

REGISTRATION NO. 333-38715

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 1

TO

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

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

DELAWARE (State or other jurisdiction of incorporation or organization)	1731 (Primary Standard Industrial Classification Code Number)	76-0542208 (I.R.S. Employer Identification No.)
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2301 PRESTON  
HOUSTON, TEXAS 77003  
(713) 222-1875  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

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

copy to:

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

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

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

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

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

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

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

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

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

EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A),  
MAY DETERMINE.

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## EXPLANATORY NOTE

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

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

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED NOVEMBER 28, 1997

PROSPECTUS

7,000,000 SHARES

INTEGRATED ELECTRICAL SERVICES, INC.

[INTEGRATED LOGO]  
COMMON STOCK

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

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

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

The Company intends to make application to list the Common Stock 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.

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

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

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

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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 \_\_\_\_\_, 1997.

MERRILL LYNCH & CO.

-----  
DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
EQUITABLE SECURITIES CORPORATION  
SANDERS MORRIS MUNDY  
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The date of this Prospectus is \_\_\_\_\_, 1997.

## [MAP OF LOCATIONS AND OTHER GRAPHICS]

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."

[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.]

## 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 Company, Inc. and General Partner, Inc. (collectively referred to herein as "Haymaker"), Summit Electric of Texas, Inc. ("Summit"), Thurman & O'Connell Corp. ("Thurman & O'Connell"), Rodgers Electric Co., Inc. ("Rodgers"), Hatfield Electric, Inc. ("Hatfield"), Ace Electric, Inc. ("Ace"), Reynolds Electric Corp. ("Reynolds") and Thomas Popp & Co., Inc. ("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 "IES" or 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 the closing of the Offerings, IES will acquire 15 electrical contracting and maintenance service companies and a related supply company with pro forma combined year ended September 30, 1997 revenues of \$312.7 million, making it one of the largest providers of electrical contracting and maintenance services in the United States. Of such 1997 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 20% 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 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 22% 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 19% 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 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

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 Total..... 7,000,000  
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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."

Proposed 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 Common Stock issued to the founder of IES. Excludes options to purchase 300,000 shares which are currently outstanding and options to purchase 2,328,600 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 then occurred or 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  
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YEAR ENDED  
SEPTEMBER 30, 1997  
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## INCOME STATEMENT DATA:

Revenues.....	\$ 312,747
Cost of services (including depreciation).....	247,772
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Gross profit.....	64,975
Selling, general and administrative expenses(a).....	35,938
Goodwill amortization(b).....	3,069
	-----
Income from operations.....	25,968
Interest and other income (expense), net(c).....	(86)
	-----
Income before income taxes.....	25,882
Provision for income taxes.....	11,026
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Net income(d).....	\$ 14,856
	=====
Net income per share.....	\$ .68
	=====
Shares used in computing pro forma net income per share(e).....	21,884,523
	=====

PRO FORMA(F)(G)  
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AS OF SEPTEMBER 30, 1997  
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COMBINED AS ADJUSTED(H)  
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## BALANCE SHEET DATA:

Working capital.....	\$(33,071)(i)	\$ 51,341
Total assets.....	216,422	237,273
Long-term debt, net of current maturities.....	20,763	18,885
Total stockholders' equity.....	79,504	165,793

(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. 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



- (c) Reflects the reduction for interest expense of \$0.8 million attributable to the repayment of \$8.1 million of historical debt with proceeds from the Offerings and other debt distributed prior to the Acquisitions, net of additional interest expense of \$1.4 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 of IES and (iv) 5,399,187 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 2,328,600 shares which are expected to be granted at the 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 \$29.8 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 transfers of approximately (i) \$4.2 million of nonoperating assets, net of liabilities, (ii) \$7.4 million of available cash of the Founding Companies and (iii) \$18.2 million of notes payable to certain owners of the Founding Companies (such transfers, collectively, the "Owner Amounts"). See "Certain Transactions."
- (h) Reflects the closing of the Offerings and the Company's application of the net proceeds therefrom to fund the cash portion of the Acquisitions Consideration and to repay certain indebtedness of the Founding Companies. See "Use of Proceeds" and "Certain Transactions."
- (i) Includes the estimated \$57.5 million of notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds from the Offerings. See "Pro Forma -- As Adjusted" amounts. The cash portion of the Acquisitions Consideration will be adjusted based on the initial public offering price of the Common Stock offered hereby.

SUMMARY INDIVIDUAL FOUNDING COMPANY HISTORICAL FINANCIAL DATA  
(IN THOUSANDS)

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

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

(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) 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 other Founding Companies are Hatfield, Ace, Reynolds and Popp, 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.



## 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 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 in principle to obtain a bank line of credit for \$65 million for working capital and acquisitions. The line of credit will be subject to customary drawing conditions and the completion of negotiations with the lenders and the execution of appropriate loan documentation. See

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

#### SEASONALITY; FLUCTUATION OF QUARTERLY OPERATING RESULTS

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

#### CONTROL BY EXISTING MANAGEMENT AND STOCKHOLDERS

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

#### PROCEEDS OF OFFERINGS AND BENEFITS TO AFFILIATES

Approximately \$57.5 million, or approximately 67%, of the net proceeds of the Offerings (net of estimated offering costs, including underwriting discounts and commissions and costs to be incurred by the Company which have been 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). In addition, approximately \$6.4 million, or approximately 7% of the net proceeds of the Offerings, will be used to repay historical indebtedness of the Founding Companies. Net proceeds available for acquisitions, working capital and general corporate purposes will be approximately \$22.4 million, or 26% of the net proceeds of the Offerings. In connection with the Acquisitions, the Company expects to incur approximately \$18.2 million in indebtedness to fund the transfer of a portion of the Owner Amounts. Advances to the Company from Mr. Snyder amounted to approximately \$1.6 million as of September 30, 1997. See "Use of Proceeds" and "Certain Transactions."

#### BENEFITS TO FOUNDER AND MANAGEMENT

In connection with the formation of the Company, 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 are Restricted Common Stock, 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 Common 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. See "Use of Proceeds."

#### NO PRIOR MARKET, POSSIBLE VOLATILITY OF STOCK

Prior to the Offerings, no public market for the Common Stock has existed, and the initial public offering price, which will be determined by negotiations between the Company and representatives of the Underwriters, may not be indicative of the price at which the Common Stock will trade after the Offerings. See "Underwriting" for the factors to be considered in determining the initial public offering price. The Company intends to make application to list the Common Stock 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 October 20, 1997, 4,052,311 shares of Common Stock were issued and outstanding. 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 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 approximately 2,628,600 shares of Common Stock issued pursuant to the Company's 1997 Stock Option Plan (the "1997 Stock Plan"). A total of 3,500,000 shares will be issuable pursuant to the 1997 Stock Plan. The Company intends to file a registration statement covering all such shares under the Securities Act. See "Management -- 1997 Stock Plan."

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

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

#### CERTAIN ANTI-TAKEOVER PROVISIONS

The Company's Amended and Restated Certificate of Incorporation, Bylaws, employment agreements and employee benefit plans contain provisions which may have the effect of delaying, deferring or preventing a change in control of the Company. For example, the Company's Amended and Restated Certificate of Incorporation and Bylaws provide for, among other things, a classified Board of Directors, the prohibition of

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

#### IMMEDIATE AND SUBSTANTIAL DILUTION

The purchasers of the shares of Common Stock offered hereby will experience immediate dilution in the net tangible book value of their shares of \$12.21 per share (assuming an initial public offering price of \$14.00 per share). See "Dilution." In the event the Company issues additional shares of Common Stock in the future, including shares which may be issued in connection with acquisitions or other public or private financings, purchasers of Common Stock in the Offerings may experience further dilution in the net tangible book value per share of the Common Stock. See "Dilution."

## THE COMPANY

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

**HOUSTON-STAFFORD.** Houston-Stafford was founded in 1973 and is headquartered in Stafford, Texas, near Houston. It 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 Offering. 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 Offering. 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 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 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.** Bexar was founded in 1962 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. On a combined 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 his present position and will be 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. 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 his present position 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 his present position 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. Danniell J. Petro, founder and president of Amber, will sign a five-year employment agreement with IES to continue his present position following consummation of the Offerings.

HAYMAKER. Haymaker was founded in 1981. 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 Haymaker, will sign a five-year employment agreement with IES to continue his present position 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 for 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 his present position 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 in 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 20 employees. Terry Earnheart, president of Rodgers, will sign a five-year employment agreement with IES to continue his present position following consummation of the Offerings.

HATFIELD. Hatfield was founded in 1984 and operates in the greater Phoenix 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 his present position 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 their present positions following consummation of the Offerings. Robert Stalvey will also become a director of the Company following consummation of the Offerings.

REYNOLDS. 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 his present position 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 their present positions following consummation of the Offerings.

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



## USE OF PROCEEDS

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

Of the \$86.3 million net proceeds, the Company estimates that approximately \$57.5 million (subject to adjustment based on the initial public offering price of the Common Stock) will be used to pay the cash portion of the Acquisitions Consideration, all of which will be paid to former stockholders and other equity owners of the Founding Companies. 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 8.8% and matures at various dates from December 1997 through October 2012. In connection with the Acquisitions, the Company expects to incur approximately \$18.2 million in indebtedness to fund the transfer of a portion of the Owner Amounts. 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. See "Certain Transactions."

The approximately \$22.4 million of remaining net proceeds 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 in principle to obtain a bank line of credit for \$65 million for working capital and acquisitions. The line of credit will be subject to customary drawing conditions and the completion of negotiations with the lenders and the execution of appropriate loan documentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

## DIVIDEND POLICY

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

Capital Resources."

## CAPITALIZATION

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

	PRO FORMA	
	AS OF SEPTEMBER 30, 1997	
	COMBINED(A)	AS ADJUSTED(B)
	(IN THOUSANDS)	
Current maturities of long-term debt.....	\$ 62,366(c)	\$ 365
	=====	=====
Long-term debt, net of current maturities(d).....	\$ 20,763	\$ 18,885
	-----	-----
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.....	70,138	156,358
Retained earnings.....	9,202	9,202
	-----	-----
Total stockholders' equity.....	79,503	165,793
	-----	-----
Total capitalization.....	\$100,266	\$184,678
	=====	=====

- (a) Combines the respective accounts of IES and the Founding Companies as reflected in the Unaudited Pro Forma Balance Sheet as of September 30, 1997 prior to the Offerings.
- (b) Adjusted to reflect the sale of 7,000,000 shares of Common Stock offered hereby and the application of the estimated net proceeds therefrom. See "Use of Proceeds."
- (c) Includes \$57.5 million of notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds of the Offerings. The cash portion of the Acquisitions Consideration will be adjusted based on the initial public offering price of the Common Stock offered hereby.
- (d) Includes \$18.2 million in long-term debt from the transfer of the Owner Amounts to certain owners of the Founding Companies. See "Certain Transactions."
- (e) Excludes 300,000 shares related to stock options which are currently outstanding and shares related to approximately 2,328,600 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 of IES. 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 \$44.4 million, or approximately \$2.71 per share. The deficit in pro forma combined net tangible book value is equal to the aggregate net tangible book value (tangible assets less total liabilities) of the Company after giving effect to the Acquisitions. The number of shares used for the per share calculation includes the 16,365,336 shares outstanding after the Acquisitions but prior to the Offerings. After giving effect to the Acquisitions and the sale by the Company of the 7,000,000 shares of Common Stock offered hereby (assuming an initial public offering price of \$14.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company), the pro forma combined net tangible book value of the Company would have been \$41.9 million, or \$1.79 per share. This represents an immediate increase in pro forma net tangible book value of \$4.50 per share to existing stockholders and an immediate dilution in net tangible book value of \$12.21 per share to new investors purchasing the shares of Common Stock in the Offerings. The following table illustrates this per share dilution:

Assumed initial public offering price per share.....	\$14.00
Pro forma combined net tangible book value per share prior to the Offerings.....	\$(2.71)
Increase in pro forma net tangible book value per share attributable to new investors.....	4.50
	-----
Pro forma combined net tangible book value per share after the Offerings.....	1.79
	-----
Dilution in net tangible book value per share to new investors.....	\$12.21
	=====

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, (ii) owners of the Founding Companies and (iii) the new investors purchasing Common Stock from the Company in the Offerings at the assumed initial offering price of \$14.00 per share (before deducting underwriting discounts and commissions and estimated offering expenses):

	SHARES PURCHASED		TOTAL	AVERAGE PRICE
	NUMBER	PERCENT	CONSIDERATION	PER SHARE
	-----	-----	-----	-----
Existing stockholders and owners of Founding Companies(a)(b).....	16,365,336	70.0%	\$(44,328,922)	\$(2.71)
New investors.....	7,000,000	30.0	98,000,000	14.00
	-----	-----	-----	-----
Total.....	23,365,336	100.0%	\$ 53,671,078	
	=====	=====	=====	

(a) See "Certain Transactions" for a discussion of the issuance of Restricted Common Stock and Common Stock to the founders of IES 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, adjusted to reflect: (i) the payment of the estimated \$57.5 million in cash to the owners of the Founding Companies as part of the Acquisitions Consideration and (ii) the transfer of the Owner Amounts. See "Certain Transactions."

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

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

The summary unaudited pro forma combined financial data below present certain data for the Company, 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	NINE MONTHS ENDED	
	1992	1993	1994	1995	1996	SEPTEMBER 30,	SEPTEMBER 30,	
	-----	-----	-----	-----	-----	-----	-----	-----
								(UNAUDITED)
<b>HISTORICAL INCOME STATEMENT</b>								
<b>DATA (HOUSTON-STAFFORD):</b>								
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.....	<u>\$ 186</u>	<u>\$ 197</u>	<u>\$ 262</u>	<u>\$ 731</u>	<u>\$ 3,047</u>	<u>\$ 3,316</u>	<u>\$ 2,588</u>	<u>\$ 2,857</u>

YEAR ENDED  
SEPTEMBER 30, 1997

-----  
(UNAUDITED)

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).....	3,069
	-----
Income from operations.....	25,968
Interest and other income (expense), net(c).....	(86)
	-----
Income before income taxes.....	25,882
Provision for income taxes.....	11,026
	-----
Net income(d).....	\$ 14,856
	=====
Net income per share.....	\$ .68
	=====
Shares used in computing pro forma net income per share(e).....	21,884,523
	=====

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)		
								(UNAUDITED)	

BALANCE SHEET DATA:

Working capital....	\$1,845	\$2,001	\$1,968	\$2,675	\$ 4,671	\$ 5,414	\$(33,071)(j)	\$ 51,341
Total assets.....	5,570	6,582	8,809	9,357	13,226	24,470	216,422	237,273
Long-term debt, net of current maturities.....	719	505	927	634	1,295	968	20,763	18,885
Total stockholders' equity.....	2,224	2,325	1,952	3,104	5,351	8,208	79,504	165,793

(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. 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 \$0.8 million attributable to the repayment of \$8.1 million of historical debt with proceeds from the Offerings and other debt distributed prior to the Acquisitions, net of additional interest expense of \$1.4 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 of IES and (iv) 5,399,187 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 2,328,600 shares which are expected to be granted at the Offering price upon consummation of the Offerings. See "Description of Capital Stock."

(f) Historical balance sheet data reflect information for Houston-Stafford.

(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 historical financial statements, and notes thereto, included elsewhere in this Prospectus.

- (h) Reflects \$29.8 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 transfers of approximately (i) \$4.2 million of nonoperating assets, net of liabilities, (ii) \$7.4 million of available cash of the Founding Companies and (iii) \$ 18.2 million of notes payable to certain owners of the Founding Companies (such transfers, collectively, the "Owner Amounts"). See "Certain Transactions."
- (i) Reflects the closing of the Offerings and the Company's application of the net proceeds therefrom to fund the cash portion of the Acquisitions Consideration and to repay certain indebtedness of the Founding Companies. See "Use of Proceeds" and "Certain Transactions."
- (j) Includes the estimated \$57.5 million in notes payable to owners of the Founding Companies, representing the cash portion of the Acquisitions Consideration to be paid from a portion of the net proceeds from the Offerings. See "Pro Forma -- As Adjusted" amounts. The cash portion of the Acquisitions Consideration will be adjusted based on the initial public offering price of the Common Stock offered hereby.

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

## INTRODUCTION

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

The Company's revenues are derived primarily from electrical construction and maintenance services provided to commercial, industrial and residential customers. Approximately 63% of the Company's pro forma combined year ended September 30, 1997 revenues were from commercial and industrial contracting, approximately 25% were from residential contracting, and approximately 12% were derived from electrical maintenance work. In addition, approximately 88% of the Company's pro forma combined year ended September 30, 1997 revenues of \$312.7 million were derived from new construction and renovation, and approximately 12% were attributable to maintenance work (including repair and replacement). 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 more 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 integrating the Acquisitions.

The Company has sold an aggregate of 4,052,311 shares of Common Stock to its management and has recorded (for financial statement presentation purposes) a non-recurring, non-cash compensation charge of \$38.1 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, \$122.7 million, representing 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 \$3.1 million per year.



## SUPPLEMENTAL UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION OF THE FOUNDING COMPANIES

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

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

	FISCAL YEARS ENDED(A)						YEAR ENDED	
	1994		1995		1996		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.....	23,752	13	28,506	13	34,528	13	35,938	13
Income from operations.....	\$ 7,755	4%	\$ 10,703	6%	\$ 21,326	8%	\$ 25,968	8%
	=====	===	=====	===	=====	===	=====	===

(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.

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 \$11.0 million, or 16% from 1996 to 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 1996 to 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 1996 to 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 1996 to 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 56%, from 1996 to 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 1996 and 1997. The most significant decline in revenue of \$0.8 million occurred at Bexar-Calhoun, primarily due to the completion in 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 1997.

Gross profit increased \$9.1 million, or 16% from \$55.9 million for the fiscal year ended 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, \$1.3 million or 59% at Pollock and \$1.3 million or 79% at Amber. Houston-Stafford's gross margin increased from 18% in 1996 to 20% in 1997, Daniel's gross margin increased from 23% in 1996 to 27% in 1997, Pollock's gross margin increased from 14% in 1996 to 18% in 1997 and Amber's gross margin increased from 12% in 1996 to 18% in 1997. 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 certain lower than expected 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 1996 to \$42.0 million in 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 \$1.3 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 attributed 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 attributed 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 attributed to the addition of infrastructure associated with its growth. Mills' increase in selling, general and administrative expenses was attributed 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 \$1.5 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 attributed to favorable pricing related to increased demand. Mills' gross profit and gross margin increases are primarily attributed 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 attributed to the addition of administrative infrastructure associated with its growth. Mills' increase in selling, general and administrative expenses was attributed to increased business volume and

increases in discretionary bonus and savings plan distributions. Bexar-Calhoun's increase in selling, general and administrative expenses was attributed 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 will have \$25.8 million of pro forma cash and cash equivalents, \$51.3 million of pro forma working capital and no outstanding indebtedness other than debt relating to Owner Amounts and capital lease obligations totaling \$19.3 million. The Founding Companies' historical indebtedness of \$8.1 million is anticipated to be transferred to the founders or repaid from the proceeds of the Offerings.

On a combined basis, the Founding Companies generated \$12.3 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 \$7.8 million on a combined basis and was primarily used for debt repayment and capital distributions.

The Company has entered into a preliminary agreement with a commercial bank under which it expects to enter into a credit facility effective concurrently with the closing of the Offerings. According to the proposed terms of the agreement, the credit facility will be a three-year revolving credit facility of up to \$65 million to be used for working capital and capital expenditures, to finance acquisitions and for general corporate purposes. The Company's existing and future subsidiaries will guarantee the repayment of all amounts due under the facility, and the facility will be secured by the capital and stock of the guarantors and the accounts receivable of the Company and the guarantors. The Company expects that the credit facility will require the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibit the payment of cash dividends by the Company, restrict the ability of the Company to incur other indebtedness and require the Company to comply with certain financial covenants. Availability of the credit facility will be subject to customary drawing conditions, completion of negotiations with the lenders and execution of definitive loan documentation.

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		NINE MONTHS ENDED			
	1994		1995		1996		SEPTEMBER 30,		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 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 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 attributed 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 the company'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 the company 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 14% in 1995 when compared to 1994 as a result of the additional infrastructure necessary to support the company'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. 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. 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.

