lease was approximately $71,000 for December 31, 1996. The Company leases its Vero Beach facility from a company which is owned by the Company's stockholder and is leased on a month-to-month basis.

7. RELATED-PARTY TRANSACTIONS:

Related-Party Notes Payable

The Company has a $483,000 subordinated long-term note payable to the president of the Company at December 31, 1995, 1996 and at September 30, 1997. The Company also has a $175,000, $115,000 and $81,000 note payable due on demand to the president of the Company at the respective periods.

Related-Party Accounts Receivable

The Company has an $8,000, $8,000 and $18,000 account receivable due from the president of the Company at December 31, 1995, 1996 and at September 30, 1997, respectively. The Company also has a $9,000 and $12,000 employee receivable at December 31, 1996 and at September 30, 1997, respectively.

Related-Party Entertainment Expense

Costs related to related-party entertainment expense amounted to $15,000, $8,000 and $4,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

Related-Party Compensation

The Company paid $58,000, $72,000 and $72,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively to a related-party company for compensation.

8. EMPLOYEE BENEFIT PLAN:

The Company has a nonqualifying discriminatory pension plan for certain key executives. Contributions are subject to management's discretion. Total contributions by the Company under the plan were approximately $9,000, $14,000 and $14,000 for the years ended December 31, 1995, 1996 and September 30, 1997, respectively.

9. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable, a line of credit, notes payable and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

10. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

DANIEL ELECTRICAL CONTRACTORS, INC. AND
DANIEL ELECTRICAL OF TREASURE COAST INC.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The Company is self-insured for medical claims up to $14,000 per year in total for all covered individuals. Additionally, the Company is part of the state's workers' compensation plan and is responsible for claims up to $100,000 per accident with a maximum aggregate exposure for 24 months of $500,000. Claims in excess of these amounts are covered by a stop-loss policy. Under the state's policy, the Company has a $305,000 letter of credit which expires April 1, 1998. The Company has recorded reserves for its portion of self-insured claims based on estimated claims incurred through March 31, 1995 and 1996, December 31, 1996, and September 30, 1997.

11. INVESTMENTS AVAILABLE-FOR-SALE:

Investments in securities consist of equity securities and mutual funds with an aggregate market value of $393,000, $694,000 and $1,504,000 at December 31, 1995, 1996 and September 30, 1997, respectively, and unrealized holding gains of $66,000, $75,000 and $237,000 for the respective periods.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 32 percent and 21 percent of total sales to two major customers during the year ended December 31, 1995, sales of approximately 29 percent and 25 percent of total sales to two major customers during the year ended December 31, 1996, and sales of approximately 30 percent and 38 percent of total sales to two major customers during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors located primarily in southern Florida. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the southern Florida region. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

The Company routinely maintains cash balances in financial institutions in excess of federally insured limits.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Summit Electric of Texas, Incorporated:

We have audited the accompanying balance sheets of Summit Electric of Texas, Incorporated, a Texas corporation, as of March 31, 1997 and September 30, 1997, and the related statements of operations, cash flows and stockholder's equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Electric of Texas, Incorporated as of March 31, 1997 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

	MARCH 31, 1997	SEPTEMBER 30, 1997
CURRENT ASSETS:		
Cash and cash equivalents	$ 57	$ 157
Accounts receivable --		
Trade, net of allowance of $112 and $122, respectively	2,270	2,543
Retainage	128	91
Receivable from stockholder	--	66
Other receivables	6	8
Deferred tax asset	69	69
Costs and estimated earnings in excess of billings on uncompleted contracts	239	178
Prepaid expenses and other current assets	25	27
Total current assets	2,794	3,139
NOTES RECEIVABLE FROM RELATED PARTIES	270	268
PROPERTY AND EQUIPMENT, net	223	180
OTHER ASSETS	49	50
Total assets	$3,336	$3,637
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Short-term debt, including current maturities of long-term debt	$ 819	$ 808
Accounts payable and accrued expenses	974	1,494
Billings in excess of costs and estimated earnings on uncompleted contracts	436	182
Other current liabilities	3	19
Total current liabilities	2,232	2,503
LONG-TERM DEBT, net of current maturities	101	88
DEFERRED TAX LIABILITY	11	11
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY:		
Common stock, $1 par value, 10,000 shares authorized, 1,000 shares issued and outstanding	1	1
Retained earnings	991	1,034
Total stockholder's equity	992	1,035
Total liabilities and stockholder's equity	$3,336	$3,637

The accompanying notes are an integral part of these financial statements.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	SIX MONTHS ENDED SEPTEMBER 30, 1996	SIX MONTHS ENDED SEPTEMBER 30, 1997
			(UNAUDITED)	
REVENUES	$10,565	$10,995	$5,735	$6,165
COST OF SERVICES (including depreciation)	9,157	9,454	4,946	5,243
Gross profit	1,408	1,541	789	922
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,340	1,463	699	822
Income from operations	68	78	90	100
OTHER INCOME (EXPENSE):				
Interest expense	(56)	(79)	(19)	(42)
Other	25	23	13	11
Other expense, net	(31)	(56)	(6)	(31)
INCOME BEFORE PROVISION FOR INCOME TAXES	37	22	84	69
PROVISION FOR INCOME TAXES	23	21	28	26
NET INCOME	$ 14	$ 1	$ 56	$ 43

The accompanying notes are an integral part of these financial statements.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	SIX MONTHS ENDED SEPTEMBER 30, 1996	SIX MONTHS ENDED SEPTEMBER 30, 1997
			(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 14	$ 1	$ 56	$ 43
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation and amortization	72	75	38	41
Provision for doubtful accounts	--	10	--	10
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Accounts receivable	316	(420)	452	(284)
Receivable from stockholder	56	(58)	48	(66)
Other receivables	32	42	25	35
Costs and estimated earnings in excess of billings on uncompleted contracts	(105)	(45)	1	61
Prepaid expenses and other current assets	(23)	(8)	(16)	(1)
Increase (decrease) in --				
Accounts payable and accrued expenses	(498)	541	(519)	520
Billings in excess of costs and estimated earnings on uncompleted contracts	48	(153)	(52)	(253)
Other, net	3	15	2	14
Net cash provided by (used in) operating activities	(85)	--	35	120
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments on notes receivable from related parties	3	4	1	2
Additions to property and equipment	(191)	(156)	(35)	--
Net cash provided by (used in) investing activities	(188)	(152)	(34)	2
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of long-term debt and notes payable	238	226	3	(9)
Payments of long-term debt	(19)	(24)	(8)	(13)
Net cash provided by (used in) financing activities	219	202	(5)	(22)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54)	50	(4)	100
CASH AND CASH EQUIVALENTS, beginning of period	111	107	111	57
CASH AND CASH EQUIVALENTS, end of period	$ 57	$ 157	$ 107	$ 157
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest	$ 56	$ 79	$ 19	$ 42
Income taxes	35	19	19	3

The accompanying notes are an integral part of these financial statements.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
BALANCE, March 31, 1996	1,000	$1	$ 977	$ 978
Net income	--	--	14	14
BALANCE, March 31, 1997	1,000	1	991	992
Net income (unaudited)	--	--	43	43
BALANCE, September 30, 1997	1,000	$1	$1,034	$1,035

The accompanying notes are an integral part of these financial statements.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Summit Electric of Texas, Incorporated (the Company), a Texas corporation, focuses on providing electrical system installation and repair services primarily for mid-sized to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract duration generally ranging from two to eight months. The Company performs the majority of its work primarily in Houston, Texas.

On a limited basis, the Company provides auto repair and restoration services to its sole stockholder (the Stockholder) and third parties. The revenues and cost of services related to such activities have not been removed from the Company's results of operations for the year ended March 31, 1997 and September 30, 1997, as such amounts are not material.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the six months ended September 30, 1996 and 1997, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using an accelerated method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was $72,101 and $75,358 for the years ended March 31, 1997 and September 30, 1997, respectively.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

New Accounting Pronouncement

Effective April 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	MARCH 31, 1997	SEPTEMBER 30, 1997
Transportation equipment	5	$ 450	$ 447
Machinery and equipment	7	11	11
Computer and telephone equipment	5	84	84
Leasehold improvements	31.5	52	52
Furniture and fixtures	7	43	43
		640	637
Less -- Accumulated depreciation and amortization		(417)	(457)
Property and equipment, net		$ 223	$ 180