Houston-Stafford generated \$2.7 million in net cash from operating activities for the year ended December 31, 1996. 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 20% 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 Ft. 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 on the Ft. 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 the Company's 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 the Company's 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 2% 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 attributed 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 \$1.5 million, or 30% from \$5.2 million in 1994 to \$6.7 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, plant, 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, plant, 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		ELEVEN MONTHS ENDED		SEPTEMBER 30,			
	1995	1996	SEPTEMBER 30,		SEPTEMBER 30,					
			1997		1996		1997			
			(IN THOUSANDS)		(UNAUDITED)					
Revenues.....	\$13,002	100%	\$15,816	100%	\$20,291	100%	\$13,305	100%	\$17,780	100%
Cost of services.....	10,602	82	13,534	86	16,670	82	11,646	88	14,782	83
Gross profit.....	2,400	18	2,282	14	3,621	18	1,659	12	2,998	17
Selling, general and administrative expenses....	2,149	16	2,463	15	2,895	14	2,083	16	2,515	14
Income/(loss) from operations.....	\$ 251	2%	\$ (181)	(1)%	\$ 726	4%	\$ (424)	(4)%	\$ 483	3%

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

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

Gross profit increased \$1.3 million, or 80% 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 attributed 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 \$1.3 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 the company'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 \$0.3 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 7 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 \$1.9 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 \$0.3 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 attributed 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 22% 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 attributed 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 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 \$0.1 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 \$2.2 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. 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		NINE MONTHS ENDED			
	1995		1996		SEPTEMBER 30,		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.



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 17% to 24% over these periods. The improvement in gross margin was attributed 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 year ended September 30, 1997. Net cash used in investing activities was approximately \$0.3 million, primarily for additions to property, plant 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                      1997 -----			
	(IN THOUSANDS)							
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%	\$ 488	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 \$0.7 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 the company'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 partners.

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 partners.

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 installation.

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

	YEAR ENDED MARCH 31,		YEAR ENDED SEPTEMBER 30,		SIX MONTHS ENDED SEPTEMBER 30,			
	1997		1997		1996		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 attributed 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 15% 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 used \$0.1 million of net cash for operating activities for the six months 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 and September 30, 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 &amp; 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 fiscal 1996 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 over budget projects on which the company shares in the cost savings it provides 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



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 margins 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 on which Thurman & O'Connell shares in the cost savings it provides 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 by financing activities of \$1.2 million 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/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 the closing of the Offerings, IES will acquire 15 electrical contracting and maintenance service companies and a related supply company with pro forma combined year ended September 30, 1997 revenues of \$312.7 million, making it 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 20% 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 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, local code requirements and purpose. 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 transmission 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. Based on this Census data, 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 a broad range of customers, including 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 22% 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. The residential market consists primarily of electrical installations in new single family and low-rise multifamily residence construction. 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 19% 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 both 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 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 in expanding 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 service. 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 1997 revenues. 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 ----
Stafford, TX.....	3,500	Warehouse/Offices
Stafford, TX.....	15,000	Warehouse/Offices
Austin, TX.....	2,970	Warehouse/Offices
Stafford, TX.....	1,661	Office
Stafford, TX.....	3,500	Warehouse/Offices
San Antonio, TX.....	5,588	Warehouse/Offices
Grapevine, TX.....	6,850	Warehouse/Offices
Aceworth, GA.....	5,256	Warehouse/Offices
Duluth, GA.....	3,875	Warehouse/Offices
Katy, TX.....	5,000	Warehouse/Offices
Webster, TX.....	7,054	Warehouse/Offices
Henderson, NV.....	1,500	Warehouse/Offices
Rowlett, TX.....	4,000	Warehouse/Offices
Spring, TX.....	5,500	Warehouse/Offices
Monroe, NC.....	4,500	Warehouse/Offices
San Antonio, TX.....	5,000	Warehouse/Offices
Milford, CT.....	900	Warehouse/Offices
Dallas, TX.....	32,424	Warehouse/Offices
Austin, TX.....	3,465	Warehouse/Offices
Saginaw, TX.....	37,000	Warehouse/Offices
Fort Worth, TX.....	18,000	Warehouse/Offices
Louisville, KY.....	17,000	Warehouse/Offices
Everett, WA.....	3,500	Warehouse/Offices
Everett, WA.....	9,000	Lot
Scottsdale, AZ.....	6,400	Warehouse/Offices
Valdosta, GA.....	11,084	Warehouse/Offices
Houston, TX.....	8,722	Warehouse/Offices
Austin, TX.....	1,200	Warehouse/Offices
Miami, FL.....	19,000	Warehouse/Offices
Vero Beach, FL.....	3,550	Warehouse/Offices
Birmingham, AL.....	3,800	Offices
Phoenix, AZ.....	6,900	Offices
Cincinnati, OH.....	6,000	Warehouse/Offices
Ocoee, FL.....	12,800	Warehouse/Offices
Mitchell, SD.....	8,000	Offices
Mitchell, SD.....	14,439	Warehouse/Offices
Sioux Falls, SD.....	5,000	Warehouse/Offices
Rapid City, SD.....	5,830	Warehouse/Offices
Deadwood, SD.....	2,650	Warehouse/Offices
Watertown, SD.....	5,020	Warehouse/Offices
Huron, SD.....	5,000	Warehouse/Offices Showroom
Spearfish, SD.....	1,825	Warehouse/Offices
Stafford, TX.....	10,500	Warehouse/Offices
Houston, TX.....	23,040	Warehouse/Offices
Houston, TX.....	19,000	Warehouse
San Antonio, TX.....	13,492	Warehouse/Offices
San Antonio, TX.....	6,535	Warehouse/Offices

LOCATION -----	APPROXIMATE SQUARE FT. -----	TYPE ----
San Antonio, TX.....	16,692	Warehouse/Offices
Laredo, TX.....	1,700	Warehouse/Offices
New Braunfels, TX.....	3,164	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.

#### REGULATIONS

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

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

#### LITIGATION

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

#### EMPLOYEES

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



## MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

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

NAME ----	AGE ---	POSITION -----
C. Byron Snyder.....	49	Chairman of the Board of Directors
Jon Pollock.....	51	President, Chief Executive Officer and Director*
Jerry Mills.....	57	Senior Vice President and Chief Operating Officer -- Commercial and Industrial and Director*
Ben L. Mueller.....	50	Senior Vice President and Chief Operating Officer -- Residential and Director*
Jim P. Wise.....	54	Senior Vice President and Chief Financial Officer
John F. Wombwell.....	36	Senior Vice President, General Counsel and Secretary*
John S. Stanfield.....	42	Vice President -- Mergers and Acquisitions*
D. Merrill Cummings.....	36	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*

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

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

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

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

Jerry Mills will become Senior Vice President and Chief Operating Officer -- Commercial and Industrial and a director of the Company upon consummation of the Offerings. Mr. Mills has been the President of Mills Electrical Contractors, Inc., one of the founding companies, since he began that company in 1972. Mr. Mills is

a past board member of the Independent Electrical Contractors, the Associated Builders and Contractors, the Associated General Contractors and the Richardson Electrical Board. Prior to 1972, Mr. Mills was an officer and part owner of Koegel Cash Consulting Engineers.

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

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

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

John S. Stanfield will become Vice President -- Mergers and Acquisitions upon the consummation of the Offerings. Since March 1996, he has 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. Merrill Cummings will become Vice President -- Mergers and Acquisitions upon the closing of the Offerings. 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. Seilbeck 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. Seilbeck 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 Stock Option 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.

Effective upon consummation of the Offerings, the Board of Directors will be divided into three classes of directors, with directors serving staggered three-year terms, expiring at the annual meeting of stockholders in 1998, 1999 and 2000, 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.

C. Byron Snyder, as the holder 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 holder of the Restricted Common Stock may remove the director such holder is 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 at each annual meeting 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" by either party upon thirty days' written notice. 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 three years' base salary 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. 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 a total of 150,000 shares of Common Stock have been granted to each of Mr. Wise and Mr. Wombell. 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 Wombell, 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, 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.

#### 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. Merrill Cummings a total of 2,329,600 shares of Common Stock for nominal consideration. Mr. Snyder is currently president and a director of the Company. The trustee of the Snyder Children's Trust is an independent third party not subject to control by Mr. Snyder. In September 1997, IES issued an additional 442,589 shares to Mr. Snyder and such trust. The value of the Common Stock issued to Mr. Snyder was estimated at \$9.10 per share and has been reflected as a non-cash compensation charge in the IES financial statements. In October 1997, Mr. Snyder 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, all of which are non-interest-bearing. 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 Directors Plan, effective upon the consummation of the Offerings, to the non-employee directors of the Company upon the closing of the Offerings.

Simultaneously with the closing of the Offerings, the Company will acquire by stock purchase all the issued and outstanding capital stock and other equity interests of the Founding Companies, at which time each Founding Company will become a wholly owned subsidiary of the Company. The Acquisitions Consideration was negotiated by the parties and was based primarily upon the pro forma adjusted net income of each Founding Company. The Acquisitions Consideration consists of (i) an estimated \$57.5 million in cash (subject to adjustment based on the initial public offering price) and (ii) 12,313,025 shares of Common Stock. In addition, the Company intends to repay approximately \$6.4 million of the historical indebtedness of the Founding Companies. In connection with the Acquisitions, owners of certain of the Founding Companies will receive the Owner Amounts, in the amounts set forth below. The Company will incur approximately \$18.2 million in indebtedness to fund the Owner Amounts.

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

The following table sets forth for each Founding Company (i) the approximate portion of the Acquisitions Consideration to be paid to the stockholders of each of the Founding Companies in cash and in shares of Common Stock, which cash is subject to adjustments based on the initial public offering price of the Common Stock offered hereby and (ii) the total debt which would have been assumed by the Company as of

September 30, 1997, which represents historical indebtedness, excluding capital lease obligations, and indebtedness incurred to pay Owner Amounts:

	CASH	SHARES OF COMMON STOCK	TOTAL DEBT
	(DOLLARS IN THOUSANDS)		
Houston-Stafford.....	\$ 15,643	3,352,039	\$1,624
Mills.....	11,637	2,493,657	400
Bexar-Calhoun.....	8,696	1,863,397	938
Pollock.....	1,092	319,729	1,718
Muth.....	2,209	473,324	540
Daniel.....	3,975	851,823	--
Amber.....	2,486	532,728	747
Haymaker.....	2,029	434,735	--
Summit.....	1,900	321,506	894
Thurman & O'Connell.....	2,331	499,600	95
Rodgers.....	1,684	360,725	94
Hatfield.....	972	208,357	331
Ace.....	892	191,056	378
Reynolds.....	939	201,191	400
Popp.....	976	209,158	--
Total.....	\$ 57,461	12,313,025	\$8,159

The foregoing table does not include Owner Amounts (based on September 30, 1997 balances) having a value of \$5.9 million to be received by the owners of Houston-Stafford, \$9.4 million to be received by the owners of Mills, \$1.2 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.

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

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

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

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

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

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

#### TRANSACTIONS INVOLVING CERTAIN OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

During fiscal 1996, Houston-Stafford made payments totaling \$187,000 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. No such lease payments were made in 1997. 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.

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 and \$156,000 for 1996.

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 will not be in excess of fair rental value for such facilities.

Pollock leases certain real property from Mr. Pollock. Amounts paid pursuant to this lease were \$20,161 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. It is anticipated that annual rentals 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.....	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(b).....	473,324	2.0
Alan R. Sielbeck(c).....	0	*
Robert Stalvey.....	95,528	*
Richard L. Tucker(c).....	0	*
Bob Weik(d).....	1,499,471	6.4
Thomas E. White, Jr.(c).....	0	*
All executive officers and directors as a group (15 persons)(e).....	9,675,720	41.4%

\* Less than one percent.

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

(c) 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.

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

(e) 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, including 2,655,709 shares of Restricted Common Stock, 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 will be issued and outstanding, assuming no exercise of the Underwriters' over-allotment option. 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 (i) 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)), (ii) in the event any person acquires beneficial ownership of 15% or more of the total number of outstanding shares of Common Stock or (iii) in the event any person offers to acquire 15% or more of the total number of outstanding shares of Common Stock.

The Company intends to make application to list the Common Stock 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.

#### 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, including 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 (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 Securities and Exchange 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 the issuance of 3,500,000 shares of its Common Stock in accordance with the terms of the Stock Option Plan. Options to purchase 300,000 shares have been granted under the Stock Option Plan and it is anticipated that approximately 2,328,600 shares of Common Stock will be granted upon the closing of the Offerings to certain other officers, directors and former stockholders of 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 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, 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 and (ii) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Company's benefit plans described herein. 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. 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 a 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 (a "Non-U.S. Holder"). This summary does not address all of the United States federal income and estate tax considerations that may be relevant to a Non-U.S. Holder in light of its particular circumstances or to Non-U.S. Holders that may be subject to special treatment under United States federal income tax laws (such as insurance companies, tax-exempt organizations, financial institutions, brokers, dealers in securities, and taxpayers that are neither citizens nor residents of the United States, or that are foreign corporations, foreign partnerships or foreign estates or trusts as to the United States). 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 (the "IRS") and other applicable authorities, all of which are subject to change, possibly with retroactive effect. Each prospective purchaser of Common Stock is advised to consult its tax advisor with respect to the tax consequences of acquiring, holding and disposing of Common Stock.

#### DIVIDENDS

Dividends paid to a Non-U.S. Holder of Common Stock generally will be subject to withholding of United States federal income tax at a 30 percent rate (or such lower rate as may be specified by an applicable income tax treaty) unless the dividends are effectively connected with the conduct of a trade or business of the Non-U.S. Holder within the United States, in which case the dividends will be taxed at ordinary United States federal income tax rates and will not be subject to the withholding tax described above. If the Non-U.S. Holder is a corporation, such effectively connected income may also be subject to an additional "branch profits tax."

#### 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 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 or does not maintain an office or other fixed place of business in the United States to which such gain is attributable; (iii) the 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.

**BACKUP WITHHOLDING AND INFORMATION REPORTING**

United States backup withholding tax generally will not apply to dividends paid on Common Stock to a Non-U.S. Holder at an address outside the United States. The Company must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to such holder and the amount, if any, of tax withheld with respect to such dividends. This information may also be made available to the tax authorities in the Non-U.S. Holder's country of residence.

Upon the sale or other taxable disposition of Common Stock by a Non-U.S. Holder to or through a United States office of a broker, the broker must backup withhold at a rate of 31 percent and report the sale to the IRS, unless the holder certifies its non-U.S. status under penalties of perjury or otherwise establishes exemption. Upon the sale or other taxable disposition of Common Stock by a Non-U.S. Holder to or through the foreign office of a United States broker, or a foreign broker with certain types of relationships to the United States, the broker must report the sale to the IRS (but is not required to backup withhold) unless the broker has documentary evidence in its files that the seller is a Non-U.S. Holder and certain other conditions are met, or the holder otherwise establishes an exemption.

Backup withholding is not an additional U.S. federal income tax. Amounts withheld under the backup withholding rules are generally allowable as a refund or credit against such Non-U.S. Holder's United States federal income tax liability, if any, provided that the required information is furnished to the IRS.

The United States Treasury department has recently issued regulations generally effective for payments made after December 31, 1998 that will affect the procedures to be followed by a Non-U.S. Holder in establishing such holder's status as a Non-U.S. Holder for purposes of the withholding, backup withholding and information reporting rules discussed herein. Among other things, a Non-U.S. Holder may be required to furnish new certification of foreign status. Prospective investors should consult their advisors concerning the effect of such regulations on an investment in the Common Stock.

**FEDERAL ESTATE TAXES**

Common Stock owned or treated as owned by an individual who is not a citizen or resident (as specially defined for United States federal estate tax purposes) of the United States at the time of death will be included in such individual's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

## UNDERWRITING

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

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

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

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

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

persons or to persons they believe intend to resell to United States or Canadian persons, except, in each case, for transactions pursuant to the Intersyndicate Agreement.

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

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

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

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 Offering, (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 effect 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 Company intends to make application to list the Common Stock on the NYSE under the symbol "IEE."

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

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

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

#### LEGAL MATTERS

Certain legal matters in connection with the Common Stock being offered hereby will be passed upon for the Company by Andrews & Kurth L.L.P., Houston, Texas and for the Underwriters by Vinson & Elkins L.L.P., Houston, Texas. Partners in the firm of Andrews & Kurth L.L.P. own shares of Common Stock not exceeding 1% of the shares of Common Stock to be outstanding upon the consummation of the Offerings.

#### 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 Securities and Exchange Commission (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.

The Company intends to furnish its stockholders with annual reports containing audited financial statements examined by an independent public accounting firm for each fiscal year.

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## 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 (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 identified 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 Offering, as if they had occurred on September 30, 1997. The unaudited pro forma combined statements of operations give 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 reductions in salary, bonuses, benefits and lease payments, these reductions have been reflected in the unaudited pro forma combined statements 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 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 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 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 other 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
Other Receivables.....	127	71	30	15	--	659	246	13	74
Inventories.....	25	541	23	--	2,878	93	898	18	--
Prepaid expenses and other.....	117	29	1,670	323	1,162	120	135	541	96
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	--	--	780	443	--	--	318
GOODWILL, NET.....	--	--	--	--	2,008	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
Payable to stockholder/affiliate.....	--	--	--	--	--	--	--	--	--
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	20
Total current liabilities.....	2,449	3,336	3,353	2,187	14,143	10,281	3,260	6,378	2,504
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.....	--	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 stockholder.....	--	--	--	--	--	--	--	--	--
Additional paid-in capital.....	--	205	--	--	112	175	--	9	--
Retained earnings.....	2,091	7,126	4,482	1,893	8,926	10,410	3,371	886	1,033
Treasury stock.....	(434)	--	--	--	(1,125)	(51)	--	--	--
Total stockholders' equity.....	1,658	7,351	4,490	1,894	8,208	10,535	3,445	896	1,034
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	\$ --	\$ (7,385)	\$ 3,363	\$ 22,411
Accounts receivable.....	679	623	3,548	--	(1,485)	58,072	--
Less-Allowance.....	17	15	61	--	--	1,580	--
Accounts Receivable, net.....	662	608	3,487	--	(1,485)	56,492	--
Costs and profits recognized in excess of billings.....	52	20	1,088	--	--	6,906	--
Other Receivables.....	9	5	48	--	--	1,297	--
Inventories.....	213	--	344	--	--	5,033	--
Prepaid expenses and other.....	15	68	165	1,560	984	6,985	(1,560)
Total current assets.....	2,111	1,519	5,961	1,560	(7,886)	80,076	20,851
PROPERTY AND EQUIPMENT, NET.....	301	393	1,057	6	(3,772)	10,708	--
OTHER ASSETS.....	--	175	--	--	--	1,765	--
GOODWILL, NET.....	--	--	--	--	121,692	123,873	--

Total assets.....	\$2,412	\$2,087	\$7,018	\$ 1,566	\$110,034	\$216,422	\$ 20,851
	=====	=====	=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY							
CURRENT LIABILITIES:							
Current maturities of long-term debt....	\$ 7	\$ 36	\$ 918	\$ --	\$ 56,579	\$62,366	\$(62,001)
Accounts payable and accrued expenses...	262	488	2,218	--	--	34,532	--
Payable to stockholder/affiliate.....	--	--	--	1,565	--	1,565	(1,560)
Billings in excess of costs and profits recognized.....	361	109	430	--	--	9,669	--
Income taxes payable.....	--	213	--	--	--	2,354	--
Other.....	--	--	72	--	1,998	2,661	--
	-----	-----	-----	-----	-----	-----	-----
Total current liabilities.....	630	846	3,638	1,565	58,577	113,147	(63,561)
	-----	-----	-----	-----	-----	-----	-----
LONG-TERM LIABILITIES:							
Long-term debt, net of current maturities.....	88	58	398	--	17,411	20,763	(1,878)
Deferred income taxes.....	--	75	5	--	879	1,043	--
Other long-term liabilities.....	--	--	6	--	(1,051)	1,966	--
	-----	-----	-----	-----	-----	-----	-----
Total long-term liabilities.....	88	133	409	--	17,239	23,772	(1,878)
	-----	-----	-----	-----	-----	-----	-----
COMMITMENTS AND CONTINGENCIES							
STOCKHOLDERS' EQUITY:							
Common stock.....	300	15	42	41	(663)	137	70
Restricted common stock.....	--	--	--	--	26	26	--
Receivable from stockholder.....	--	--	--	(40)	40	--	--
Additional paid-in capital.....	--	--	198	38,095	32,999	71,793	86,220
Retained earnings.....	1,394	1,093	2,761	(38,095)	176	7,547	--
Treasury stock.....	--	--	(30)	--	1,640	--	--
	-----	-----	-----	-----	-----	-----	-----
Total stockholders' equity.....	1,694	1,108	2,971	1	34,218	79,503	86,290
	-----	-----	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	\$2,412	\$2,087	\$7,018	\$ 1,566	\$110,034	\$216,422	\$ 20,851
	=====	=====	=====	=====	=====	=====	=====