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Balance at beginning of period	$112	$112
Additions to costs and expenses	--	10
Deductions for uncollectible receivables written off and recoveries	--	--
Balance at end of period	$112	$122

Accounts payable and accrued expenses consist of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Accounts payable, trade	$696	$ 1,175
Other accrued expenses	278	319
	$974	$ 1,494

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Electrical system installation contracts in progress are as follows (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 6,482	$ 6,373
Estimated earnings, net of losses	2,122	1,818
	8,604	8,191
Less -- Billings to date	(8,801)	(8,195)
	$ (197)	$ (4)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 239	$ 178
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(436)	(182)
Net liability	$ (197)	$ (4)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Note payable to bank bearing interest at 9.15%, payable in monthly installments of principal and interest of $2,612 through October 2001, secured by transportation equipment	$117	$106
Note payable to a financing company bearing interest at 7.9%, payable in monthly installments of principal and interest of $557 through January 1999, secured by transportation equipment	11	9
	128	115
Less -- Current portion	(27)	(27)
Long-term debt	$101	$ 88

The maturities of long-term debt are as follows (in thousands):

YEAR ENDED	MARCH 31,	SEPTEMBER 30,
1998	$ 27	$ 27
1999	29	28
2000	26	27
2001	28	28
2002	18	5
	$128	$115

The Company has a $1,000,000 line of credit with a bank. The line of credit expired September 30, 1997, and bears interest at 1 percent above the prime lending rate. The weighted average interest rate under this line of credit was 9.25 percent for fiscal 1997. The line of credit is secured by contracts receivable, equipment, furniture and fixtures, and the personal guarantee of the Stockholder. Outstanding borrowings under this line of credit at March 31, 1997, total $788,142.

On September 30, 1997, the Company negotiated an amendment to its existing bank line of credit (the Amended Line of Credit). The Amended Line of Credit has a $1,500,000 borrowing base and is due

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

October 3, 1998. The Amended Line of Credit bears interest at 1 percent above the prime lending rate. Outstanding borrowings under this line of credit at September 30, 1997, total $779,458.

The bank line of credit requires the Company to maintain certain net worth and profitability covenants. At March 31, 1997 and September 30, 1997, the Company was in compliance with its line-of-credit covenants, as amended.

6. LEASES:

The Company leases a facility from a company which is owned by the Company's stockholder. The lease expires on November 30, 1998. The rent paid under this related-party lease was approximately $96,000 for each of the years ended March 31, 1997 and September 30, 1997. The Company also leases two facilities from third parties. The rent paid under these leases were approximately $7,144 and $15,051 for the years ended March 31, 1997 and September 30, 1997, respectively.

Future minimum lease payments under these noncancelable operating leases are as follows (in thousands):

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997
1998	$ 99	$ 99
1999	66	26
2000	1	--
Thereafter	--	--
	$166	$125

7. INCOME TAXES:

Federal income taxes are as follows (in thousands):

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997
Current --		
Federal	$17	$19
State	6	2
	$23	$21

Actual income tax expense differs from income tax expense computed by applying the blended U.S. federal and state statutory corporate rate of 28 percent to income before provision for income taxes as follows (in thousands):

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997
Provision at the statutory rate	$10	$ 6
Increase resulting from --		
Permanent differences, primarily meals and entertainment	9	14
State income tax, net of benefit for federal deduction	4	1
	$23	$21

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities result principally from the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Allowance for doubtful accounts	$ 40	$ 40
Warranty and contract allowances	29	29
Bases difference on property and equipment	(15)	(29)
Deferred tax assets	$ 54	$ 40

The net deferred tax assets and liabilities are comprised of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Deferred tax assets --		
Current	$ 69	$ 69
Long-term	--	--
Deferred tax assets	69	69
Deferred tax liabilities --		
Current	(4)	(18)
Long-term	(11)	(11)
Deferred tax liability	(15)	(29)
Net deferred tax assets	$ 54	$ 40

8. RELATED-PARTY TRANSACTIONS:

Notes receivable from related parties consist of the following (in thousands):

	MARCH 31, 1997	SEPTEMBER 30, 1997
Note receivable from the Stockholder, bearing an interest rate of 7.07%, requiring monthly payments of interest, maturing November 1998	$250	$250
Note receivable from the spouse of the Stockholder, bearing an interest rate of 8%, requiring monthly installments of principal and interest of $480, maturing April 2001	20	18
	$270	$268

The Company provides auto repair and restoration services to the Stockholder. The Stockholder reimbursed the Company $81,161 and $122,979 for such services for the years ended March 31, 1997 and September 30, 1997, respectively.