AS  
ADJUSTED

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents.....	\$ 25,774
Accounts receivable.....	58,072
Less-Allowance.....	1,580
	-----
Accounts Receivable, net.....	56,492
Costs and profits recognized in excess of billings.....	6,906
Other Receivables.....	1,297
Inventories.....	5,033
Prepaid expenses and other.....	5,425
	-----
Total current assets.....	100,927
PROPERTY AND EQUIPMENT, NET.....	10,708
OTHER ASSETS.....	1,765
GOODWILL, NET.....	123,873
	-----
Total assets.....	\$237,273
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current maturities of long-term debt....	\$ 365
Accounts payable and accrued expenses...	34,532
Payable to stockholder/affiliate.....	5
Billings in excess of costs and profits recognized.....	9,669
Income taxes payable.....	2,354
Other.....	2,661
	-----
Total current liabilities.....	49,586
	-----
LONG-TERM LIABILITIES:	
Long-term debt, net of current maturities.....	18,885
Deferred income taxes.....	1,043
Other long-term liabilities.....	1,966
	-----
Total long-term liabilities.....	21,894
	-----
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Common stock.....	207
Restricted common stock.....	26
Receivable from stockholder.....	--
Additional paid-in capital.....	158,013
Retained earnings.....	7,547
Treasury stock.....	--
	-----
Total stockholders' equity.....	165,793
	-----
Total liabilities and stockholders'	

equity..... \$237,273  
=====

## 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	38,095	(44,163)
GOODWILL AMORTIZATION.....	--	--	--	--	--	--	3,069
INCOME (LOSS) FROM OPERATIONS.....	726	78	1,365	466	519	(38,095)	41,094
OTHER INCOME (EXPENSE):							
Interest expense.....	(172)	(79)	(6)	(7)	(87)	--	(590)
Other, net.....	3	23	70	36	129	--	316
Other income (expense), net.....	(169)	(56)	64	29	42	--	(274)
INCOME (LOSS) BEFORE INCOME TAXES.....	557	22	1,429	495	561	(38,095)	40,820
PROVISION (BENEFIT) FOR INCOME TAXES.....	214	21	46	178	(51)	--	7,448
NET INCOME (LOSS).....	\$ 343	\$ 1	\$1,383	\$ 317	\$ 612	\$(38,095)	\$33,372
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.....	3,069
INCOME (LOSS) FROM OPERATIONS.....	25,968
OTHER INCOME (EXPENSE):	
Interest expense.....	(1,416)
Other, net.....	1,330
Other income (expense), net.....	(86)
INCOME (LOSS) BEFORE INCOME TAXES.....	25,882
PROVISION (BENEFIT) FOR INCOME TAXES.....	11,026
NET INCOME (LOSS).....	\$ 14,856

NET INCOME PER SHARE.....	\$	.68
		=====
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER		
SHARE(1).....	21,884,523	
		=====

- - - - -

(1) Includes (a) 2,655,709 shares issued to the IES founder, (b) 1,396,602 shares issued to management of IES, (c) 12,313,025 shares issued to owners of the Founding Companies and (d) 5,399,187 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 1,600,183 shares excluded reflect 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 concurrently with and as a condition of 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 where indicated. 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 treated 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 was determined using an estimated fair value of \$10.50 per share (or \$94.1 million), which is less than the estimated initial public offering price of \$14.00 per share due to restrictions on the sale and transferability of the shares issued. The total estimated purchase price of \$135.9 million for the acquisitions is based upon preliminary estimates and is subject to certain purchase price adjustments at and following closing. The table does not reflect net transfers of \$29.8 million which represents previously undistributed earnings and nonoperating assets and liabilities that will be transferred in connection with the Acquisitions to the owners of the Founding Companies.

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

## INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

## 3. UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS:

- (a) Records the transfer in connection with the Acquisitions of \$29.8 million of previously undistributed earnings and nonoperating assets and liabilities to the owners of the Founding Companies, which is expected to be funded using \$7.4 million of cash, \$4.2 million of net nonoperating assets, and new borrowings of \$18.2 million.
- (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 stockholder.
- (d) Records the purchase of the Founding Companies by IES consisting of notes payable of \$41.8 million and 8,960,987 shares of Common Stock valued at \$10.50 per share (or \$94.1 million) for a total estimated purchase price of \$135.9 million resulting in excess purchase price of \$122.7 million over the net assets acquired of \$13.2 million (see Note 2).

The following reconciles the historical net assets of the Founding Companies to the net assets acquired:

	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).....	(29,789)	5,879	(23,910)
	-----	-----	-----
Net assets after transfers.....	\$15,496	\$(2,330)	\$13,166
	=====	=====	=====

- (e) Records the cash proceeds of \$86.3 million from the issuance of shares of IES Common Stock (based on an initial public offering price of \$14.00 per share) net of estimated offering costs (including underwriters commissions and discounts, accounting, legal and other offering costs) of \$11.7 million. Offering costs primarily consist of underwriting discounts and commissions, accounting fees, legal fees and printing expenses.
- (f) Records payment of the cash portion of the consideration to the stockholders of the Founding Companies of \$57.5 million in connection with the Mergers and the expected repayment of outstanding short- and long-term debt totaling \$6.4 million.

The following table summarizes unaudited pro forma combined balance sheet adjustments (in thousands):

	ADJUSTMENT				PRO FORMA ADJUSTMENTS
	(A)	(B)	(C)	(D)	-----
	-----	-----	-----	-----	-----
ASSETS					
Current assets --					
Cash and cash equivalents.....	\$ (7,385)	\$ --	\$ --	\$ --	\$ (7,385)
Other receivables.....	(1,484)	--	--	--	(1,485)
Prepaid expenses and other.....	(619)	--	--	1,602	984
	-----	-----	-----	-----	-----
Total current assets.....	(9,488)	--	--	1,602	(7,886)
Property and equipment, net and other assets.....	(3,772)	--	--	--	(3,772)
Goodwill, net.....	(1,051)	--	--	122,743	121,692
	-----	-----	-----	-----	-----
Total assets.....	\$(14,311)	\$ --	\$ --	\$124,345	\$110,034



	=====	=====	=====	=====	=====
	LIABILITIES AND STOCKHOLDERS'		EQUITY		
Current liabilities --					
Current maturities of long-term debt.....	\$ (882)	\$ 15,643	\$ --	\$ 41,818	\$ 56,579
Payable to shareholder/affiliate.....	--	--	--	--	--
Unearned revenue and other current liabilities.....	--	--	--	1,998	1,998
	-----	-----	-----	-----	-----
Total current liabilities.....	(882)	15,643	--	43,816	58,577
Long-term debt, net of current maturities.....	17,411	--	--	--	17,411
Deferred income taxes.....	--	--	--	879	879
Other long-term liabilities.....	(1,051)	--	--	--	(1,051)
	-----	-----	-----	-----	-----
Total liabilities.....	15,478	15,643	--	44,695	75,816
Stockholders' equity --					
Common stock.....	--	--	(262)	(401)	(663)
Restricted common stock.....	--	--	--	26	26
Receivable from stockholder.....	--	--	40	--	40
Additional paid-in capital.....	--	(15,643)	(38,998)	87,640	32,999
Retained earnings.....	(29,789)	--	38,095	(8,130)	176
Treasury stock.....	--	--	1,125	515	1,640
	-----	-----	-----	-----	-----
Total stockholders' equity.....	(29,789)	(15,643)	--	79,650	34,218
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	<u>\$ (14,311)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 124,345</u>	<u>\$ 110,034</u>
	=====	=====	=====	=====	=====

## INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

	ADJUSTMENT		POSTMERGER ADJUSTMENT
	(E)	(F)	
ASSETS			
Current assets --			
Cash and cash equivalents.....	\$86,290	\$(63,879)	\$ 22,411
Prepaid expenses and other.....	--	(1,560)	(1,560)
Total current assets.....	86,290	(65,439)	20,851
Total assets.....	\$86,290	\$(65,439)	\$ 20,851
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities --			
Current maturities of long-term debt.....	\$ --	\$(62,001)	\$(62,001)
Payable to stockholder/affiliate.....	--	(1,560)	(1,560)
Total current liabilities.....	--	(63,561)	(63,561)
Long-term debt, net of current maturities.....	--	(1,878)	(1,878)
Total liabilities.....	--	(65,439)	(65,439)
Stockholders' equity --			
Common stock.....	70	--	70
Restricted common stock.....	--	--	--
Additional paid-in capital.....	86,220	--	86,220
Retained earnings.....	--	--	--
Treasury stock.....	--	--	--
Total stockholders' equity.....	86,290	--	86,290
Total liabilities and stockholders' equity.....	\$86,290	\$(65,439)	\$ 20,851

## 4. UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS ADJUSTMENTS:

YEAR ENDED SEPTEMBER 30, 1997

- (a) Reflects the \$6.1 million reduction in salaries, bonuses and benefits to the owners of the Founding Companies. These reductions in salaries, bonuses and benefits have been agreed prospectively in accordance with the terms of the employment agreements. 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 compensation charge of \$38.1 million recorded by IES for shares issued to management for nominal consideration. Also, reflects interest expense of \$1.4 million on borrowings of \$18.2 million necessary to fund the transfers discussed in 3(a) above, net of interest savings of \$.8 million on the \$8.1 million of debt to be repaid using proceeds from the Offering or to be transferred to the Founding Companies as discussed in 3(a) above.
- (d) Reflects the incremental provision for federal and state income taxes at a 38% overall tax rate before goodwill and other permanent items, relating to the other statements of operations adjustments and for income taxes on S Corporation income not provided for in the historical financial statements.

## INTEGRATED ELECTRICAL SERVICES, INC. AND FOUNDING COMPANIES

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

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

	ADJUSTMENT				PRO FORMA ADJUSTMENTS
	(A)	(B)	(C)	(D)	
Selling, general and administrative expenses.....	\$(6,068)	\$ --	\$(38,095)	\$ --	\$(44,163)
Goodwill amortization.....	--	3,069	--	--	3,069
Income (loss) from operations....	6,068	(3,069)	38,095	--	41,094
Other income (expense) --					
Interest expense.....	--	--	(590)	--	(590)
Other, net.....	--	316	--	--	316
Income (loss) before income taxes.....	6,068	(2,753)	37,505	--	40,820
Provision for income taxes.....	--	--	--	7,448	7,448
Net income (loss).....	\$ 6,068	\$(2,753)	\$ 37,505	\$(7,448)	\$ 33,372

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED	NINE MONTHS	
	1994	1995	1996	SEPTEMBER 30,	1996	1997
				1997	ENDED	
					SEPTEMBER 30,	
					1996	
					1997	
					(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Proceeds from sale of property and equipment.....	48	49	12	47	--	35
Additions of property and equipment.....	(64)	(145)	(642)	(478)	(494)	(330)
Advances to affiliates.....	--	--	--	(109)	--	(109)
Collections of notes receivable.....	--	--	--	86	--	86
Net cash used in investing activities.....	(16)	(96)	(630)	(454)	(494)	(318)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
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
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid for --						
Interest.....	\$ 137	\$ 254	\$ 134	\$ 166	\$ 90	\$ 143
Income taxes.....	104	225	1,482	2,050	305	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 STOCKHOLDER'S EQUITY  
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT				
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
Distributions to stockholders....	--	--	--	--	--	--
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.....	--	--	--	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, 1994, 1995, 1996 and September 30, 1997 and the nine months ended September 30, 1996 and 1997:

	1994	1995	1996	1997	NINE MONTHS ENDED SEPTEMBER 30,	
					1996	1997
	----	----	----	----	-----	-----
					(UNAUDITED)	
Treasury stock purchased.....	--	--	\$800	\$800	--	--
Debt assumed in treasury stock purchase transaction.....	--	--	800	800	--	--
Purchase price of real property.....	--	--	496	805	--	309
Debt assumed in connection with purchase of property.....	--	--	368	368	395	--
Receivables reduced in connection with purchase of property.....	--	--	79	79	--	--
Debt assumed in connection with prepayments.....	--	--	--	18	--	18

## 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 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,		SEPTEMBER 30,
		1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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 in the amount 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 (IN THOUSANDS):

Federal and state income taxes are as follows:

	YEAR ENDED DECEMBER 31,			YEAR ENDED
	1994	1995	1996	SEPTEMBER 30,
	-----	-----	-----	-----
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:

	YEAR ENDED DECEMBER 31,			YEAR ENDED
	1994	1995	1996	SEPTEMBER 30,
	-----	-----	-----	-----
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:

	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:

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	1997
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 Ray 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.

Certain costs incurred by the Company are allocated to other affiliated companies on the basis of gross payroll dollars.

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.

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 2nd guarantor. This guaranty expires in December of 1997 and is in the amount of \$750,000.

## HOUSTON-STAFFORD ELECTRIC, INC. AND CONSOLIDATED ENTITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 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.

## 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.....	38,095
Retained deficit.....	(38,095)
	-----
Total stockholders' equity.....	1
	-----
Total liabilities and stockholders' equity.....	\$ 1,566
	=====

-----  
 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.....		38,095
		-----
LOSS BEFORE INCOME TAXES.....		(38,095)
PROVISION FOR INCOME TAXES.....		--
		-----
NET LOSS.....		\$(38,095)
		=====

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

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## 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.....	\$(38,095)
Non-cash compensation charge.....	38,095
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 accrued liabilities and amounts due to stockholder.....	1,565
	-----
Net cash used in 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.....	2,329,569	\$23	\$ --	\$ --	\$ --	\$23
ISSUANCE OF ADDITIONAL SHARES TO MANAGEMENT.....	1,722,742	18	--	--	--	18
NET INCOME (LOSS).....	--	--	--	38,095	(38,095)	--
RECEIVABLE FROM STOCKHOLDERS.....	--	--	(40)	--	--	(40)
BALANCE, September 30, 1997...	4,052,311	\$41	\$(40)	\$38,095	\$(38,095)	\$ 1
	=====	===	====	=====	=====	===

- - - - -

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 current primary stockholder, on behalf of the Company. The Company's 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 treated as 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 2,329,569 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 1,722,742 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 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 \$38.1 million, which is calculated based on a fair value which is discounted from the estimated initial public offering price.

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

## INTEGRATED ELECTRICAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

common stock will convert into Common Stock (i) upon disposition by the holder of such shares, or (ii) in the event that any person acquires, or offers to acquire, 15% or more of the total outstanding shares of Common Stock.

## 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 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 nonemployees. 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 Offering.

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

## INTEGRATED ELECTRICAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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, warrants, etc. 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 share, conversion and exercise prices, etc. 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, unrealized gains and losses on available for sale securities, etc.).

## 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 Company, Inc. and General Partner, Inc.

Houston-Stafford Electric, Inc. and Stark Investments, Inc.  
Mills Electrical Contractors, Inc. and Subsidiaries  
Muth Electric, Inc.  
Pollock Electric, Inc.  
Reynolds Electric Corp.  
Rodgers Electric Co., Inc.  
Summit Electric of Texas, Inc.  
Thomas Popp & Co., Inc.  
Thurman & O'Connell Corp.

The aggregate consideration that will be paid by IES to acquire the Founding Companies is approximately \$57.5 million in cash and 12.3 million shares of Common Stock.

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

## INTEGRATED ELECTRICAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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 AUDITORS' REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED)

The Company expects to enter into a credit facility effective concurrently with the closing of the Offerings. A commercial bank has agreed to structure the credit facility subject to the terms and conditions of a commitment letter. According to these terms, the credit facility will be a three-year revolving credit facility of up to \$65 million to be used for working capital, capital expenditures, to finance acquisitions and for other general corporate purposes. 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 Company expects that the credit facility will require the consent of the lenders for acquisitions exceeding a certain level of cash consideration, prohibit the payment of cash dividends by the Company, restrict the ability of the Company to incur other indebtedness and require the

Company to comply with certain financial covenants.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Mills Electrical Contractors, Inc. and Subsidiary:

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,		SEPTEMBER 30, 1997
	----- 1995	1996 -----	
<b>CURRENT ASSETS:</b>			
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
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Notes payable 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
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>STOCKHOLDERS' EQUITY:</b>			
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, 1997	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996		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 JUNE 30,	
	1994	1995	1996	1997	1996	1997
	(UNAUDITED)					
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
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)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
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)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>						
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
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid for --						
Interest.....	\$ 22	\$ 56	\$ 61	46	\$ 34	\$ 19
Income Taxes.....	\$ --	\$ 55	\$ 93	\$ 105	\$ 84	\$ 105

The accompanying notes are an integral part of these 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, Inc. 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 Offering) 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.

## 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:

	1994	1995	1996	1997	NINE MONTHS ENDED SEPTEMBER 30, ----- 1996      1997 -----	
	----	----	----	----	-----	-----
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 purchased 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 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 Offering.

## 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 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,			SEPTEMBER 30, 1997
		1995	1996		
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, 1997
	1994	1995	1996	
Balance at beginning of period.....	\$ 77	\$128	\$168	432
Additions to/(reduction to) 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, 1997
	1995	1996	
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, 1997
	1995	1996	
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 long-term debt as of September 30, 1997, are as follows (in thousands):

Year ending September 30 --	
1998.....	\$264
1999.....	143
2000.....	5
	----
	\$412
	====

## 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 \$26,000, \$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 lease rate. The rent paid under this related-party lease was approximately \$60,000 for the year ended





## MILLS ELECTRICAL CONTRACTORS, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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
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 \$298,000 at December 31, 1996. 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,		SEPTEMBER 30,
	1995	1996	1997
<b>CURRENT ASSETS:</b>			
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
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
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
<b>STOCKHOLDERS' EQUITY:</b>			
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	NINE MONTHS	
	1994	1995	1996	SEPTEMBER 30,	ENDED	
	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	NINE MONTHS	
	1994	1995	1996	SEPTEMBER 30,	ENDED	
				1997	SEPTEMBER 30,	SEPTEMBER 30,
					1996	1997
					(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
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)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>						
	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
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid for --						
Interest.....	\$ 137	\$ 119	\$ 97	\$ 108	\$ 73	\$ 84
Income taxes.....	744	1,197	132	202	43	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		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT				
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 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 employer 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.

## 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.



## BW CONSOLIDATED, INC. AND SUBSIDIARIES

## 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, 1994, 1995 and 1996, for the year ended September 30, 1997, and the nine months ended September 30, 1996 and 1997.

	1994	1995	1996	YEAR ENDED	NINE MONTHS	
				SEPTEMBER 30,	SEPTEMBER 30,	
	----	----	----	-----	-----	-----
				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.

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.

## BW CONSOLIDATED, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED 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

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 Offering (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 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,		SEPTEMBER 30,
		1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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	(7)
	\$ (420)	\$ (567)	\$ (622)
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,		SEPTEMBER 30,
	1995	1996	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 1997 respectively.

## 7. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

	YEAR ENDED	
	1994	1995
	----	-----
Federal --		
Current.....	\$663	\$1,118
Deferred.....	26	(45)
State --		
Current.....	83	157
Deferred.....	--	8
	----	-----
	\$772	\$1,238
	=====	=====

## BW CONSOLIDATED, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 34% to income before provision for income taxes as follows:

	YEAR ENDED	
	DECEMBER 31, 1994	1995
	----	-----
Provision at the statutory rate.....	\$704	\$1,112
State income tax, net of benefit for federal deduction.....	54	107
Other.....	14	19
	----	-----
	\$772	\$1,238
	=====	=====

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

	DECEMBER 31, 1995
	-----
Deferred income tax assets --	
Allowance for bad debt.....	\$ 4
Accrued liabilities and expenses.....	122
	-----
Total deferred income tax asset.....	126
Deferred income tax liabilities --	
Property and equipment.....	(306)
Total deferred income tax liability.....	(306)
	-----
Net deferred income tax liability.....	\$ (180)
	=====

The net deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31, 1995
	-----
Deferred tax assets --	
Current.....	\$ 126
Long-term.....	--
	-----
Total.....	\$ 126
	=====
Deferred tax liabilities --	
Current.....	--
Long-term.....	(306)
	-----
Total.....	\$(306)
	=====

Effective January 1, 1996, the Company elected S Corporation status for Calhoun Electric and partnership status for Bexar Electric. The Company will no longer be directly responsible for any deferred tax liability which might exist. The removal of the deferred tax liability which existed as of December 31, 1995, is recognized in the 1996 consolidated statement of operations (see Note 2).