9. EMPLOYEE BENEFIT PLAN:

The Company adopted a 401(k) savings and investment plan approved by the Internal Revenue Service effective January 1, 1996, covering all eligible Company employees. Contributions may be made to the plan by an employee at a percentage of salary but cannot exceed the maximum allowed by the Internal Revenue Code and may be matched by a discretionary Company contribution.

SUMMIT ELECTRIC OF TEXAS, INCORPORATED

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

The Company's contributions to the plan for the years ended March 31, 1997 and September 30, 1997, totaled $24,747 and $24,660, respectively.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and short and long-term debt. The Company believes that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability, workers' compensation and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

For the years ended March 31, 1997 and September 30, 1997, revenues from no one individual customer exceeded 10 percent of total revenues.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily general contractors located in Houston, Texas. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within Houston, Texas. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Thurman & O'Connell Corporation:

We have audited the accompanying balance sheets of Thurman & O'Connell Corporation, a Kentucky corporation, as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, cash flows and stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thurman & O'Connell Corporation as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

THURMAN & O'CONNELL CORPORATION

BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

ASSETS

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT ASSETS:			
Cash and cash equivalents	$ 860	$1,488	$1,160
Accounts receivable --			
Trade, net of allowance of $37, $10 and $17, respectively	1,078	315	538
Retainage	348	78	124
Other receivables	12	17	9
Inventories	1,072	273	213
Costs and estimated earnings in excess of billings on uncompleted contracts	--	22	52
Prepaid expenses and other current assets	4	13	15
Total current assets	3,374	2,206	2,111
PROPERTY AND EQUIPMENT, net	342	306	301
Total assets	$3,716	$2,512	$2,412

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 13	$ 6	$ 7
Accounts payable and accrued expenses	663	242	262
Dividends payable to stockholders	160	200	--
Billings in excess of costs and estimated earnings on uncompleted contracts	1,652	479	361
Total current liabilities	2,488	927	630
LONG-TERM DEBT, net of current maturities	96	93	88
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock, no par value, 2,000 shares authorized, 200 shares issued and outstanding	300	300	300
Retained earnings	832	1,192	1,394
Total stockholders' equity	1,132	1,492	1,694
Total liabilities and stockholders' equity	$3,716	$2,512	$2,412

The accompanying notes are an integral part of these financial statements.

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
REVENUES	$4,729	$4,551	$4,049	$3,741	$3,239
COST OF SERVICES	3,309	3,059	2,181	2,531	1,653
Gross profit	1,420	1,492	1,868	1,210	1,586
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	512	503	503	397	397
Income from operations	908	989	1,365	813	1,189
OTHER INCOME (EXPENSE):					
Interest expense	(13)	(8)	(6)	(6)	(4)
Other	36	65	70	46	51
Other income (expense), net	23	57	64	40	47
INCOME BEFORE INCOME TAX EXPENSE	931	1,046	1,429	853	1,236
INCOME TAX EXPENSE	19	36	46	24	34
NET INCOME	$ 912	$1,010	$1,383	$ 829	$1,202

The accompanying notes are an integral part of these financial statements.