## BW CONSOLIDATED, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 8. RELATED-PARTY TRANSACTIONS:

Notes receivable from a stockholder consists of the following (in thousands):

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	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 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.

## 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.  
 STATEMENTS OF OPERATIONS  
 (IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1996		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)					
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
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)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>						
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
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
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 STOCKHOLDER'S EQUITY  
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT		
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.....	--	--	(375)	(375)
Net income.....	--	--	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 Offering) 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 Offering.

#### 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,		SEPTEMBER 30,
		1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	1997
Costs incurred on contracts in progress.....	\$ 9,215	\$ 7,159	\$ 149
Estimated earnings, net of losses.....	1,914	1,277	9,265
	11,129	8,436	9,116
Less -- Billings to date.....	(10,889)	(8,180)	(8,984)
	\$ 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

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## POLLOCK ELECTRIC INC.

BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

## ASSETS

	OCTOBER 31,		SEPTEMBER 30,
	1995	1996	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.....	<u>\$3,534</u>	<u>\$5,743</u>	<u>\$7,366</u>

## LIABILITIES AND STOCKHOLDER'S EQUITY

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.....	<u>\$3,534</u>	<u>\$5,743</u>	<u>\$7,366</u>

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

POLLOCK ELECTRIC INC.  
 STATEMENTS OF OPERATIONS  
 (IN THOUSANDS)

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,	ELEVEN MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1996	1997
	(UNAUDITED)				
REVENUES.....	\$13,002	\$15,816	\$20,291	\$13,305	\$17,780
COST OF SERVICES (including depreciation).....	10,602	13,534	16,670	11,646	14,782
Gross profit.....	2,400	2,282	3,621	1,659	2,998
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,149	2,463	2,895	2,083	2,515
Income (loss) from operations.....	251	(181)	726	(424)	483
OTHER INCOME (EXPENSE):					
Interest expense.....	(77)	(104)	(172)	(87)	(155)
Other.....	--	156	3	154	1
Other income (expense), net.....	(77)	52	(169)	67	(154)
INCOME (LOSS) BEFORE INCOME TAXES.....	174	(129)	557	(357)	329
PROVISION (BENEFIT) FOR INCOME TAXES...	82	(30)	214	(104)	140
NET INCOME (LOSS).....	\$ 92	\$ (99)	\$ 343	\$ (253)	\$ 189
	=====	=====	=====	=====	=====

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

POLLOCK ELECTRIC INC.  
STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEAR ENDED OCTOBER 31,		YEAR ENDED SEPTEMBER 30,	ELEVEN MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1996	1997
				(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
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)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Additions of property and equipment.....	(77)	(154)	(175)	(112)	(133)
Net cash used in investing activities.....	(77)	(154)	(175)	(112)	(133)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Net borrowings under line of credit.....	241	725	484	609	343
Net cash provided by financing activities.....	241	725	484	609	343
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>164</b>	<b>(80)</b>	<b>324</b>	<b>(279)</b>	<b>125</b>
CASH AND CASH EQUIVALENTS, beginning of period.....	138	302	23	302	222
CASH AND CASH EQUIVALENTS, end of period.....	\$ 302	\$ 222	\$ 347	\$ 23	\$ 347
	=====	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
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	RETAINED	TOTAL
	SHARES	AMOUNT	PAID-IN CAPITAL	EARNINGS	STOCKHOLDER'S 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,		SEPTEMBER 30,
		1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,
	1996	1997
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 (IN THOUSANDS):

Federal and state income taxes are as follows:

	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:

	OCTOBER 31,		SEPTEMBER 30,
	1995	1996	1997
	-----	-----	-----
Income tax expense (recovery) 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:

	OCTOBER 31,		SEPTEMBER 30,
	1995	1996	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:

	OCTOBER 31,		SEPTEMBER 30,
	1995	1996	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 Company, Inc.:

We have audited the accompanying balance sheets of Charles P. Bagby Company, 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 Company, 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 COMPANY, 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.....	<u>\$3,003</u>	<u>\$4,081</u>
	=====	=====

## LIABILITIES AND STOCKHOLDER'S EQUITY

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.....	<u>\$3,003</u>	<u>\$4,081</u>
	=====	=====

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

## CHARLES P. BAGBY COMPANY, INC.

STATEMENTS OF OPERATIONS  
(IN THOUSANDS)

	YEAR ENDED	YEAR ENDED	NINE MONTHS	
	DECEMBER 31,	SEPTEMBER 30,	ENDED	
	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 COMPANY, INC.

## STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED	YEAR ENDED	NINE MONTHS	
	DECEMBER 31, 1996	SEPTEMBER 30, 1997	ENDED SEPTEMBER 30, 1996	1997
			(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
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
	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Additions of property and equipment.....	(20)	(48)	(16)	(54)
	-----	-----	-----	-----
Net cash used in investing activities.....	(20)	(48)	(16)	(54)
	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
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)
	-----	-----	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>(482)</b>	<b>170</b>	<b>(425)</b>	<b>227</b>
	-----	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS, beginning of period.....</b>	<b>1,106</b>	<b>681</b>	<b>1,106</b>	<b>624</b>
	-----	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS, end of period.....</b>	<b>\$ 624</b>	<b>\$ 851</b>	<b>\$ 681</b>	<b>\$ 851</b>
	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash paid for --				
Interest.....	\$ 1	\$ 10	\$ 1	\$ 10

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

## CHARLES P. BAGBY COMPANY, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY  
 (IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT		
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 COMPANY, INC.

## NOTES TO FINANCIAL STATEMENTS

## 1. BUSINESS AND ORGANIZATION:

Charles P. Bagby Company, 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 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 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 COMPANY, 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 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	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  
=====

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## CHARLES P. BAGBY COMPANY, 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,		SEPTEMBER 30,
	1995	1996	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			
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,		YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996		1996	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,		YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996		1996	1997
				(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
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
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid for --					
Interest.....	\$ 65	\$ 51	\$ 45	\$ 51	\$ 45
Income taxes.....	27	10	303	8	301

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

## AMBER ELECTRIC, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY  
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT			
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,		SEPTEMBER 30,
		1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		YEAR ENDED
	1995	1996	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,		YEAR ENDED
	1995	1996	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,		YEAR ENDED
	1995	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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 financial statements.



DANIEL ELECTRICAL CONTRACTORS, INC. AND  
DANIEL ELECTRICAL OF TREASURE COAST, INC.

COMBINED STATEMENTS OF OPERATIONS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996		1996	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 financial statements.

DANIEL ELECTRICAL CONTRACTORS, INC. AND  
DANIEL ELECTRICAL OF TREASURE COAST, INC.

COMBINED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996		1996	1997
	-----	-----	-----	-----	-----
				(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
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
	-----	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
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)
	-----	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
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)
	-----	-----	-----	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>(339)</b>	<b>349</b>	<b>252</b>	<b>603</b>	<b>506</b>
CASH AND CASH EQUIVALENTS, beginning of period.....	401	62	665	62	411
	-----	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of period....	\$ 62	\$ 411	\$ 917	\$ 665	\$ 917
	=====	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid for --					
Interest.....	\$ 20	\$ 113	\$ 102	\$ 18	\$ 7

The accompanying notes are an integral part of these 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		RETAINED EARNINGS	UNREALIZED GAIN (LOSS) ON SECURITIES	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT			
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 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 \$142,000 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 Offering.

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      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      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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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, Inc.:

We have audited the accompanying balance sheets of Summit Electric of Texas, Inc., 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 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 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, Inc. 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, INC.

## 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	20
	-----	-----
Total current liabilities.....	2,232	2,504
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	1,033
	-----	-----
Total stockholder's equity.....	992	1,034
	-----	-----
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, INC.

STATEMENTS OF OPERATIONS  
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	SIX MONTHS ENDED SEPTEMBER 30,	
			1996	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, INC.

STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEAR ENDED MARCH 31, 1997	YEAR ENDED SEPTEMBER 30, 1997	SIX MONTHS ENDED SEPTEMBER 30, ----- 1996    1997 ----- (UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
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
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
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
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
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)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>				
	(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
	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash paid for --				
Interest.....	\$ 56	\$ 79	\$ 19	\$ 42
Income taxes.....	16	19	19	3

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

## SUMMIT ELECTRIC OF TEXAS, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK		RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT		
BALANCE, March 31, 1996 (unaudited).....	1,000	\$1	\$ 977	\$ 978
Net income.....	--	--	14	14
BALANCE, March 31, 1997.....	1,000	1	991	992
Net income (unaudited).....	--	--	42	42
BALANCE, September 30, 1997.....	1,000	\$1	\$1,033	\$1,034
	=====	==	=====	=====

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

## SUMMIT ELECTRIC OF TEXAS, INC.

## NOTES TO FINANCIAL STATEMENTS

## 1. BUSINESS AND ORGANIZATION:

Summit Electric of Texas, Inc. (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.

## 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-



## SUMMIT ELECTRIC OF TEXAS, 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, 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.

#### 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

## SUMMIT ELECTRIC OF TEXAS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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	12
Computer and telephone equipment.....	5	84	84
Leasehold improvements.....	31.5	52	52
Furniture and fixtures.....	7	43	43
		-----	-----
		640	638
Less -- Accumulated depreciation and amortization.....		(417)	(458)
		-----	-----
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, INC.

## 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, 1997	SEPTEMBER 30, 1997
	-----	-----
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 expires 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.

## SUMMIT ELECTRIC OF TEXAS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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.

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 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.

## 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	SEPTEMBER 30
1998.....	\$ 99	\$ 99
1999.....	66	26
2000.....	1	--
Thereafter.....	--	--
	----	----
	\$166	\$125
	====	====

## 7. INCOME TAXES:

Federal income taxes are as follows (in thousands):

	YEAR ENDED	
	MARCH 31, 1997	SEPTEMBER 30, 1997
Current --		
Federal.....	\$17	\$19
State.....	6	2
	---	---
	\$23	\$21
	===	===

## SUMMIT ELECTRIC OF TEXAS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Actual income tax expense differs from income tax expense computed by applying the blended U.S. federal and state statutory corporate rate of 28 percent to income before provision for income taxes as follows (in thousands):

	YEAR ENDED	
	MARCH 31, 1997	SEPTEMBER 30, 1997
Provision at the statutory rate.....	\$10	\$ 6
Increase resulting from --		
Permanent differences, primarily meals and entertainment.....	9	14
State income tax, net of benefit for federal deduction....	4	1
	---	---
	\$23	\$21
	===	===

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
	====	====

## SUMMIT ELECTRIC OF TEXAS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 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 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.

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.

## SUMMIT ELECTRIC OF TEXAS, INC.

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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.

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## 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,		SEPTEMBER 30,
	----- 1995	1996 -----	----- 1997 -----
<b>CURRENT ASSETS:</b>			
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 STOCKHOLDER'S EQUITY

<b>CURRENT LIABILITIES:</b>			
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
<b>STOCKHOLDERS' EQUITY:</b>			
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 &amp; O'CONNELL CORPORATION

STATEMENTS OF OPERATIONS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1997	1996	1997
	-----				
	(UNAUDITED)				
REVENUES.....	\$4,729	\$4,551	\$ 4,049	\$3,741	\$3,239
COST OF SERVICES.....	3,309	3,059	2,181	2,531	1,653
	-----				
Gross profit.....	1,420	1,492	1,868	1,210	1,586
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	512	503	503	397	397
	-----				
Income from operations.....	908	989	1,365	813	1,189
	-----				
OTHER INCOME (EXPENSE):					
Interest expense.....	(13)	(8)	(6)	(6)	(4)
Other.....	36	65	70	46	51
	-----				
Other income (expense), net.....	23	57	64	40	47
	-----				
INCOME BEFORE INCOME TAX EXPENSE.....	931	1,046	1,429	853	1,236
INCOME TAX EXPENSE.....	19	36	46	24	34
	-----				
NET INCOME.....	\$ 912	\$1,010	\$ 1,383	\$ 829	\$1,202
	=====	=====	=====	=====	=====

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

## THURMAN &amp; O'CONNELL CORPORATION

STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		YEAR ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996		1996	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.....					
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	\$ 6	\$ 4
Taxes.....	\$ 6	\$ 26	\$ 50	\$ 23	\$ 47

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

THURMAN & O'CONNELL CORPORATION  
 STATEMENTS OF STOCKHOLDERS' EQUITY  
 (IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT		
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 &amp; 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 \$52,000 for the years ended December 31, 1995 and 1996 and September 30, 1997, respectively.

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

## Revenue Recognition

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-

## THURMAN &amp; O'CONNELL CORPORATION

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

completion method measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

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

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

#### Warranty Costs

For certain contracts, the Company warrants labor for the first year after installation of new electrical systems. The Company generally warrants labor for 30 days after servicing of existing electrical systems.

#### Income Taxes

The stockholders of the Company have elected S Corporation status as defined by the Internal Revenue Code, whereby the Company itself is not subject to taxation for federal purposes. Under S Corporation status, the stockholders report their share of the Company's taxable earnings or losses in their personal tax returns. The provision for income taxes in the accompanying financial statements relates to income and other taxes incurred by the Company in those localities that do not permit the Company to report its net income with that of its stockholders (S Corporation treatment). The Company intends to terminate its S Corporation status concurrently with the effective date of the Offering (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 &amp; 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,		SEPTEMBER 30,
		1995	1996	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,		SEPTEMBER 30,
	1995	1996	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,		SEPTEMBER 30,
	1995	1996	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 &amp; O'CONNELL CORPORATION

## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

	DECEMBER 31,		SEPTEMBER 30,
	1995	1996	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)
	<u>\$ (1,652)</u>	<u>\$ (457)</u>	<u>\$ (309)</u>
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)
	<u>\$ (1,652)</u>	<u>\$ (457)</u>	<u>\$ (309)</u>

## 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
	---
	<u>\$95</u>
	===

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 &amp; 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, 1996 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 &amp; 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 stockholder's 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 STOCKHOLDER'S 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	
STOCKHOLDER'S EQUITY:	
Common stock, \$100 par value, 500 shares authorized, 150 shares issued and outstanding.....	15
Retained earnings.....	1,093
	-----
Total stockholder's equity.....	1,108
	-----
Total liabilities and stockholder's 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 expense, 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 STOCKHOLDER'S EQUITY

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK		RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
	SHARES	AMOUNT		
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 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 approximately \$25,000 and \$47,000 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.

## 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. A reserve for warranty costs is recorded based upon the historical level of warranty claims and management's estimate for 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.....	\$109
Less-Billings in excess of costs and estimated earnings on uncompleted contracts.....	(20)
	-----
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 -- -----	SEPTEMBER 30, 1997 -----
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 rental payments of \$2,200 per month.

## 7. INCOME TAXES:

Federal income taxes are \$178 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 MARCH 31, 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)
	----
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, 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 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, workers' compensation 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. 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 , 1997 (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 ELECTRICAL  
 SERVICES, INC.

[INTEGRATED LOGO]

COMMON STOCK  
 -----

PROSPECTUS  
 -----

MERRILL LYNCH & CO.

DONALDSON, LUFKIN & JENRETTE  
 SECURITIES CORPORATION

EQUITABLE SECURITIES CORPORATION

SANDERS MORRIS MUNDY  
 , 1997

=====



## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION(A)

SEC Registration Fee.....	\$	36,591
NASD Filing Fee.....		12,575
Listing Fee.....		*
Accounting Fees and Expenses.....		3,200,000
Legal Fees and Expenses.....		950,000
Printing Expenses.....		250,000
Transfer Agent's Fees.....		*
Miscellaneous.....		*
		-----
Total.....	\$	*
		=====

(a) The amounts set forth above, except for the SEC and NASD fees, are in each case estimated.

\* To be completed by amendment.

## ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Subsection (a) of section 145 of the General Corporation Law of the State of Delaware empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Subsection (b) of Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been made to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145 further provides that to the extent a director or officer of a corporation has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145 in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; that indemnification provided for by Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of such person's heirs, executors and administrators; and empowers the

corporation to purchase and maintain insurance on behalf of a director or officer of the corporation against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under Section 145.

Section 102(b)(7) of the General Corporation Law of the State of Delaware provides that a certificate of incorporation may contain a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit.

Article Eighth of the Company's Amended and Restated Certificate of Incorporation states that:

No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty by such director as a director; provided, however, that this Article Eighth shall not eliminate or limit the liability of a director to the extent provided by applicable law (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article Eighth shall apply to, or have any effect on, the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

In addition, Article VI of the Company's Bylaws further provides that the Company shall indemnify its officers, directors and employees to the fullest extent permitted by law.

The Company intends to enter into indemnification agreements with each of its executive officers and directors.

Under Section 6 of the U.S. and International Purchase Agreements filed as Exhibits 1.1 and 1.2 to this Registration Statement, the Underwriters have agreed to indemnify, under certain conditions, the Company, its officers and directors, and persons who control the Company within the meaning of the Securities Act of 1933, as amended, against certain liabilities.

#### ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is certain information concerning all sales of securities by the Company during the past three years that were not registered under the Securities Act of 1933. The description presented below gives effect to the Company's recent 2,329.6-for-one stock split effected in October, 1997.

(a) On June 26, 1997, the Company issued 2,329,600 shares of its Common Stock at an aggregate price of \$1,000 to C. Byron Snyder, the Snyder Children's Trust and D. Merrill Cummings.

(b) On September 5, 1997, the Company issued 1,672,711 shares of its Common Stock to C. Byron Snyder, the Snyder Children's Trust, and to certain executive officers and key employees at an aggregate price of \$718.

(c) On October 17, 1997, the Company issued 50,000 shares of its Common Stock to certain executive officers and key employees at an aggregate price of \$21.

(d) See "Certain Transactions" for a discussion of the issuance of shares of Common Stock in connection with the Acquisitions.

These transactions were completed without registration under the Securities Act of 1933 in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933.

## ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

## (a) Exhibits

EXHIBIT  
-----

- \*1.1 -- Form of U.S. Purchase Agreement.
- \*1.2 -- Form of International Purchase Agreement.
- \*\*2.1 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Ace Electric, Inc., and all of the Stockholders of Ace Electric, Inc.
- \*\*2.2 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Amber Electric, Inc., and all of the Stockholders of Amber Electric, Inc.
- \*\*2.3 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., BW Consolidated, Inc., all of the Stockholders of BW Consolidated, Inc., Bexar Electric Company, Ltd., Calhoun Electric Company, Ltd. and the Employment Partners of such partnerships.
- \*\*2.4 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Daniel Electrical Contractors, Inc., Daniel Electrical of Treasure Coast, Inc. and all of the Stockholders of Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast, Inc.
- \*\*2.5 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Stark Investments, Inc., and all of the Stockholders of Stark Investments, Inc.
- \*\*2.6 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Hatfield Electric, Inc., and all of the Stockholders of Hatfield Electric, Inc.
- \*\*2.7 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., General Partner, Inc., Charles P. Bagby Company, Inc. and all of the Stockholders of General Partner, Inc., Charles P. Bagby Company, Inc.
- \*\*2.8 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Houston-Stafford Electric, Inc., and all of the Stockholders of Houston-Stafford Electric, Inc.
- \*\*2.9 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Mills Electrical Contractors, Inc., and all of the Stockholders of Mills Electrical Contractors, Inc.
- \*\*2.10 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Muth Electric, Inc., and all of the Stockholders of Muth Electric, Inc.
- \*\*2.11 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Pollock Electric Inc., and all of the Stockholders of Pollock Electric Inc.
- \*\*2.12 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thomas Popp & Company and all of the Stockholders of Thomas Popp & Company.
- \*\*2.13 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Reynolds Electric Corp., and all of the Stockholders of Reynolds Electric Corp.
- \*\*2.14 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Rodgers Electric Company, Inc., and all of the Stockholders of Rodgers Electric Company, Inc.