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1997 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 912	$ 1,010	$ 1,383	$ 829	$1,202
Adjustments to reconcile net income to net cash provided by operating activities --					
Depreciation and amortization	53	49	51	37	39
Provision to (reduction in) allowance for doubtful accounts	13	10	36	(19)	7
Loss (gain) on sale of property and equipment	(1)	--	(1)	--	(1)
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Receivables	(506)	1,018	(6)	756	(268)
Inventories	(405)	799	181	678	60
Costs and estimated earnings in excess of billings on uncompleted contracts	68	(22)	(28)	(24)	(30)
Prepaid expenses and other current assets	25	(9)	(9)	(2)	(2)
Increase (decrease) in --					
Accounts payable and accrued expenses	(1)	(421)	(165)	(236)	20
Billings in excess of costs and estimated earnings on uncompleted contracts	916	(1,173)	(506)	(785)	(118)
Net cash provided by operating activities	1,074	1,261	936	1,234	909
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of property and equipment	1	--	23	--	23
Additions of property and equipment	(42)	(13)	(62)	(7)	(56)
Net cash used in investing activities	(41)	(13)	(39)	(7)	(33)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings of long-term debt	--	103	103	--	--
Payments of long-term debt	(63)	(113)	(110)	(7)	(4)
Distributions to stockholders	(620)	(610)	(1,200)	(610)	(1,200)
Net cash used in financing activities	(683)	(620)	(1,207)	(617)	(1,204)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	350	628	(310)	610	(328)
CASH AND CASH EQUIVALENTS, beginning of period	510	860	1,470	860	1,488
CASH AND CASH EQUIVALENTS, end of period	$ 860	$ 1,488	$ 1,160	1,470	$1,160
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 10	$ 8	$ 7	$ 5	$ 4
Taxes	$ 6	$ 26	$ 50	$ 23	$ 47

The accompanying notes are an integral part of these financial statements.

THURMAN & O'CONNELL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
BALANCE, December 31, 1994	200	$300	$ 580	$ 880
Distributions to stockholders	--	--	(660)	(660)
Net income	--	--	912	912
BALANCE, December 31, 1995	200	300	832	1,132
Distributions to stockholders	--	--	(650)	(650)
Net income	--	--	1,010	1,010
BALANCE, December 31, 1996	200	300	1,192	1,492
Distributions to stockholders (unaudited)	--	--	(1,000)	(1,000)
Net income (unaudited)	--	--	1,202	1,202
BALANCE, September 30, 1997	200	$300	$1,394	$1,694

The accompanying notes are an integral part of these financial statements.

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Thurman & O'Connell Corporation (the Company), a Kentucky corporation, focuses on providing electrical system installation and repair services primarily to large commercial facilities. The Company performs the majority of its contract work under fixed price contracts, with contract terms generally ranging from 12 to 24 months. The Company performs the majority of its work in Kentucky.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim financial statements for the nine months ended September 30, 1997 and 1996, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its principal cash balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000.

Inventories

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation expense was approximately $53,000, $49,000 and $51,000 for the years ended December 31, 1995 and 1996 and September 30, 1997, respectively.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems.

Income Taxes

The stockholders of the Company have elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. The provision for income taxes in the accompanying financial statements relates to income and other taxes incurred by the Company in those localities that do not permit the Company to report its net income with that of its stockholders (S Corporation treatment). The Company intends to terminate its S Corporation status concurrently with the effective date of the Offerings (as defined in Note 1).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

Property and equipment, at cost, consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Land	--	$ 25	$ 25	$ 25
Building	30	206	206	206
Machinery and equipment	7	39	39	42
Transportation equipment	5	239	241	257
Computer and telephone equipment	7	19	24	26
Furniture and fixtures	7	20	23	21
		548	558	577
Less -- Accumulated depreciation and amortization		(206)	(252)	(276)
		$ 342	$ 306	$ 301

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Balance at beginning of period	$24	$ 37	$ 18
Additions to costs and expenses	13	10	36
Deductions for uncollectible receivables written off and recoveries	--	(37)	(37)
Balance at end of period	$37	$ 10	$ 17

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Accounts payable, trade	$516	$130	$150
Accrued compensation and benefits	50	60	64
Accrued cost overruns	78	21	20
Accrued warranty costs	10	10	10
Other accrued expenses	9	21	18
	$663	$242	$262

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Electrical system installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$ 2,159	$ 623	$1,844
Estimated earnings, net of losses	721	229	1,466
	2,880	852	3,310
Less -- Billings to date	(4,532)	(1,309)	(3,619)
	$(1,652)	$ (457)	$ (309)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ --	$ 22	$ 52
Less -- Billings in excess of costs and estimated earnings on uncompleted contracts	(1,652)	(479)	(361)
	$(1,652)	$ (457)	$ (309)

5. LONG-TERM DEBT:

During 1996, the Company refinanced the note payable to a bank which was in place at December 31, 1995, with a variable rate note payable. The note is payable in monthly principal and interest payments of $1,051 through October 2004, at which time any unpaid principal and interest is due. The note is collateralized by a cash account at the bank, and the Company has agreed not to pay dividends in excess of the Company's net income for any fiscal year. Interest is based upon a variable rate of 1% above the rate being offered on the sweep account (6% as of December 31, 1996 and September 30, 1997).