## EXHIBIT

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- \*\*2.15 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Summit Electric of Texas, Incorporated, and all of the Stockholders of Summit Electric of Texas, Incorporated.
- \*\*2.16 -- Stock Purchase Agreement dated as of October 21, 1997 by and among Integrated Electrical Services, Inc., Thurman & O'Connell Corporation, and all of the Stockholders of Thurman & O'Connell Corporation.
- \*3.1 -- Amended and Restated Certificate of Incorporation.
- \*3.2 -- Bylaws.
- \*4.1 -- Specimen Common Stock Certificate.
- \*5.1 -- Opinion of Andrews & Kurth L.L.P. as to the legality of the securities being registered.
- \*10.1 -- Form of Employment Agreement.
- \*10.2 -- Form of Officer and Director Indemnification Agreement.
- \*10.3 -- Integrated Electrical Services, Inc. 1997 Stock Plan.
- \*10.4 -- Integrated Electrical Services, Inc. 1997 Directors Stock Plan.
- \*23.1 -- Consent of Andrews & Kurth L.L.P. (included in Exhibit 5.1).
- \*23.2 -- Consent of Arthur Andersen LLP.
- \*\*24.1 -- Powers of Attorney (included in signature page set forth on page II-5).
- \*27 -- Financial Data Schedule.
- \*99.1 -- Consents of Alan Sielbeck, Richard L. Tucker and Thomas E. White to serve as directors.

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\* Filed herewith.

\*\* Previously filed.

## (b) Financial statement schedules

None.

## ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

(1) That for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) That for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration

statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To provide to the Underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

## SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON, STATE OF TEXAS, ON NOVEMBER 28, 1997.

Integrated Electrical Services, Inc.

By: /s/ JIM P. WISE

-----

Jim P. Wise

Senior Vice President

and Chief Financial Officer

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED ON NOVEMBER 28, 1997.

## SIGNATURE

## TITLE

C. BYRON SNYDER\*

President and Chairman of the  
Board of Directors  
(Principal Executive  
Officer)

-----  
C. Byron Snyder

/s/ JIM P. WISE

Senior Vice President and  
Chief Financial Officer  
(Principal Financial  
Officer)

-----  
Jim P. Wise

J. PAUL WITHROW\*

Vice President and Chief  
Accounting Officer  
(Principal Accounting  
Officer)

-----  
J. Paul Withrow

By: /s/ JIM P. WISE

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(Jim P. Wise, pursuant to a power  
of attorney filed with this Registration Statement  
No. 333-38715, filed with the Securities and Exchange  
Commission on October 24, 1997)

## INDEX TO EXHIBITS

## EXHIBIT

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- \*5.1 -- Opinion of Andrews & Kurth L.L.P. as to the legality of the securities being registered.
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- \*10.3 -- Integrated Electrical Services, Inc. 1997 Stock Plan.
- \*10.4 -- Integrated Electrical Services, Inc. 1997 Directors Stock Plan.
- \*23.1 -- Consent of Andrews & Kurth L.L.P. (included in Exhibit 5.1).
- \*23.2 -- Consent of Arthur Andersen LLP.
- \*\*24.1 -- Powers of Attorney (included in signature page set forth on page II-5).
- \*27 -- Financial Data Schedule.
- \*99.1 -- Consents of Alan Sielbeck, Richard L. Tucker and Thomas E. White to serve as directors.

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\* Filed herewith.

\*\* Previously filed.



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

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED NOVEMBER 28, 1997

PROSPECTUS

7,000,000 SHARES

INTEGRATED ELECTRICAL SERVICES, INC.

[INTEGRATED LOGO]  
COMMON STOCK

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

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

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

The Company intends to make application to list the Common Stock 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.

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

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

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

\$ , \$ and \$ , respectively. See "Underwriting."

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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 , 1997.

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MERRILL LYNCH INTERNATIONAL

DONALDSON, LUFKIN & JENRETTE  
INTERNATIONAL

EQUITABLE SECURITIES CORPORATION  
SANDERS MORRIS MUNDY

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The date of this Prospectus is , 1997.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

[MAP OF LOCATIONS AND OTHER GRAPHICS]

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

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

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

## UNDERWRITING

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

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

The Company has also entered into a U.S. purchase agreement (the "U.S. Purchase Agreement") with certain other underwriters in the United States and Canada (the "U.S. Underwriters" and, together with the International Managers, the "Underwriters"), for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation, 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

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

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

The Company has granted the International Managers an option, exercisable by the Lead Managers for 30 days after the date of this Prospectus, to purchase up to an aggregate of 240,000 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 over-allotments, 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 810,000 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 and (ii) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to the Company's benefit plans described herein.

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 Offering, (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.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

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 Company intends to make application to list the Common Stock 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 closing date of the Offerings, 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

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

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.

[ALTERNATE PAGE FOR INTERNATIONAL PROSPECTUS]

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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 , 1997 (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 ELECTRICAL  
SERVICES, INC.

[INTEGRATED LOGO]

COMMON STOCK

-----

PROSPECTUS

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MERRILL LYNCH INTERNATIONAL

DONALDSON, LUFKIN & JENRETTE

INTERNATIONAL

EQUITABLE SECURITIES CORPORATION

SANDERS MORRIS MUNDY  
, 1997

=====



INTEGRATED ELECTRICAL SERVICES, INC.  
(A DELAWARE CORPORATION)

5,600,000 SHARES OF COMMON STOCK

U. S. PURCHASE AGREEMENT

Dated: \*, 1997

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## INTEGRATED ELECTRICAL SERVICES, INC.

(a Delaware corporation)

5,600,000 Shares of Common Stock

(Par Value \$.01 Per Share)

U.S. PURCHASE AGREEMENT

\*, 1997

Merrill Lynch, Pierce, Fenner & Smith  
Incorporated  
Donaldson, Lufkin & Jenrette  
Securities Corporation  
Equitable Securities Corporation  
Sanders Morris Mundy Inc.  
as U.S. Representative(s) of the several U.S. Underwriters  
c/o Merrill Lynch & Co.  
Merrill Lynch, Pierce, Fenner & Smith  
Incorporated  
North Tower  
World Financial Center  
New York, New York 10281-1209

Ladies and Gentlemen:

Integrated Electrical Services, Inc., a Delaware Corporation (the "Company"), Confirms its Agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and each of the other U.S. Underwriters named in Schedule A hereto (collectively, the "U.S. Underwriters", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Merrill Lynch, Donaldson, Lufkin & Jenrette Securities Corporation, Equitable Securities Corporation and Sanders Morris Mundy Inc. are acting as representatives (in such capacity, the "Representatives"), with respect to the issue and sale by the Company and the purchase by the U.S. Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value \$.01 per share, of the Company ("Common Stock") set forth in said Schedule A, and with respect to the grant by the Company to the U.S. Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of 840,000 additional shares of Common Stock to cover over-allotments, if any. The aforesaid 5,600,000 shares of Common Stock (the "Initial U.S. Securities") to be purchased by the U.S. Underwriters and all or any part of the 840,000 shares of Common Stock subject to the option described in Section 2(b) hereof (the "U.S. Option Securities") are hereinafter called, collectively, the "U.S. Securities".

It is understood that the Company is concurrently entering into an agreement dated the date hereof (the "International Purchase Agreement") providing for the offering by the Company of an aggregate of 1,400,000 shares of Common Stock (the "Initial International Securities") through arrangements with certain underwriters outside the United States and Canada (the "International Managers") for which Merrill Lynch International, Donaldson, Lufkin & Jenrette International, Equitable Securities Corporation and Sanders Morris Mundy Inc. are acting as lead managers (the "Lead Managers") and the grant by the Company to the International Managers, acting severally and not jointly, of an option to purchase all or any part of the International

Managers' pro rata portion of up to 210,000 additional shares of Common Stock solely to cover overallocments, if any (the "International Option Securities" and, together with the U.S. Option Securities, the "Option Securities"). The Initial International Securities and the International Option Securities are hereinafter called the "International Securities". It is understood that the Company is not obligated to sell and the U.S. Underwriters are not obligated to purchase, any Initial U.S. Securities unless all of the Initial International Securities are contemporaneously purchased by the International Managers.

The U.S. Underwriters and the International Managers are hereinafter collectively called the "Underwriters", the Initial U.S. Securities and the Initial International Securities are hereinafter collectively called the "Initial Securities", and the U.S. Securities, and the International Securities are hereinafter collectively called the "Securities".

The Underwriters will concurrently enter into an Intersyndicate Agreement of even date herewith (the "Intersyndicate Agreement") providing for the coordination of certain transactions among the Underwriters under the direction of Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated (in such capacity, the "Global Coordinator").

The Company understands that the U.S. Underwriters propose to make a public offering of the U.S. Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company and the U.S. Underwriters agree that up to 700,000 shares of the Initial U.S. Securities to be purchased by the U.S. Underwriters (the "Reserved Securities") shall be reserved for sale by the Underwriters to certain eligible employees and persons having business relationships with the Company, as part of the distribution of the Securities by the Underwriters, subject to the terms of this Agreement, the applicable rules, regulations and interpretations of the National Association of Securities Dealers, Inc. and all other applicable laws, rules and regulations. To the extent that such Reserved Securities are not orally confirmed for purchase by such eligible employees and persons having business relationships with the Company by the end of the first business day after the date of this Agreement, such Reserved Securities may be offered to the public as part of the public offering contemplated hereby.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-38715) covering the registration of the Securities under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses. Promptly after execution and delivery of this Agreement, the Company will either (i) prepare and file a prospectus in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations or (ii) if the Company has elected to rely upon Rule 434 ("Rule 434") of the 1933 Act Regulations, prepare and file a term sheet (a "Term Sheet") in accordance with the provisions of Rule 434 and Rule 424(b). Two forms of prospectus are to be used in connection with the offering and sale of the Securities: one relating to the U.S. Securities (the "Form of U.S. Prospectus") and one relating to the International Securities (the "Form of International Prospectus"). The Form of International Prospectus is identical to the Form of U.S. Prospectus, except for the front cover and back cover pages and the information under the caption "Underwriting" [and the inclusion in the Form of International Prospectus of a section under the caption "Certain United States Tax Considerations for Non-United States Holders."] The information included in any such prospectus or in any such Term Sheet, as the case may be, that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective (a) pursuant to paragraph (b) of Rule 430A is referred to

as "Rule 430A Information" or (b) pursuant to paragraph (d) of Rule 434 is referred to as "Rule 434 Information." Each Form of U.S. Prospectus and Form of International Prospectus used before such registration statement became effective, and any prospectus that omitted, as applicable, the Rule 430A Information or the Rule 434 Information, that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto and schedules thereto at the time it became effective and including the Rule 430A Information and the Rule 434 Information, as applicable, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final Form of U.S. Prospectus and the final Form of International Prospectus in the forms first furnished to the Underwriters for use in connection with the offering of the Securities are herein called the "U.S. Prospectus" and the "International Prospectus," respectively, and collectively, the "Prospectuses." For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the U.S. Prospectus, the International Prospectus or any Term Sheet or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

At the Closing Time (defined below), the Company will acquire all of the outstanding capital stock or other equity interests of each of the companies listed on Schedule D (each, a "Founding Company" and, collectively, the "Founding Companies"), in each case pursuant to a stock purchase agreement (each an "Acquisition Agreement" and, collectively, the "Acquisition Agreements"), each as described in the Prospectuses under the caption "Certain Transactions - Organization of the Company" (collectively, the "Combination").

#### SECTION 1. Representations and Warranties.

(a) Representations and Warranties by the Company. The Company represents and warrants to each U.S. Underwriter as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b), hereof and agrees with each U.S. Underwriter, as follows:

(i) Compliance with Registration Requirements. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any U.S. Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither of the Prospectuses nor any amendments or supplements thereto, at the time the Prospectuses or any amendments or supplements thereto were issued and at the Closing Time (and, if any U.S. Option Securities are purchased, at the Date of Delivery), included or will include an untrue statement of a

material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. If Rule 434 is used, the Company will comply with the requirements of Rule 434 and the Prospectuses shall not be "materially different", as such term is used in Rule 434, from the prospectuses included in the Registration Statement at the time it became effective. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or the U.S. Prospectus made in reliance upon and in conformity with information furnished to the Company in writing by any U.S. Underwriter through the Representatives expressly for use in the Registration Statement or the U.S. Prospectus.

Each preliminary prospectus and the prospectuses filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations and each preliminary prospectus and the Prospectuses delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) Independent Accountants. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iii) Financial Statements. The financial statements included in the Registration Statement and the Prospectuses, together with the related schedules and notes, present fairly the financial position of the Company, the Founding Companies, and their respective consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company, the Founding Companies and their consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved. The supporting schedules included in the Registration Statement present fairly in accordance with GAAP the information required to be stated therein. The selected financial data and the summary financial information included in the Prospectuses present fairly the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included in the Registration Statement. The pro forma financial statements and the related notes thereto included in the Registration Statement and the Prospectuses present fairly the information shown therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(iv) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement and the Prospectuses, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, the Founding Companies and their respective subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company, the Founding Companies or their respective subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company, the Founding Companies and their respective subsidiaries considered as one enterprise, and (C) there has been no dividend or



distribution of any kind declared, paid or made by the Company on any class of its capital stock or, except as set forth in the Prospectuses, by any Founding Company on any class of its capital stock.

(v) Good Standing of the Company. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under this Agreement. The Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(vi) Good Standing of Founding Companies. The Company has no subsidiaries as of the date hereof. As of the Closing Time, the only subsidiaries of the Company will be the Founding Companies and their respective subsidiaries. Each Founding Company or subsidiary thereof that is a corporation has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each Founding Company or subsidiary has been duly authorized and validly issued, is fully paid and non-assessable, and upon consummation of the Combination, will be owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity. None of the outstanding shares of capital stock of any founding company subsidiary was issued in violation of the preemptive or similar rights of any security holder of such subsidiary. Each Founding Company or subsidiary thereof that is a partnership or limited liability company has been duly formed and is validly existing in good standing under the laws of the jurisdiction of organization, has power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. Exhibit 21 to the Registration Statement sets forth a complete list of the Founding Companies and their subsidiaries, except to the extent permitted by the rules and regulations of the Commission.

(vii) Capitalization. As of the Closing Time, the Company had authorized capital stock consisting of 100,000,000 shares of Common Stock, par value \$.01 per share, and 10,000,000 shares of Preferred Stock, par value \$.01 per share (the "Preferred Stock"). Prior to the closing of the transactions contemplated by each of the Acquisition Agreements and the issuance of shares of Common Stock as contemplated thereby and by the U.S. Purchase Agreement and the International Purchase Agreement, the Company had issued and outstanding 4,052,311 shares of Common Stock and no shares of Preferred Stock; upon consummation of the Combination and the issuance of 12,313,026 shares of Common Stock as contemplated by the Acquisition Agreements, (which, together with the 4,052,311 shares of Common Stock issued prior to the Combination, are all the shares of Common Stock issued or to be issued prior to the issuance and sale of the Securities), but without giving effect to the issuance of the Securities pursuant to the terms of the U.S. Purchase

Agreement and the International Purchase Agreement, the Company will have issued and outstanding 16,365,337 shares of Common Stock and no shares of Preferred Stock. All of such shares of Common Stock have been duly authorized and, when issued and delivered to the purchasers thereof against payment therefor as provided in the Acquisition Agreements, will be validly issued, fully paid and nonassessable. None of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any security holder of the Company. Except as described in the Prospectuses, there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments to issue any shares of, capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company.

(viii) Authorization of Agreement. This Agreement and the International Purchase Agreement have been duly authorized, executed and delivered by the Company.

(ix) Authorization and Description of Securities. The Securities to be purchased by the U.S. Underwriters and the International Managers from the Company have been duly authorized for issuance and sale to the U.S. Underwriters pursuant to this Agreement and the International Managers pursuant to the International Purchase Agreement, respectively, and, when issued and delivered by the Company pursuant to this Agreement and the International Purchase Agreement, respectively, against payment of the consideration set forth herein and the International Purchase Agreement, respectively, will be validly issued, fully paid and non-assessable. The Common Stock conforms to all statements relating thereto contained in the Prospectuses and such description conforms to the rights set forth in the instruments defining the same. No holder of the Securities will be subject to personal liability by reason of being such a holder. The issuance of the Securities is not subject to the preemptive or other similar rights of any security holder of the Company.

(x) Absence of Defaults and Conflicts. Neither the Company nor any of the Founding Companies or their respective subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company, any Founding Company or any of their respective subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments") except for such defaults that would not result in a Material Adverse Effect. The execution, delivery and performance of this Agreement, the International Purchase Agreement, and the Acquisition Agreements and the consummation of the transactions contemplated in this Agreement, the International Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectuses under the caption "Use of Proceeds") and compliance by the Company with its obligations under this Agreement, the International Purchase Agreement and the Acquisition Agreements have been duly authorized by all necessary corporate action and do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, any Founding Company or any subsidiary pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company, any Founding Company or any subsidiary thereof or any applicable law, statute, rule, regulation, judgment, order,

writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company, any Founding Company or any subsidiary thereof or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company, any Founding Company or any subsidiary thereof.

(xi) Absence of Labor Dispute. No labor dispute with the employees of the Company, any Founding Company or any subsidiary thereof exists or, to the knowledge of the Company, is imminent, and neither the Company nor any Founding Company is aware of any existing or imminent labor disturbance by the employees of any of its or any subsidiary's principal suppliers, manufacturers, customers or contractors, which, in either case, may reasonably be expected to result in a Material Adverse Effect.

(xii) Absence of Proceedings. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Company, threatened, against or affecting the Company, any Founding Company or any subsidiary thereof, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement, the International Purchase Agreement or the Acquisition Agreements or the performance by the Company of its obligations hereunder or thereunder; the aggregate of all pending legal or governmental proceedings to which the Company, any Founding Company or any subsidiary thereof is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, could not reasonably be expected to result in a Material Adverse Effect.

(xiii) Accuracy of Exhibits. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectuses or to be filed as exhibits thereto which have not been so described and filed as required.

(xiv) Possession of Intellectual Property. The Company, the Founding Companies and their subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them, and neither the Company, any Founding Company nor any of its subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company, such Founding Company or any of its subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would result in a Material Adverse Effect.

(xv) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company of its obligations hereunder, in

connection with the offering, issuance or sale of the Securities under this Agreement and the International Purchase Agreement or the consummation of the transactions contemplated by this Agreement, the International Purchase Agreement or the Acquisition Agreements, except such as have been already obtained or as may be required under the 1933 Act or the 1933 Act Regulations and foreign or state securities or blue sky laws.

(xvi) Possession of Licenses and Permits. The Company, each Founding Company and their subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them. The Company, each Founding Company and their subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, have a Material Adverse Effect. All of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not have a Material Adverse Effect. Neither the Company nor any Founding Company or their subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Material Adverse Effect.

(xvii) Title to Property. The Company, each Founding Company and their subsidiaries have good and marketable title to all real property owned by them and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectuses or (b) do not, singly or in the aggregate, materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company, the Founding Companies or any of their subsidiaries. All of the leases and subleases material to the business of the Company, the Founding Companies or any of their subsidiaries, considered as one enterprise, and under which the Company, the Founding Company or any of their subsidiaries holds properties described in the Prospectuses, are in full force and effect, and neither the Company nor any Founding Company or any of their subsidiaries has any notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company, such Founding Company or any subsidiary under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company, such Founding Company or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease.

(xviii) Compliance with Cuba Act. The Company has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder (collectively, the "Cuba Act") or is exempt therefrom.

(xix) Investment Company Act. The Company is not, and upon the issuance and sale of the Securities as herein contemplated, the application of the net proceeds therefrom as described in the Prospectuses or consummation of the Combination will not be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(xx) Environmental Laws. Except as described in the Registration Statement and except as would not, singly or in the aggregate, result in a Material Adverse Effect, (A) neither the Company, any Founding Company or any subsidiary thereof is in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company, the Founding Companies and their subsidiaries have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company, any Founding Company or any of their subsidiaries and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company, any Founding Company or any of their subsidiaries relating to Hazardous Materials or any Environmental Laws.

(xxi) Registration Rights. There are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xxii) Tax Returns. The Company, each Founding Company and each subsidiary have filed all Federal, state, local and foreign income tax returns which have been required to be filed and have paid all taxes indicated by said returns and all assessments received by it or any of them to the extent that such taxes have become due and are not being contested in good faith, except for the filing of those returns, and the paying of those taxes, the failure to file or pay, respectively, individually or in the aggregate, would not have a Material Adverse Effect. All tax liabilities have been adequately provided for in the financial statements of the Company or the applicable Founding Company.

(xxiii) Insurance. The Company and the Founding Companies and their subsidiaries carry, or are covered by, insurance in such amounts and covering such risks as is reasonably adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies in the Company's industry.