At December 31, 1995, the Company had a note payable to a bank which required monthly principal payments of $1,051 plus interest at the prime rate (8.25% at December 31, 1995) through July 2008. Under the agreement, the Company agreed not to pay dividends in excess of the Company's net income for the year. The note was collateralized by the Company's land and building.

The approximate aggregate maturities of long-term debt as of September 30, 1997, are as follows (in thousands):

YEAR ENDING DECEMBER 31 --	
1997	$ 2
1998	7
1999	8
2000	8
2001	9
Thereafter	61
	$95

The Company has a $1,000,000 line of credit with a bank. The line of credit expires in April 1998 and bears interest at the prime lending rate. All receivables are pledged as collateral under the agreement, and the Company has agreed not to pay dividends in excess of net income for the year and to maintain its deposit accounts with the bank. There were no borrowings under this agreement at December 31, 1996 or September 30, 1997. In 1995, the Company had a $500,000 unsecured line of credit at prime with a bank, which expired in April 1996. There were no borrowings under this agreement during 1995 or 1996.

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

6. RELATED-PARTY TRANSACTIONS:

The Company earned revenue for electrical contracting services from companies owned by a stockholder of approximately $47,000, $40,000 and $25,000 for the years ended December 31, 1995 and 1996, and September 30, 1997, respectively, with approximately $1,000, $2,000 and $4,000 of the revenue being recorded as receivables at the respective balance sheet dates. In addition, the Company had a receivable from another stockholder in the amount of approximately $1,000, $2,000 and $5,000 as of December 31, 1995 and 1996 and September 30, 1997, respectively, related to travel expense advances.

7. EMPLOYEE BENEFIT PLAN:

During 1995, the Company adopted a defined contribution 401(k) savings plan covering employees meeting certain minimum service and age requirements, as defined. The plan provides for discretionary contributions on the part of the Company. For the years ended December 31, 1995 and 1996 and September 30, 1997, the Company elected to match 100% of the first 2 percent contributed by each employee. The contributions paid by the Company totaled approximately $9,000, $12,000 and $8,000 for the years ended December 31, 1995 and 1996 and September 30, 1997, respectively.

8. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, a line of credit, and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheets approximates their fair value.

9. STOCKHOLDERS' AGREEMENT:

The Company has a right of first refusal on any stock voluntarily offered for sale by a stockholder subject to certain terms and conditions. The redemption price shall be as determined by the stockholders on an annual basis or by formula which is contained in the agreement if a value has not been established by the stockholders. Such redemption price is payable in not more than 10 equal quarterly installments with interest at the prime rate. As of September 30, 1997 and December 31, 1996, the redemption price was determined to be $5,141 per share.

Upon the death of any stockholder, the Company shall redeem the stock held by such stockholder provided that the redemption is requested in writing by the personal representative of the deceased stockholder within two months of the appointment of such representative or the Company elects to redeem such stock within the same two-month period. The redemption price pursuant to this paragraph is the same as described above. Such redemption price may be paid in full at the closing or in installments, the down payment being the greater of one-fifth of redemption price or any life insurance proceeds received by the Company resulting from the death of the stockholder with the balance payable in quarterly installments over not more than five years with interest at the prime rate. Coverage under the key-man term life insurance purchased by the Company totaled $1,000,000 as of December 31, 1995 and 1996 and September 30, 1997.

10. DIVIDENDS:

As long as the election made by the stockholders to report the operations of the Company on their individual federal and state income tax returns remains in effect, the board of directors of the Company is required to declare a dividend, subsequent to the close of the Company's tax year and prior to the date when payment of individual income taxes is required, to provide the stockholders sufficient cash to pay any applicable individual income taxes resulting from the inclusion of the Company's taxable income on their individual income tax returns. In addition, at the discretion of the Company's board of directors, an additional

THURMAN & O'CONNELL CORPORATION

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

minimum dividend shall be authorized which, when combined with the dividend required to meet the tax obligations of the shareholders, shall equal not less than 50 percent of the net pretax income of the Company.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is not currently involved in any significant disputes or legal actions, however, such actions could arise in the ordinary course of business.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales of approximately 25, 18, 12, 12 and 11 percent of total sales to five major customers during 1995, sales of approximately 48, 11 and 10 percent of total sales to three major customers during 1996 and sales of approximately 26, 12 and 12 percent of total sales to three major customers during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are general contractors in the commercial and industrial construction markets in Kentucky. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors within the commercial and industrial construction markets in this state. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Rodgers Electric Company, Inc.:

We have audited the accompanying balance sheet of Rodgers Electric Company, Inc., a Washington corporation, as of September 30, 1997, and the related statement of operations, cash flows and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rodgers Electric Company, Inc. as of September 30, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
November 14, 1997

RODGERS ELECTRIC COMPANY, INC.

BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

	SEPTEMBER 30, 1997
CURRENT ASSETS:	
Cash and cash equivalents	$ 818
Accounts receivable --	
Trade, net of allowance of $15	571
Retainage	37
Other receivables	5
Costs and estimated earnings in excess of billings on uncompleted contracts	20
Deferred tax asset	39
Prepaid expenses and other current assets	29
Total current assets	1,519
PROPERTY AND EQUIPMENT, net	393
OTHER ASSETS	175
Total assets	$2,087
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Short-term debt, including current maturities of long-term debt	$ 36
Accounts payable and accrued expenses	488
Billings in excess of costs and estimated earnings on uncompleted contracts	109
Income taxes payable	213
Total current liabilities	846
LONG-TERM DEBT, net of current maturities	58
DEFERRED TAX LIABILITY	75
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock, $100 par value, 500 shares authorized, 150 shares issued and outstanding	15
Retained earnings	1,093
Total stockholders' equity	1,108
Total liabilities and stockholders' equity	$2,087

The accompanying notes are an integral part of these financial statements.

RODGERS ELECTRIC COMPANY, INC.

STATEMENT OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED SEPTEMBER 30, 1997
REVENUES	$3,325
COST OF SERVICES (including depreciation)	1,621
Gross profit	1,704
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,238
Income from operations	466
OTHER INCOME (EXPENSE):	
Interest expense	(7)
Other	36
Other income, net	29
INCOME BEFORE PROVISION FOR INCOME TAXES	495
PROVISION FOR INCOME TAXES	178
NET INCOME	$ 317

The accompanying notes are an integral part of these financial statements.

RODGERS ELECTRIC COMPANY, INC.

STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED SEPTEMBER 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 317
Adjustments to reconcile net income to net cash provided by operating activities --	
Depreciation and amortization	47
Provision for doubtful accounts	11
Changes in operating assets and liabilities --	
(Increase) decrease in --	
Accounts receivable	(275)
Costs and estimated earnings in excess of billings on uncompleted contracts	(20)
Deferred taxes, net	(34)
Other	14
Increase (decrease) in --	
Accounts payable and accrued expenses	355
Income taxes payable	211
Billings in excess of costs and estimated earnings on uncompleted contracts	109
Net cash provided by operating activities	735
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payments on notes receivable from related parties	2
Additions to property and equipment	(170)
Net cash used in investing activities	(168)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Borrowings of long-term debt and notes payable	70
Payments of long-term debt	(23)
Net cash provided by financing activities	47
NET INCREASE IN CASH AND CASH EQUIVALENTS	614
CASH AND CASH EQUIVALENTS, beginning of period	204
CASH AND CASH EQUIVALENTS, end of period	$ 818
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for --	
Interest	$ 7
Income taxes	--

The accompanying notes are an integral part of these financial statements.

RODGERS ELECTRIC COMPANY, INC.

STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK		RETAINED	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	EARNINGS	EQUITY
BALANCE, September 30, 1996	150	$15	$ 776	$ 791
Net income	--	--	317	317
BALANCE, September 30, 1997	150	$15	$1,093	$1,108

The accompanying notes are an integral part of these financial statements.

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Principles of Presentation

Rodgers Electric Company, Inc. is a Washington corporation. The Company provides electrical contracting services to commercial and industrial customers in Western Washington. Most of the Company's revenue is from partnering with customers and providing engineering services for design-build projects on a time and material basis with a guaranteed not-to-exceed price.