(xxiv) ERISA. The Company and the Founding Companies and their subsidiaries are in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA").

(xxv) Related Party Transactions. No relationship, direct or indirect, exists between or among the Company or any Founding Company or subsidiary, on the one hand, and the directors, officers, shareholders, customers or suppliers of the Company, such Founding Company or its

subsidiaries on the other hand, which is required to be described in the Prospectuses which is not so described.

(xxvi) Reserved Shares. Each of the persons identified by the Company to the Underwriters to receive Reserved Shares is a citizen of the United States and currently is a resident of one of the United States.

(xxvii) Consummation of Combination. As of the date of this Agreement, all conditions to consummation of the transactions contemplated by each Acquisition Agreement have been satisfied, with the exception of the Closing of the sale of the Securities pursuant to this Agreement and the International Purchase Agreement. There have been no amendments or supplements to any of the Acquisition Agreements since the original execution thereof on October 21, 1997. The Company has notified the Underwriters of any waiver of any conditions to consummation of such Acquisition Agreements. The Closing (as defined in the Acquisition Agreements) with respect to each Acquisition Agreement has occurred. At or prior to the Closing Time, the transactions contemplated by each Acquisition Agreement will be consummated, with the result that each Founding Company will become a wholly-owned direct or indirect subsidiary of the Company as described in the Prospectuses.

(b) Officer's Certificates. Any certificate signed by any officer of the Company or any of its subsidiaries delivered to the Global Coordinator, the Representatives or to counsel for the U.S. Underwriters shall be deemed a representation and warranty by the Company to each U.S. Underwriter as to the matters covered thereby.

## SECTION 2. Sale and Delivery to U.S. Underwriters; Closing.

(a) Initial Securities. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each U.S. Underwriter, severally and not jointly, and each U.S. Underwriter, severally and not jointly, agrees to purchase from the Company, at the price per share set forth in Schedule B, the number of Initial U.S. Securities set forth in Schedule A opposite the name of such U.S. Underwriter, plus any additional number of Initial U.S. Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) Option Securities. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the U.S. Underwriters, severally and not jointly, to purchase up to an additional 840,000 shares of Common Stock at the price per share set forth in Schedule B, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial U.S. Securities but not payable on the U.S. Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial U.S. Securities upon notice by the Global Coordinator to the Company setting forth the number of U.S. Option Securities as to which the several U.S. Underwriters are then exercising the option and the time and date of payment and delivery for such U.S. Option Securities. Any such time and date of delivery for the U.S. Option Securities (a "Date of Delivery") shall be determined by the Global Coordinator, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the U.S. Option Securities, each of the U.S. Underwriters, acting severally and not jointly, will purchase that proportion of the total number of U.S. Option Securities then being purchased which the number of Initial U.S. Securities set forth in Schedule A opposite the name of such U.S. Underwriter bears to the total number

of Initial U.S. Securities, subject in each case to such adjustments as the Global Coordinator in its discretion shall make to eliminate any sales or purchases of fractional shares.

(c) Payment. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Vinson & Elkins L.L.P., 1001 Fannin, Houston, Texas, or at such other place as shall be agreed upon by the Global Coordinator and the Company, at 9:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Global Coordinator and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the U.S. Option Securities are purchased by the U.S. Underwriters, payment of the purchase price for, and delivery of certificates for, such U.S. Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Global Coordinator and the Company, on each Date of Delivery as specified in the notice from the Global Coordinator to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Representatives for the respective accounts of the U.S. Underwriters of certificates for the U.S. Securities to be purchased by them. It is understood that each U.S. Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial U.S. Securities and the U.S. Option Securities, if any, which it has agreed to purchase. Merrill Lynch, individually and not as representative of the U.S. Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial U.S. Securities or the U.S. Option Securities, if any, to be purchased by any U.S. Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such U.S. Underwriter from its obligations hereunder.

(d) Denominations; Registration. Certificates for the Initial U.S. Securities and the U.S. Option Securities, if any, shall be in such denominations and registered in such names as the Representatives may request in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be. The certificates for the Initial U.S. Securities and the U.S. Option Securities, if any, will be made available for examination and packaging by the Representatives in The City of New York not later than 10:00 A.M. (Eastern time) on the business day prior to the Closing Time or the relevant Date of Delivery, as the case may be.

SECTION 3. Covenants of the Company. The Company covenants with each U.S. Underwriter as follows:

(a) Compliance with Securities Regulations and Commission Requests. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A or Rule 434, as applicable, and will notify the Global Coordinator immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectuses or any amended Prospectuses shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectuses or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use

of any preliminary prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) Filing of Amendments. The Company will give the Global Coordinator notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), any Term Sheet or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectuses, will furnish the Global Coordinator with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Global Coordinator or counsel for the U.S. Underwriters shall object.

(c) Delivery of Registration Statements. The Company has furnished or will deliver to the Representatives and counsel for the U.S. Underwriters, without charge, signed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and signed copies of all consents and certificates of experts, and will also deliver to the Representatives, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the U.S. Underwriters. The copies of the Registration Statement and each amendment thereto furnished to the U.S. Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) Delivery of Prospectuses. The Company has delivered to each U.S. Underwriter, without charge, as many copies of each preliminary prospectus as such U.S. Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each U.S. Underwriter, without charge, during the period when the U.S. Prospectus is required to be delivered under the 1933 Act or the Securities Exchange Act of 1934 (the "1934 Act"), such number of copies of the U.S. Prospectus (as amended or supplemented) as such U.S. Underwriter may reasonably request. The U.S. Prospectus and any amendments or supplements thereto furnished to the U.S. Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) Continued Compliance with Securities Laws. The Company will comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement, the International Purchase Agreement and in the Prospectuses. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the U.S. Underwriters or for the Company, to amend the Registration Statement or amend or supplement any Prospectus in order that the Prospectuses will not include any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement any Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as



may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectuses comply with such requirements, and the Company will furnish to the U.S. Underwriters such number of copies of such amendment or supplement as the U.S. Underwriters may reasonably request.

(f) Blue Sky Qualifications. The Company will use its best efforts, in cooperation with the U.S. Underwriters, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Global Coordinator may designate and to maintain such qualifications in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) Rule 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its security holders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) Use of Proceeds. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectuses under "Use of Proceeds".

(i) Listing. The Company will use its best efforts to effect the listing of the Common Stock (including the Securities) on the New York Stock Exchange.

(j) Restriction on Sale of Securities. During a period of 180 days from the date of the Prospectuses, the Company will not, without the prior written consent of the Global Coordinator, (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 to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 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. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder or under the International Purchase Agreement, or in connection with the Combination as described in the Prospectuses, (B) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to employee benefit plans of the Company referred to in the Prospectuses or (C) shares of Common Stock issued in connection with acquisitions by the Company of other businesses, provided that, (except with respect to shares issued in transactions in which the issuance or resale of such shares will not be registered under the 1933 Act) the recipients of such shares agree in writing for the benefit of the U.S. Underwriters not to take any action described in clauses (i) or (ii) above with respect to such shares until the expiration of 180 days from the date of the Prospectuses.

(k) Reporting Requirements. The Company, during the period when the Prospectuses are required to be delivered under the 1933 Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

(l) Compliance with NASD Rules. The Company hereby agrees that it will ensure that the Reserved Securities will be restricted as required by the National Association of Securities Dealers, Inc. (the "NASD") or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of this Agreement. The Underwriters will notify the Company as to which persons will need to be so restricted. At the request of the Underwriters, the Company will direct the transfer agent to place a stop transfer restriction upon such securities for such period of time. Should the Company release, or seek to release, from such restrictions any of the Reserved Securities, the Company agrees to reimburse the Underwriters for any reasonable expenses (including, without limitation, legal expenses) they incur in connection with such release.

(m) Compliance with Rule 463. The Company will file with the Commission such reports on Form SR as may be required pursuant to Rule 463 of the 1933 Act Regulations.

SECTION 4. Payment of Expenses. (a) Expenses. The Company will pay all expenses incident to the performance of its obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the preparation, printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters and the transfer of the Securities between the U.S. Underwriters and the International Managers, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus, any Term Sheets and of the Prospectuses and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of any transfer agent or registrar for the Securities, (ix) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the NASD of the terms of the sale of the Securities, (x) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange and (xi) all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters, in connection with matters related to the Reserved Securities which are designated by the Company for sale to employees and others.

(b) Termination of Agreement. If this Agreement is terminated by the Representatives in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company shall reimburse the U.S. Underwriters for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the U.S. Underwriters.

SECTION 5. Conditions of U.S. Underwriters' Obligations. The obligations of the several U.S. Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company

contained in Section 1 hereof or in certificates of any officer of the Company delivered pursuant to the provisions hereof, to the performance by the Company of its covenants and other obligations hereunder, and to the following further conditions:

(a) Effectiveness of Registration Statement. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at the Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the U.S. Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A) or, if the Company has elected to rely upon Rule 434, a Term Sheet shall have been filed with the Commission in accordance with Rule 424(b).

(b) Opinions of Counsel for the Company and the Founding Companies. At Closing Time, the Representatives shall have received (i) the favorable opinion, dated as of Closing Time, of Andrews & Kurth L.L.P., counsel for the Company, in form and substance satisfactory to counsel for the U.S. Underwriters, together with signed or reproduced copies of such letter for each of the other U.S. Underwriters to the effect set forth in Exhibit A-1 hereto and to such further effect as counsel to the U.S. Underwriters may reasonably request and (ii) the favorable opinion, dated as of Closing Time, of counsel for each Founding Company reasonably acceptable to the U.S. Underwriters, in form and substance reasonably satisfactory to counsel for the U.S. Underwriters, together with signed or reproduced copies of such letter for each of the other U.S. Underwriters, to the effect set forth in Exhibit A-2 hereto and to such further effect as counsel to the U.S. Underwriters may reasonably request.

(c) Opinion of Counsel for U.S. Underwriters. At Closing Time, the Representatives shall have received the favorable opinion, dated as of Closing Time, of Vinson & Elkins L.L.P., counsel for the U.S. Underwriters, together with signed or reproduced copies of such letter for each of the other U.S. Underwriters with respect to the matters set forth in clauses (i), (ii), (v), (vi) (solely as to preemptive or other similar rights arising by operation of law or under the charter or by-laws of the Company), (ix) through (xi), inclusive, (xii), (xiv) (solely as to the information in the Prospectus under "Description of Capital Stock--Common Stock") and the penultimate paragraph of Exhibit A-1 hereto. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of New York, the federal law of the United States and the General Corporation Law of the State of Delaware, upon the opinions of counsel satisfactory to the Representatives. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and its subsidiaries and certificates of public officials.

(d) Officers' Certificate. At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectuses, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, the Founding Companies or their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to Closing Time, and (iv) no stop

order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(e) Accountant's Comfort Letter. At the time of the execution of this Agreement, the Representatives shall have received from Arthur Andersen LLP a letter dated such date, in form and substance satisfactory to the Representatives, together with signed or reproduced copies of such letter for each of the other U.S. Underwriters containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectuses.

(f) Bring-down Comfort Letter. At Closing Time, the Representatives shall have received from Arthur Andersen LLP a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(g) Approval of Listing. At Closing Time, the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance.

(h) No Objection. The NASD has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements contemplated hereby.

(i) Lock-up Agreements. At the date of this Agreement, the Representatives shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule C hereto.

(j) Combination Completed. The transactions contemplated by each Acquisition Agreement shall have been consummated, with the result that each Founding Company is a wholly-owned direct or indirect subsidiary of the Company as described in the Prospectuses.

(k) Purchase of Initial International Securities. Contemporaneously with the purchase by the U.S. Underwriters of the Initial U.S. Securities under this Agreement, the International Managers shall have purchased the Initial International Securities under the International Purchase Agreement.

(l) Conditions to Purchase of U.S. Option Securities. In the event that the U.S. Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the U.S. Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Representatives shall have received:

(i) Officers' Certificate. A certificate, dated such Date of Delivery, of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company confirming that the certificate delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) Opinion of Counsel for Company. The favorable opinion of Andrews & Kurth L.L.P., counsel for the Company, in form and substance satisfactory to counsel for the U.S. Underwriters, dated such Date of Delivery, relating to the U.S. Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Sections 5(b)(i) and (ii) hereof.

(iii) Opinion of Counsel for U.S. Underwriters. The favorable opinion of Vinson & Elkins L.L.P., counsel for the U.S. Underwriters, dated such Date of Delivery, relating to the U.S. Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) Bring-down Comfort Letter. A letter from Arthur Andersen LLP, in form and substance satisfactory to the Representatives and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Representatives pursuant to Section 5(f) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(m) Additional Documents. At Closing Time and at each Date of Delivery, counsel for the U.S. Underwriters shall have been furnished with such documents and opinions as they may require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be satisfactory in form and substance to the Representatives and counsel for the U.S. Underwriters.

(n) Termination of Agreement. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of U.S. Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several U.S. Underwriters to purchase the relevant Option Securities, may be terminated by the Representatives by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

#### SECTION 6. Indemnification.

(a) Indemnification of U.S. Underwriters. The Company agrees to indemnify and hold harmless each U.S. Underwriter and each person, if any, who controls any U.S. Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectuses (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement

or omission; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Merrill Lynch), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any U.S. Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary prospectus or the U.S. Prospectus (or any amendment or supplement thereto).

(b) Indemnification of Company, Directors and Officers. Each U.S. Underwriter severally agrees to indemnify and hold harmless the Company, its directors, each of its officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary U.S. prospectus or the U.S. Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such U.S. Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the U.S. Prospectus (or any amendment or supplement thereto).

(c) Actions against Parties; Notification. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a) above, counsel to the indemnified parties shall be selected by Merrill Lynch, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each

indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) Settlement without Consent if Failure to Reimburse. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) Indemnification for Reserved Securities. In connection with the offer and sale of the Reserved Securities, the Company agrees, promptly upon a request in writing to indemnify and hold harmless the Underwriters from and against any and all losses, liabilities, claims, damages and expenses incurred by them as a result of the failure of any person or entity to whom Reserved Securities are offered to pay for and accept delivery of Reserved Securities which, by the end of the first business day following the date of this Agreement, were subject to a properly confirmed agreement to purchase.

SECTION 7. Contribution. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the U.S. Underwriters on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the U.S. Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company on the one hand and the U.S. Underwriters on the other hand in connection with the offering of the U.S. Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the U.S. Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the U.S. Underwriters, in each case as set forth on the cover of the U.S. Prospectus, or, if Rule 434 is used, the corresponding location on the Term Sheet, bear to the aggregate initial public offering price of the U.S. Securities as set forth on such cover.

The relative fault of the Company on the one hand and the U.S. Underwriters on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the U.S. Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the U.S. Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the U.S. Underwriters were treated

as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no U.S. Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the U.S. Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such U.S. Underwriter has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls a U.S. Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such U.S. Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company. The U.S. Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial U.S. Securities set forth opposite their respective names in Schedule A hereto and not joint.

**SECTION 8. Representations, Warranties and Agreements to Survive Delivery.** All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company or any of its subsidiaries submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any U.S. Underwriter or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the U.S. Underwriters.

**SECTION 9. Termination of Agreement.**

(a) **Termination; General.** The Representatives may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the U.S. Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, the Founding Companies and their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Representatives, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or materially limited, or minimum or maximum prices for trading have



been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of Securities Dealers, Inc. or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) Liabilities. If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. Default by One or More of the U.S. Underwriters. If one or more of the U.S. Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting U.S. Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the number of U.S. Securities to be purchased on such date, each of the non-defaulting U.S. Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting U.S. Underwriters, or

(b) if the number of Defaulted Securities exceeds 10% of the number of U.S. Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after the Closing Time, the obligation of the U.S. Underwriters to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery shall terminate without liability on the part of any non-defaulting U.S. Underwriter.

No action taken pursuant to this Section shall relieve any defaulting U.S. Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which is after the Closing Time, which does not result in a termination of the obligation of the U.S. Underwriters to purchase and the Company to sell the relevant U.S. Option Securities, as the case may be, either the Representatives or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "U.S. Underwriter" includes any person substituted for a U.S. Underwriter under this Section 10.

SECTION 11. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the U.S. Underwriters shall be directed to the Representatives at North Tower, World Financial Center, New York, New York 10281-1201, attention of \*; and notices to the Company shall be directed to it at \*, attention of \*.

SECTION 12. Parties. This Agreement shall each inure to the benefit of and be binding upon the U.S. Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the U.S.

Underwriters and the Company and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the U.S. Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any U.S. Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. SPECIFIED TIMES OF DAY IN THIS AGREEMENT REFER TO NEW YORK CITY TIME.

SECTION 14. Effect of Headings. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the U.S. Underwriters and the Company in accordance with its terms.

Very truly yours,

INTEGRATED ELECTRICAL SERVICES, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CONFIRMED AND ACCEPTED,  
as of the date first above written:

MERRILL LYNCH & CO.  
MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED  
DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
EQUITABLE SECURITIES CORPORATION  
SANDERS MORRIS MUNDY INC.

By: MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED

By: -----  
Authorized Signatory

For themselves and as Representatives of the  
other U.S. Underwriters named in Schedule A hereto.

SCHEDULE A

Name of U.S. Underwriter	Number of Initial U.S. Securities
-----	-----
Merrill Lynch, Pierce, Fenner & Smith Incorporated . . . . .	
Donaldson, Lufkin & Jenrette Securities Corporation . . . . .	
Equitable Securities Corporation . . . . .	
Sanders Morris Mundy Inc. . . . .	
Total . . . . .	----- 5,600,000 =====

## SCHEDULE B

## INTEGRATED ELECTRICAL SERVICES, INC.

5,600,000 Shares of Common Stock

(Par Value \$.01 Per Share)

1. The initial public offering price per share for the Securities, determined as provided in said Section 2, shall be \$\*.

2. The purchase price per share for the U.S. Securities to be paid by the several U.S. Underwriters shall be \$\*, being an amount equal to the initial public offering price set forth above less \$\* per share; provided that the purchase price per share for any U.S. Option Securities purchased upon the exercise of the over-allotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial U.S. Securities but not payable on the U.S. Option Securities.

Sch B-1

## SCHEDULE C

## PERSONS SUBJECT TO LOCK-UP

C. Byron Snyder  
Jon Pollock  
Jim P. Wise  
Jerry Mills  
Ben L. Mueller  
John S. Stanfield  
D. Merrill Cummings  
J. Paul Withrow  
Richard Muth  
Robert Stalvey  
Bob Weik  
[Others named in prospectus as officer or director]

Sch C-1

## FOUNDING COMPANIES

Houston-Stafford Electric, Inc.

Stark Investments, Inc.

Mills Electrical Contractors, Inc. (including all equity  
interests in Forth Worth Regional Electrical Services, L.L.C.)

BW Consolidated, Inc. (including all equity interests in  
Bexar Electric Company, Ltd. and Calhoun Electric Company, Ltd.)

Pollock Electric, Inc.

Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc.

Muth Electric, Inc.

Amber Electric, Inc.

Summit Electric of Texas, Inc.

Charles P. Bagby Company, Inc. and General Partner, Inc. (including all equity  
interests in Haymaker Electric, Ltd.)

Thurman & O'Connell Corp.

Hatfield Electric, Inc.

Ace Electric, Inc.

Reynolds Electric Corp.

Thomas Popp & Co., Inc.

Rodgers Electric Co., Inc.

FORM OF OPINION OF COMPANY'S COUNSEL  
TO BE DELIVERED PURSUANT TO  
SECTION 5(b)(i)

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.

(ii) The Company has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under the U.S. Purchase Agreement and the International Purchase Agreement.

(iii) The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(iv) As of the Closing Time, the Company had authorized capital stock consisting of 100,000,000 shares of Common Stock, par value \$.01 per share, and 10,000,000 shares of Preferred Stock, par value \$.01 per share (the "Preferred Stock"). Prior to the closing of the transactions contemplated by each of the Acquisition Agreements and the issuance of shares of Common Stock as contemplated thereby and by the U.S. Purchase Agreement and the International Purchase Agreement, the Company had issued and outstanding 4,052,311 shares of Common Stock and no shares of Preferred Stock; upon consummation of the Combination and the issuance of 12,313,026 shares of Common Stock as contemplated by the Acquisition Agreements, (which, together with the 4,052,311 shares of Common Stock issued prior to the Combination, are all the shares of Common Stock issued or to be issued prior to the issuance and sale of the Securities), but without giving effect to the issuance of the Securities pursuant to the terms of the U.S. Purchase Agreement and the International Purchase Agreement, the Company will have issued and outstanding 16,365,337 shares of Common Stock and no shares of Preferred Stock. All of such shares of Common Stock have been duly authorized and, when issued and delivered to the purchasers thereof against payment therefor as provided in the Acquisition Agreements, will be validly issued, fully paid and nonassessable. None of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any security holder of the Company. Except as described in the Prospectuses, to our knowledge there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments to issue any shares of, capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company.

(v) The Securities to be purchased by the U.S. Underwriters and the International Managers from the Company have been duly authorized for issuance and sale to the Underwriters pursuant to the U.S. Purchase Agreement and the International Purchase Agreement, respectively, and, when issued and delivered by the Company pursuant to the U.S. Purchase Agreement and the International Purchase Agreement, respectively, against payment of the consideration set forth in the U.S. Purchase Agreement and the International Purchase Agreement, will be validly issued and fully paid and non-assessable and no holder of the Securities is or will be subject to personal liability by reason of being such a holder.



(vi) The issuance of the Securities is not subject to the preemptive or other similar rights of any security holder of the Company.

(vii) Each Acquisition Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes the valid and binding obligation of each of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally, or as may be modified by a court of equity.

(viii) The transactions contemplated by each Acquisition Agreement have been consummated as described in the Prospectuses. As a result of the Combination, all of the issued and outstanding capital stock or other equity interest of each Founding Company and their subsidiaries is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim, shareholders agreement, or voting trust, and no options, warrants or other rights to purchase, agreements, or other obligations to issue or other rights to convert any other obligations into shares of capital stock or ownership interests in any Founding Company or any subsidiary thereof are outstanding.

(ix) The U.S. Purchase Agreement and the International Purchase Agreement have been duly authorized, executed and delivered by the Company.

(x) The Registration Statement, including any Rule 462(b) Registration Statement, has been declared effective under the 1933 Act; any required filing of the Prospectuses pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or threatened by the Commission.

(xi) The Registration Statement including any Rule 462(b) Registration Statement and the Rule 430A Information, as applicable, the Prospectuses and each amendment or supplement to the Registration Statement and the Prospectuses as of their respective effective or issue dates (other than the financial statements and supporting schedules included therein or omitted therefrom, as to which we need express no opinion) complied as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.

(xii) The form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the charter and by-laws of the Company and the requirements of the New York Stock Exchange.

(xiii) To the best of our knowledge, there is not pending or threatened any action, suit, proceeding, inquiry or investigation, to which the Company or any Founding Company is a party, or to which the property of the Company or any Founding Company is subject, before or brought by any court or governmental agency or body, domestic or foreign, which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in the U.S. Purchase Agreement, the International Purchase Agreement or the Acquisition Agreements or the performance by the Company of its obligations thereunder.

(xiv) The information in the Prospectuses under the headings "Management -- Employment Agreements," "--1997 Stock Plan," "--1997 Directors Stock Plan;" "Certain Transactions;" "Description of

Capital Stock," "Certain United States Tax Considerations for Non-United States Holders" and "Shares Eligible For Future Sale," and in the Registration Statement under Item 14, to the extent that it constitutes matters of law, summaries of legal matters, the Company's charter and bylaws or legal conclusions, has been reviewed by us and is correct in all material respects.

(xv) To the best of our knowledge, there are no statutes or regulations that are required to be described in the Prospectuses that are not described as required.

(xvi) All descriptions in the Prospectuses of contracts and other documents to which the Company or any Founding Company is a party are accurate in all material respects; to the best of our knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes, leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed or incorporated by reference as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

(xvii) The Company is not in violation of its charter, by-laws or other governing documents and, to our best knowledge, no default by the Company exists in the due performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument that is described or referred to in the Registration Statement or the Prospectuses or filed or incorporated by reference as an exhibit to the Registration Statement.

(xviii) No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency, domestic or foreign (other than under the 1933 Act and the 1933 Act Regulations, which have been obtained, or as may be required under the securities or blue sky laws of the various states, as to which we express no opinion) is necessary or required in connection with the due authorization, execution and delivery of the U.S. Purchase Agreement and the International Purchase Agreement or for the offering, issuance, sale or delivery of the Securities.

(xix) No registration under the Act and no filing with, consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the issuance of the Company Common Stock to the stockholders of each Founding Company pursuant to the Acquisition Agreements or the consummation of the other transactions contemplated by the Acquisition Agreements, except such filings, consents, approvals, authorizations, registrations or qualifications as have been obtained or made.

(xx) The execution, delivery and performance of the U.S. Purchase Agreement and the International Purchase Agreement and the consummation of the transactions contemplated in the U.S. Purchase Agreement, the International Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities, and the use of the proceeds from the sale of the Securities as described in the Prospectuses under the caption "Use Of Proceeds") and compliance by the Company with its obligations under the U.S. Purchase Agreement and the International Purchase Agreement do not and will not, whether with or without the giving of notice or lapse of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined in Section 1(a)(x) of the Purchase Agreements) under or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any Founding Company pursuant to any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or any other agreement or instrument, known to us, to which the Company or any Founding Company is a party or by which it or any of them may be bound, or to which any of the property

or assets of the Company or any Founding Company is subject (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not have a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter, by-laws or other governing documents of the Company or any Founding Company, or any applicable law, statute, rule, regulation, judgment, order, writ or decree, known to us, of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any Founding Company or any of their respective properties, assets or operations.

(xxi) To the best of our knowledge, except as set forth in the Prospectuses, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xxii) The Company is not, and will not be after consummation of the Combination or application of the proceeds of the offering of the Securities as set forth in the Prospectuses, an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the 1940 Act.

Nothing has come to our attention that would lead us to believe that the Registration Statement or any amendment thereto, including the Rule 430A Information, (except for financial statements and schedules and other financial data included therein or omitted therefrom, as to which we make no statement), at the time such Registration Statement or any such amendment became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectuses or any amendment or supplement thereto (except for financial statements and schedules and other financial data included therein or omitted therefrom, as to which we make no statement), at the time the Prospectuses were issued, at the time any such amended or supplemented prospectus was issued or at the Closing Time, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering opinions set forth above with respect to matters concerning the Founding Companies, such counsel may rely (A) as to matters involving the application of the laws of the jurisdiction of incorporation or organization of each Founding Company, upon the opinion of counsel to each Founding Company (which opinion shall be dated and furnished to the U.S. Representatives at the Closing Time, shall be satisfactory in form and substance to counsel for the U.S. Underwriters and shall expressly state that the U.S. Underwriters may rely on such opinion as if it were addressed to them), provided that such counsel shall state in their opinion that they believe that they and the U.S. Underwriters are justified in relying upon such opinion, and (B), as to matters of fact (but not as to legal conclusions), to the extent they deem proper, on certificates of responsible officers of the Company and public officials. Such opinion shall not state that it is to be governed or qualified by, or that it is otherwise subject to, any treatise, written policy or other document relating to legal opinions, including, without limitation, the Legal Opinion Accord of the ABA Section of Business Law (1991).

FORM OF OPINION OF COUNSEL OF EACH  
FOUNDING COMPANY  
TO BE DELIVERED PURSUANT TO SECTION 5(b)(ii)

(i) Such Founding Company or any subsidiary thereof that is a corporation has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. None of the outstanding shares of capital stock of such Founding Company or any subsidiary thereof was issued in violation of the preemptive or similar rights of any security holder of such Founding Company or subsidiary. All of the issued and outstanding capital stock of such Founding Company or any subsidiary thereof has been duly authorized and validly issued, and is fully paid and non-assessable. Such Founding Company or subsidiary thereof that is a partnership or limited liability company has been duly formed and is validly existing in good standing under the laws of the jurisdiction of organization, has power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(ii) Each Acquisition Agreement has been duly and validly authorized by such Founding Company and its shareholders and constitutes the valid and binding obligation of such Founding Company and its shareholders enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally, or as may be modified by a court of equity.

(iii) Neither such Founding Company nor any subsidiary is in violation of its charter, by-laws or other governing documents and, to the best of our knowledge, no default by such Founding Company or any of its subsidiaries exists in the due performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument that is described or referred to in the Registration Statement or the Prospectuses or filed or incorporated by reference as an exhibit to the Registration Statement.

In rendering opinions set forth above, such counsel may rely as to matters of fact (but not as to legal conclusions), to the extent they deem proper, on certificates of responsible officers of the Founding Company and public officials. Such opinion shall not state that it is to be governed or qualified by, or that it is otherwise subject to, any treatise, written policy or other document relating to legal opinions, including, without limitation, the Legal Opinion Accord of the ABA Section of Business Law (1991).

\*, 1997

MERRILL LYNCH & CO.  
Merrill Lynch, Pierce, Fenner & Smith  
Incorporated,  
Donaldson, Lufkin & Jenrette  
Securities Corporation  
Equitable Securities Corporation  
Sanders Morris Mundy Inc.  
as Representatives of the several  
U.S. Underwriters to be named in the  
within-mentioned U.S. Purchase Agreement  
c/o Merrill Lynch & Co.  
Merrill Lynch, Pierce, Fenner & Smith  
Incorporated  
North Tower  
World Financial Center  
New York, New York 10281-1209

Re: Proposed Public Offering by Integrated Electrical Services, Inc.

Dear Sirs:

The undersigned, a stockholder and an officer and/or director of Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), understands that Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Donaldson, Lufkin & Jenrette Securities Corporation, Equitable Securities Corporation and Sanders Morris Mundy Inc. propose to enter into a U.S. Purchase Agreement (the "U.S. Purchase Agreement") with the Company providing for the public offering of shares (the "Securities") of the Company's common stock, par value \$.01 per share (the "Common Stock"). In recognition of the benefit that such an offering will confer upon the undersigned as a stockholder and an officer and/or director of the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agrees with each underwriter to be named in the U.S. Purchase Agreement that, during a period of 180 days from the date of the U.S. Purchase Agreement, the undersigned will not, without the prior written consent of Merrill Lynch, directly or indirectly, (i) 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 dispose of or transfer any shares of the Company's Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, or file any registration statement under the Securities Act of 1933, as amended, 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, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise.

B-1

Very truly yours,

Signature: -----

Print Name: -----

B-2

INTEGRATED ELECTRICAL SERVICES, INC.  
(A DELAWARE CORPORATION)

1,400,000 SHARES OF COMMON STOCK

INTERNATIONAL PURCHASE AGREEMENT

Dated: \*, 1997

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## INTEGRATED ELECTRICAL SERVICES, INC.

(a Delaware corporation)

1,400,000 Shares of Common Stock

(Par Value \$.01 Per Share)

## INTERNATIONAL PURCHASE AGREEMENT

Dated: \*, 1997

MERRILL LYNCH INTERNATIONAL  
DONALDSON, LUFKIN & JENRETTE INTERNATIONAL  
EQUITABLE SECURITIES CORPORATION  
SANDERS MORRIS MUNDY INC.  
as Lead Managers of the several International Managers  
c/o Merrill Lynch International  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9LY  
England

Ladies and Gentlemen:

Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), confirms its agreement with Merrill Lynch International ("Merrill Lynch") and each of the other international underwriters named in Schedule A hereto (collectively, the "International Managers", which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Merrill Lynch, Donaldson, Lufkin & Jenrette Securities Corporation, Equitable Securities Corporation and Sanders Morris Mundy Inc. are acting as representatives (in such capacity, the "Lead Managers"), with respect to the issue and sale by the Company and the purchase by the International Managers, acting severally and not jointly, of the respective numbers of shares of Common Stock, par value \$.01 per share, of the Company ("Common Stock") set forth in said Schedule A, and with respect to the grant by the Company to the International Managers, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of 210,000 additional shares of Common Stock to cover over-allotments, if any. The aforesaid 1,400,000 shares of Common Stock (the "Initial International Securities") to be purchased by the International Managers and all or any part of the 210,000 shares of Common Stock subject to the option described in Section 2(b) hereof (the "International Option Securities") are hereinafter called, collectively, the "International Securities".

It is understood that the Company is concurrently entering into an agreement dated the date hereof (the "U.S. Purchase Agreement") providing for the offering by the Company of an aggregate of 5,600,000 shares of Common Stock (the "Initial U.S. Securities") through arrangements with certain underwriters in the United States and Canada (the "U.S. Underwriters") for which Merrill Lynch, Pierce, Fenner & Smith Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation, Equitable Securities Corporation and Sanders Morris Mundy Inc. are acting as representatives (the "U.S. Representatives") and the grant by the Company to the U.S. Underwriters, acting severally and not jointly, of an option to purchase all or any part of the U.S. Underwriters' pro rata portion of up to 840,000 additional shares of Common Stock solely to cover over-allotments, if any (the "U.S. Option Securities" and, together with the International Option Securities, the "Option Securities"). The Initial U.S. Securities and the U.S. Option Securities are hereinafter called the "U.S. Securities". It is

understood that the Company is not obligated to sell and the International Managers are not obligated to purchase, any Initial International Securities unless all of the Initial U.S. Securities are contemporaneously purchased by the U.S. Underwriters.

The International Managers and the U.S. Underwriters are hereinafter collectively called the "Underwriters", the Initial International Securities and the Initial U.S. Securities are hereinafter collectively called the "Initial Securities", and the International Securities, and the U.S. Securities are hereinafter collectively called the "Securities".

The Underwriters will concurrently enter into an Intersyndicate Agreement of even date herewith (the "Intersyndicate Agreement") providing for the coordination of certain transactions among the Underwriters under the direction of Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated (in such capacity, the "Global Coordinator").

The Company understands that the International Managers propose to make a public offering of the International Securities as soon as the Lead Managers deem advisable after this Agreement has been executed and delivered.

The Company and the International Managers agree that up to 700,000 shares of the Initial U.S. Securities to be purchased by the U.S. Underwriters (the "Reserved Securities") shall be reserved for sale by the Underwriters to certain eligible employees and persons having business relationships with the Company, as part of the distribution of the Securities by the Underwriters, subject to the terms of this Agreement, the applicable rules, regulations and interpretations of the National Association of Securities Dealers, Inc. and all other applicable laws, rules and regulations. To the extent that such Reserved Securities are not orally confirmed for purchase by such eligible employees and persons having business relationships with the Company by the end of the first business day after the date of this Agreement, such Reserved Securities may be offered to the public as part of the public offering contemplated hereby.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-38715) covering the registration of the Securities under the Securities Act of 1933, as amended (the "1933 Act"), including the related preliminary prospectus or prospectuses. Promptly after execution and delivery of this Agreement, the Company will either (i) prepare and file a prospectus in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and paragraph (b) of Rule 424 ("Rule 424(b)") of the 1933 Act Regulations or (ii) if the Company has elected to rely upon Rule 434 ("Rule 434") of the 1933 Act Regulations, prepare and file a term sheet (a "Term Sheet") in accordance with the provisions of Rule 434 and Rule 424(b). Two forms of prospectus are to be used in connection with the offering and sale of the Securities: one relating to the International Securities (the "Form of International Prospectus") and one relating to the U.S. Securities (the "Form of U.S. Prospectus"). The Form of International Prospectus is identical to the Form of U.S. Prospectus, except for the front cover and back cover pages and the information under the caption "Underwriting" [and the inclusion in the Form of International Prospectus of a section under the caption "Certain United States Tax Considerations for Non-United States Holders."] The information included in any such prospectus or in any such Term Sheet, as the case may be, that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective (a) pursuant to paragraph (b) of Rule 430A is referred to as "Rule 430A Information" or (b) pursuant to paragraph (d) of Rule 434 is referred to as "Rule 434 Information." Each Form of International Prospectus and Form of U.S. Prospectus used before such registration statement became effective, and any prospectus that omitted, as applicable, the Rule 430A

Information or the Rule 434 Information, that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." Such registration statement, including the exhibits thereto and schedules thereto at the time it became effective and including the Rule 430A Information and the Rule 434 Information, as applicable, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein referred to as the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the Rule 462(b) Registration Statement. The final Form of International Prospectus and the final Form of U.S. Prospectus in the forms first furnished to the Underwriters for use in connection with the offering of the Securities are herein called the "International Prospectus" and the "U.S. Prospectus," respectively, and collectively, the "Prospectuses." For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the International Prospectus, the U.S. Prospectus or any Term Sheet or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

At the Closing Time (defined below), the Company will acquire all of the outstanding capital stock or other equity interests of each of the companies listed on Schedule D (each, a "Founding Company" and, collectively, the "Founding Companies"), in each case pursuant to a stock purchase agreement (each an "Acquisition Agreement" and, collectively, the "Acquisition Agreements"), each as described in the Prospectuses under the caption "Certain Transactions - Organization of the Company" (collectively, the "Combination").

#### SECTION 1. Representations and Warranties.

(a) Representations and Warranties by the Company. The Company represents and warrants to each International Manager as of the date hereof, as of the Closing Time referred to in Section 2(c) hereof, and as of each Date of Delivery (if any) referred to in Section 2(b) hereof, and agrees with each International Manager, as follows:

(i) Compliance with Registration Requirements. Each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are contemplated by the Commission, and any request on the part of the Commission for additional information has been complied with.

At the respective times the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendments thereto became effective and at the Closing Time (and, if any International Option Securities are purchased, at the Date of Delivery), the Registration Statement, the Rule 462(b) Registration Statement and any amendments and supplements thereto complied and will comply in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither of the Prospectuses nor any amendments or supplements thereto, at the time the Prospectuses or any amendments or supplements thereto were issued and at the Closing Time (and, if any International Option Securities are purchased, at the Date of Delivery), included or will include an untrue statement of a material fact or omitted or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. If Rule 434 is used, the Company will comply with the requirements of Rule 434 and the Prospectuses

shall not be "materially different", as such term is used in Rule 434, from the prospectuses included in the Registration Statement at the time it became effective. The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement or the International Prospectus made in reliance upon and in conformity with information furnished to the Company in writing by any International Manager through the Lead Managers expressly for use in the Registration Statement or the International Prospectus.

Each preliminary prospectus and the prospectuses filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act Regulations and each preliminary prospectus and the Prospectuses delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) Independent Accountants. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act and the 1933 Act Regulations.

(iii) Financial Statements. The financial statements included in the Registration Statement and the Prospectuses, together with the related schedules and notes, present fairly the financial position of the Company, the Founding Companies, and their respective consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company, the Founding Companies and their consolidated subsidiaries for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved. The supporting schedules included in the Registration Statement present fairly in accordance with GAAP the information required to be stated therein. The selected financial data and the summary financial information included in the Prospectuses present fairly the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included in the Registration Statement. The pro forma financial statements and the related notes thereto included in the Registration Statement and the Prospectuses present fairly the information shown therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(iv) No Material Adverse Change in Business. Since the respective dates as of which information is given in the Registration Statement and the Prospectuses, except as otherwise stated therein, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, the Founding Companies and their respective subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a "Material Adverse Effect"), (B) there have been no transactions entered into by the Company, the Founding Companies or their respective subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company, the Founding Companies and their respective subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock or, except as set forth in the Prospectuses, by any Founding Company on any class of its capital stock.

(v) Good Standing of the Company. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under this Agreement. The Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(vi) Good Standing of Founding Companies. The Company has no subsidiaries as of the date hereof. As of the Closing Time, the only subsidiaries of the Company will be the Founding Companies and their respective subsidiaries. Each Founding Company or subsidiary thereof that is a corporation has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. Except as otherwise disclosed in the Registration Statement, all of the issued and outstanding capital stock of each Founding Company or subsidiary has been duly authorized and validly issued, is fully paid and non-assessable, and upon consummation of the Combination, will be owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity. None of the outstanding shares of capital stock of any founding company subsidiary was issued in violation of the preemptive or similar rights of any security holder of such subsidiary. Each Founding Company or subsidiary thereof that is a partnership or limited liability company has been duly formed and is validly existing in good standing under the laws of the jurisdiction of organization, has power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. Exhibit 21 to the Registration Statement sets forth a complete list of the Founding Companies and their subsidiaries, except to the extent permitted by the rules and regulations of the Commission.