In October 1997, the Company and its stockholders entered into a definitive agreement with Integrated Electrical Services, Inc. (IES), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of IES common stock, concurrent with the consummation of the initial public offerings in the United States and Canada and outside the United States and Canada (the Offerings) of additional common stock by IES. In addition, the key executives of the Company entered into employment agreements with the Company and IES which have an initial term of five years, and generally restrict the disclosure of confidential information as well as restrict competition with the Company and IES for a period of two years following termination of employment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed using a straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense was approximately $47,000 for the year ended September 30, 1997.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income, and their effects are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

The current asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The current liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate of future costs.

Accounts Receivable and Provision for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon the specific identification of accounts receivable where collection is no longer probable.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reference is made to the "Revenue Recognition" section of this footnote and Note 11 for discussion of significant estimates reflected in the Company's financial statements.

New Accounting Pronouncement

Effective April 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property is necessary. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	SEPTEMBER 30, 1997
Transportation equipment	10	$ 434
Machinery and equipment	10	53
Leasehold improvements	10-25	33
Furniture and fixtures	10	96
		616
Less -- Accumulated depreciation and amortization		(223)
Property and equipment, net		$ 393

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Accounts payable and accrued expenses consist of the following (in thousands):

	SEPTEMBER 30, 1997
Accounts payable, trade	$106
Payroll, profit sharing and related items	363
Other accrued expenses	19
	$488

Contracts in progress (in thousands):

	SEPTEMBER 30, 1997
Costs incurred on contracts in progress	$321
Estimated earnings, net of losses	472
	793
Less-Billings to date	(882)
	$(89)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 20
Less-Billings in excess of costs and estimated earnings on uncompleted contracts	(109)
Net liability	$(89)

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

	SEPTEMBER 30, 1997
Notes payable to financing companies with interest rates ranging from 3.9% to 9.75%, payable in monthly installments of principal and interest through March 2002, secured by transportation equipment	94
Less -- Current portion	(36)
Long-term debt	$ 58

The maturities of long-term debt are as follows (in thousands):

YEAR ENDED SEPTEMBER 30 --	
1998	$ 36
1999	27
2000	18
2001	10
2002	3
	$ 94

6. RELATED PARTY TRANSACTIONS:

The Company is located in a building owned by the sole stockholder which is leased to the Company with monthly lease payments of $2,200 per month.

7. INCOME TAXES:

Federal income taxes are $178,000 for the fiscal year ended September 30, 1997.

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 35 percent to income before provision for income taxes as follows (in thousands):

	YEAR ENDED SEPTEMBER 30, 1997
Provision at the statutory rate	$173
Increase resulting from --	
Permanent differences, mainly meals and entertainment	5
	$178

RODGERS ELECTRIC COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets result principally from the following (in thousands):

	SEPTEMBER 30, 1997
Allowance for doubtful accounts and other	$ 39
Bases difference on property and equipment	(75)
Net deferred tax liabilities	$(36)

9. EMPLOYEE BENEFIT PLAN:

The Company has a profit sharing plan which covers substantially all qualified employees. The profit sharing contribution is made at the discretion of the Directors. Benefits payable under the profit sharing plan are limited to contributions made and earnings therein. Company contributions for the year ended September 30, 1997 were $192,000.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and short and long-term debt. The Company believes that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

11. COMMITMENTS AND CONTINGENCIES:

Litigation

The Company is periodically involved in disputes or legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

Insurance

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy.

12. MAJOR CUSTOMERS AND RISK CONCENTRATION:

The Company had sales greater than 10% of total sales to three major customers, comprising approximately 25%, 22% and 13% of sales during the year ended September 30, 1997.

In addition, the Company grants credit, generally without collateral, to its customers, which are primarily commercial and industrial companies located in the North Puget Sound area of Western Washington. Consequently, the Company is subject to potential credit risk related to changes in business and economic factors in that area, including cyclical changes in the aerospace industry. However, management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk.

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

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UNTIL FEBRUARY 20, 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

7,000,000 SHARES

[INTEGRATED LOGO]

COMMON STOCK

PROSPECTUS

MERRILL LYNCH INTERNATIONAL

DONALDSON, LUFKIN & JENRETTE
INTERNATIONAL

SUNTRUST EQUITABLE SECURITIES

SANDERS MORRIS MUNDY

JANUARY 26, 1998