(vii) Capitalization. As of the Closing Time, the Company had authorized capital stock consisting of 100,000,000 shares of Common Stock, par value \$.01 per share, and 10,000,000 shares of Preferred Stock, par value \$.01 per share (the "Preferred Stock"). Prior to the closing of the transactions contemplated by each of the Acquisition Agreements and the issuance of shares of Common Stock as contemplated thereby and by the U.S. Purchase Agreement and the International Purchase Agreement, the Company had issued and outstanding 4,052,311 shares of Common Stock and no shares of Preferred Stock; upon consummation of the Combination and the issuance of 12,313,026 shares of Common Stock as contemplated by the Acquisition Agreements, (which, together with the 4,052,311 shares of Common Stock issued prior to the Combination, are all the shares of Common Stock issued or to be issued prior to the issuance and sale of the Securities), but without giving effect to the issuance of the Securities pursuant to the terms of the U.S. Purchase Agreement and the International Purchase Agreement, the Company will have issued and outstanding 16,365,337 shares of Common Stock and no shares of Preferred Stock. All of such shares of Common Stock have been duly authorized and, when issued and delivered to the

purchasers thereof against payment therefor as provided in the Acquisition Agreements, will be validly issued, fully paid and nonassessable. None of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any security holder of the Company. Except as described in the Prospectuses, there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments to issue any shares of, capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company.

(viii) Authorization of Agreement. This Agreement and the U.S. Purchase Agreement have been duly authorized, executed and delivered by the Company.

(ix) Authorization and Description of Securities. The Securities to be purchased by the International Managers and the U.S. Underwriters from the Company have been duly authorized for issuance and sale to the International Managers pursuant to this Agreement and the U.S. Underwriters pursuant to the U.S. Purchase Agreement, respectively, and, when issued and delivered by the Company pursuant to this Agreement and the U.S. Purchase Agreement, respectively, against payment of the consideration set forth herein and the U.S. Purchase Agreement, respectively, will be validly issued, fully paid and non-assessable. The Common Stock conforms to all statements relating thereto contained in the Prospectuses and such description conforms to the rights set forth in the instruments defining the same. No holder of the Securities will be subject to personal liability by reason of being such a holder. The issuance of the Securities is not subject to the preemptive or other similar rights of any security holder of the Company.

(x) Absence of Defaults and Conflicts. Neither the Company nor any of the Founding Companies or their respective subsidiaries is in violation of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company, any Founding Company or any of their respective subsidiaries is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments") except for such defaults that would not result in a Material Adverse Effect. The execution, delivery and performance of this Agreement, the U.S. Purchase Agreement, and the Acquisition Agreements and the consummation of the transactions contemplated in this Agreement, the U.S. Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described in the Prospectuses under the caption "Use of Proceeds") and compliance by the Company with its obligations under this Agreement, the U.S. Purchase Agreement and the Acquisition Agreements have been duly authorized by all necessary corporate action and do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, any Founding Company or any subsidiary pursuant to, the Agreements and Instruments (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not result in a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter or by-laws of the Company, any Founding Company or any subsidiary thereof or any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company, any Founding Company or any subsidiary thereof or any of their assets, properties or operations. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note,

debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company, any Founding Company or any subsidiary thereof.

(xi) Absence of Labor Dispute. No labor dispute with the employees of the Company, any Founding Company or any subsidiary thereof exists or, to the knowledge of the Company, is imminent, and neither the Company nor any Founding Company is aware of any existing or imminent labor disturbance by the employees of any of its or any subsidiary's principal suppliers, manufacturers, customers or contractors, which, in either case, may reasonably be expected to result in a Material Adverse Effect.

(xii) Absence of Proceedings. There is no action, suit, proceeding, inquiry or investigation before or brought by any court or governmental agency or body, domestic or foreign, now pending, or, to the knowledge of the Company, threatened, against or affecting the Company, any Founding Company or any subsidiary thereof, which is required to be disclosed in the Registration Statement (other than as disclosed therein), or which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in this Agreement, the U.S. Purchase Agreement or the Acquisition Agreements or the performance by the Company of its obligations hereunder or thereunder; the aggregate of all pending legal or governmental proceedings to which the Company, any Founding Company or any subsidiary thereof is a party or of which any of their respective property or assets is the subject which are not described in the Registration Statement, including ordinary routine litigation incidental to the business, could not reasonably be expected to result in a Material Adverse Effect.

(xiii) Accuracy of Exhibits. There are no contracts or documents which are required to be described in the Registration Statement or the Prospectuses or to be filed as exhibits thereto which have not been so described and filed as required.

(xiv) Possession of Intellectual Property. The Company, the Founding Companies and their subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them, and neither the Company, any Founding Company nor any of its subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company, such Founding Company or any of its subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would result in a Material Adverse Effect.

(xv) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency is necessary or required for the performance by the Company of its obligations hereunder, in connection with the offering, issuance or sale of the Securities under this Agreement and the U.S. Purchase Agreement or the consummation of the transactions contemplated by this Agreement, the U.S. Purchase Agreement or the Acquisition Agreements, except such as have been already obtained or as may be required under the 1933 Act or the 1933 Act Regulations and foreign or state securities or blue sky laws.



(xvi) Possession of Licenses and Permits. The Company, each Founding Company and their subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them. The Company, each Founding Company and their subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, have a Material Adverse Effect. All of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not have a Material Adverse Effect. Neither the Company nor any Founding Company or their subsidiaries has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Material Adverse Effect.

(xvii) Title to Property. The Company, each Founding Company and their subsidiaries have good and marketable title to all real property owned by them and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (a) are described in the Prospectuses or (b) do not, singly or in the aggregate, materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company, the Founding Companies or any of their subsidiaries. All of the leases and subleases material to the business of the Company, the Founding Companies or any of their subsidiaries, considered as one enterprise, and under which the Company, the Founding Company or any of their subsidiaries holds properties described in the Prospectuses, are in full force and effect, and neither the Company nor any Founding Company or any of their subsidiaries has any notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company, such Founding Company or any subsidiary under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company, such Founding Company or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease.

(xviii) Compliance with Cuba Act. The Company has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder (collectively, the "Cuba Act") or is exempt therefrom.

(xix) Investment Company Act. The Company is not, and upon the issuance and sale of the Securities as herein contemplated, the application of the net proceeds therefrom as described in the Prospectuses or consummation of the Combination will not be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(xx) Environmental Laws. Except as described in the Registration Statement and except as would not, singly or in the aggregate, result in a Material Adverse Effect, (A) neither the Company, any Founding Company or any subsidiary thereof is in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or

administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company, the Founding Companies and their subsidiaries have all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company, any Founding Company or any of their subsidiaries and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company, any Founding Company or any of their subsidiaries relating to Hazardous Materials or any Environmental Laws.

(xxi) Registration Rights. There are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xxii) Tax Returns. The Company, each Founding Company and each subsidiary have filed all Federal, state, local and foreign income tax returns which have been required to be filed and have paid all taxes indicated by said returns and all assessments received by it or any of them to the extent that such taxes have become due and are not being contested in good faith, except for the filing of those returns, and the paying of those taxes, the failure to file or pay, respectively, individually or in the aggregate, would not have a Material Adverse Effect. All tax liabilities have been adequately provided for in the financial statements of the Company or the applicable Founding Company.

(xxiii) Insurance. The Company and the Founding Companies and their subsidiaries carry, or are covered by, insurance in such amounts and covering such risks as is reasonably adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies in the Company's industry.

(xxiv) ERISA. The Company and the Founding Companies and their subsidiaries are in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA").

(xxv) Related Party Transactions. No relationship, direct or indirect, exists between or among the Company or any Founding Company or subsidiary, on the one hand, and the directors, officers, shareholders, customers or suppliers of the Company, such Founding Company or its subsidiaries on the other hand, which is required to be described in the Prospectuses which is not so described.

(xxvi) Reserved Shares. Each of the persons identified by the Company to the Underwriters to receive Reserved Shares is a citizen of the United States and currently is a resident of one of the United States.

(xxvii) Consummation of Combination. As of the date of this Agreement, all conditions to consummation of the transactions contemplated by each Acquisition Agreement have been satisfied, with the exception of the Closing of the sale of the Securities pursuant to this Agreement and the U.S. Purchase Agreement. There have been no amendments or supplements to any of the Acquisition Agreements since the original execution thereof on October 21, 1997. The Company has notified the Underwriters of any waiver of any conditions to consummation of such Acquisition Agreements. The Closing (as defined in the Acquisition Agreements) with respect to each Acquisition Agreement has occurred. At or prior to the Closing Time, the transactions contemplated by each Acquisition Agreement will be consummated, with the result that each Founding Company will become a wholly-owned direct or indirect subsidiary of the Company as described in the Prospectuses.

(b) Officer's Certificates. Any certificate signed by any officer of the Company or any of its subsidiaries delivered to the Global Coordinator, the Lead Managers or to counsel for the International Managers shall be deemed a representation and warranty by the Company to each International Manager as to the matters covered thereby.

## SECTION 2. Sale and Delivery to International Managers; Closing.

(a) Initial Securities. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each International Manager, severally and not jointly, and each International Manager, severally and not jointly, agrees to purchase from the Company, at the price per share set forth in Schedule B, the number of Initial International Securities set forth in Schedule A opposite the name of such International Manager, plus any additional number of Initial International Securities which such International Manager may become obligated to purchase pursuant to the provisions of Section 10 hereof.

(b) Option Securities. In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the International Managers, severally and not jointly, to purchase up to an additional 210,000 shares of Common Stock at the price per share set forth in Schedule B, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial International Securities but not payable on the International Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial International Securities upon notice by the Global Coordinator to the Company setting forth the number of International Option Securities as to which the several International Managers are then exercising the option and the time and date of payment and delivery for such International Option Securities. Any such time and date of delivery for the International Option Securities (a "Date of Delivery") shall be determined by the Global Coordinator, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the International Option Securities, each of the International Managers, acting severally and not jointly, will purchase that proportion of the total number of International Option Securities then being purchased which the number of Initial International Securities set forth in Schedule A opposite the name of such International Manager bears to the total number

of Initial International Securities, subject in each case to such adjustments as the Global Coordinator in its discretion shall make to eliminate any sales or purchases of fractional shares.

(c) Payment. Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Vinson & Elkins L.L.P., 1001 Fannin, Houston, Texas, or at such other place as shall be agreed upon by the Global Coordinator and the Company, at 9:00 A.M. (Eastern time) on the third (fourth, if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Global Coordinator and the Company (such time and date of payment and delivery being herein called "Closing Time").

In addition, in the event that any or all of the International Option Securities are purchased by the International Managers, payment of the purchase price for, and delivery of certificates for, such International Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Global Coordinator and the Company, on each Date of Delivery as specified in the notice from the Global Coordinator to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Lead Managers for the respective accounts of the International Managers of certificates for the International Securities to be purchased by them. It is understood that each International Manager has authorized the Lead Managers, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial International Securities and the International Option Securities, if any, which it has agreed to purchase. Merrill Lynch, individually and not as representative of the International Managers, may (but shall not be obligated to) make payment of the purchase price for the Initial International Securities or the International Option Securities, if any, to be purchased by any International Manager whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such International Manager from its obligations hereunder.

(d) Denominations; Registration. Certificates for the Initial International Securities and the International Option Securities, if any, shall be in such denominations and registered in such names as the Lead Managers may request in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be. The certificates for the Initial International Securities and the International Option Securities, if any, will be made available for examination and packaging by the Lead Managers in The City of New York not later than 10:00 A.M. (Eastern time) on the business day prior to the Closing Time or the relevant Date of Delivery, as the case may be.

SECTION 3. Covenants of the Company. The Company covenants with each International Manager as follows:

(a) Compliance with Securities Regulations and Commission Requests. The Company, subject to Section 3(b), will comply with the requirements of Rule 430A or Rule 434, as applicable, and will notify the Global Coordinator immediately, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective, or any supplement to the Prospectuses or any amended Prospectuses shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectuses or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use

of any preliminary prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes. The Company will promptly effect the filings necessary pursuant to Rule 424(b) and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(b) Filing of Amendments. The Company will give the Global Coordinator notice of its intention to file or prepare any amendment to the Registration Statement (including any filing under Rule 462(b)), any Term Sheet or any amendment, supplement or revision to either the prospectus included in the Registration Statement at the time it became effective or to the Prospectuses, will furnish the Global Coordinator with copies of any such documents a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file or use any such document to which the Global Coordinator or counsel for the International Managers shall object.

(c) Delivery of Registration Statements. The Company has furnished or will deliver to the Lead Managers and counsel for the International Managers, without charge, signed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein) and signed copies of all consents and certificates of experts, and will also deliver to the Lead Managers, without charge, a conformed copy of the Registration Statement as originally filed and of each amendment thereto (without exhibits) for each of the International Managers. The copies of the Registration Statement and each amendment thereto furnished to the International Managers will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) Delivery of Prospectuses. The Company has delivered to each International Manager, without charge, as many copies of each preliminary prospectus as such International Manager reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each International Manager, without charge, during the period when the International Prospectus is required to be delivered under the 1933 Act or the Securities Exchange Act of 1934 (the "1934 Act"), such number of copies of the International Prospectus (as amended or supplemented) as such International Manager may reasonably request. The International Prospectus and any amendments or supplements thereto furnished to the International Managers will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) Continued Compliance with Securities Laws. The Company will comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement, the U.S. Purchase Agreement and in the Prospectuses. If at any time when a prospectus is required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the International Managers or for the Company, to amend the Registration Statement or amend or supplement any Prospectus in order that the Prospectuses will not include any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, or if it shall be necessary, in the opinion of such counsel, at any such time to amend the Registration Statement or amend or supplement any Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will

promptly prepare and file with the Commission, subject to Section 3(b), such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement or the Prospectuses comply with such requirements, and the Company will furnish to the International Managers such number of copies of such amendment or supplement as the International Managers may reasonably request.

(f) Blue Sky Qualifications. The Company will use its best efforts, in cooperation with the International Managers, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Global Coordinator may designate and to maintain such qualifications in effect for a period of not less than one year from the later of the effective date of the Registration Statement and any Rule 462(b) Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject. In each jurisdiction in which the Securities have been so qualified, the Company will file such statements and reports as may be required by the laws of such jurisdiction to continue such qualification in effect for a period of not less than one year from the effective date of the Registration Statement and any Rule 462(b) Registration Statement.

(g) Rule 158. The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its security holders as soon as practicable an earnings statement for the purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(h) Use of Proceeds. The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the Prospectuses under "Use of Proceeds".

(i) Listing. The Company will use its best efforts to effect the listing of the Securities Common Stock (including the Securities) on the New York Stock Exchange.

(j) Restriction on Sale of Securities. During a period of 180 days from the date of the Prospectuses, the Company will not, without the prior written consent of the Global Coordinator, (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 to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 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. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder or under the U.S. Purchase Agreement or in connection with the Combination as described in the Prospectuses, (B) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to employee benefit plans of the Company referred to in the Prospectuses or (C) shares of Common Stock issued in connection with acquisitions by the Company of other businesses, provided that, (except with respect to shares issued in transactions in which the issuance or resale of such shares will not be registered under the 1933 Act) the recipients of such shares agree in writing for the benefit of the International Managers not to take any action described in clauses (i) or (ii) above with respect to such shares until the expiration of 180 days from the date of the Prospectuses.

(k) Reporting Requirements. The Company, during the period when the Prospectuses are required to be delivered under the 1933 Act or the 1934 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the rules and regulations of the Commission thereunder.

(l) Compliance with NASD Rules. The Company hereby agrees that it will ensure that the Reserved Securities will be restricted as required by the National Association of Securities Dealers, Inc. (the "NASD") or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of this Agreement. The Underwriters will notify the Company as to which persons will need to be so restricted. At the request of the Underwriters, the Company will direct the transfer agent to place a stop transfer restriction upon such securities for such period of time. Should the Company release, or seek to release, from such restrictions any of the Reserved Securities, the Company agrees to reimburse the Underwriters for any reasonable expenses (including, without limitation, legal expenses) they incur in connection with such release.

(m) Compliance with Rule 463. The Company will file with the Commission such reports on Form SR as may be required pursuant to Rule 463 of the 1933 Act Regulations.

#### SECTION 4. Payment of Expenses.

(a) Expenses. The Company will pay all expenses incident to the performance of its obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the preparation, printing and delivery to the Underwriters of this Agreement, any Agreement among Underwriters and such other documents as may be required in connection with the offering, purchase, sale, issuance or delivery of the Securities, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters and the transfer of the Securities between the U.S. Underwriters and the International Managers, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(f) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) the printing and delivery to the Underwriters of copies of each preliminary prospectus, any Term Sheets and of the Prospectuses and any amendments or supplements thereto, (vii) the preparation, printing and delivery to the Underwriters of copies of the Blue Sky Survey and any supplement thereto, (viii) the fees and expenses of any transfer agent or registrar for the Securities, (ix) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by the NASD of the terms of the sale of the Securities, (x) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange and (xi) all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters, in connection with matters related to the Reserved Securities which are designated by the Company for sale to employees and others.

(b) Termination of Agreement. If this Agreement is terminated by the Lead Managers in accordance with the provisions of Section 5 or Section 9(a)(i) hereof, the Company shall reimburse the International Managers for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the International Managers.

## SECTION 5. Conditions of International Managers' Obligations.

The obligations of the several International Managers hereunder are subject to the accuracy of the representations and warranties of the Company contained in Section 1 hereof or in certificates of any officer of the Company delivered pursuant to the provisions hereof, to the performance by the Company of its covenants and other obligations hereunder, and to the following further conditions:

(a) Effectiveness of Registration Statement. The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at the Closing Time no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act or proceedings therefor initiated or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the International Managers. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 424(b) (or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A) or, if the Company has elected to rely upon Rule 434, a Term Sheet shall have been filed with the Commission in accordance with Rule 424(b).

(b) Opinions of Counsel for the Company and the Founding Companies. At Closing Time, the Lead Managers shall have received (i) the favorable opinion, dated as of Closing Time, of Andrews & Kurth L.L.P., counsel for the Company, in form and substance satisfactory to counsel for the International Managers, together with signed or reproduced copies of such letter for each of the other International Managers to the effect set forth in Exhibit A-1 hereto and to such further effect as counsel to the International Managers may reasonably request and (ii) the favorable opinion, dated as of Closing Time, of counsel for each Founding Company reasonably acceptable to the International Managers, in form and substance reasonably satisfactory to counsel for the International Managers, together with signed or reproduced copies of such letter for each of the other International Managers, to the effect set forth in Exhibit A-2 hereto and to such further effect as counsel to the International Managers may reasonably request.

(c) Opinion of Counsel for International Managers. At Closing Time, the Lead Managers shall have received the favorable opinion, dated as of Closing Time, of Vinson & Elkins L.L.P., counsel for the International Managers, together with signed or reproduced copies of such letter for each of the other International Managers with respect to the matters set forth in clauses (i), (ii), (v), (vi) (solely as to preemptive or other similar rights arising by operation of law or under the charter or by-laws of the Company), (ix) through (xi), inclusive, (xii), (xiv) (solely as to the information in the Prospectus under "Description of Capital Stock -- Common Stock") and the penultimate paragraph of Exhibit A hereto. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of New York, the federal law of the United States and the General Corporation Law of the State of Delaware, upon the opinions of counsel satisfactory to the Lead Managers. Such counsel may also state that, insofar as such opinion involves factual matters, they have relied, to the extent they deem proper, upon certificates of officers of the Company and its subsidiaries and certificates of public officials.

(d) Officers' Certificate. At Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Prospectuses, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, the Founding Companies or their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Lead Managers shall have received a certificate of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company, dated as of Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations



and warranties in Section 1(a) hereof are true and correct with the same force and effect as though expressly made at and as of Closing Time, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or are contemplated by the Commission.

(e) Accountant's Comfort Letter. At the time of the execution of this Agreement, the Lead Managers shall have received from Arthur Andersen LLP a letter dated such date, in form and substance satisfactory to the Lead Managers, together with signed or reproduced copies of such letter for each of the other International Managers containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectuses.

(f) Bring-down Comfort Letter. At Closing Time, the Lead Managers shall have received from Arthur Andersen LLP a letter, dated as of Closing Time, to the effect that they reaffirm the statements made in the letter furnished pursuant to subsection (e) of this Section, except that the specified date referred to shall be a date not more than three business days prior to Closing Time.

(g) Approval of Listing. At Closing Time, the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance.

(h) No Objection. The NASD has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(i) Lock-up Agreements. At the date of this Agreement, the Lead Managers shall have received an agreement substantially in the form of Exhibit B hereto signed by the persons listed on Schedule C hereto.

(j) Combination Completed. The transactions contemplated by each Acquisition Agreement shall have been consummated, with the result that each Founding Company is a wholly-owned direct or indirect subsidiary of the Company as described in the Prospectuses.

(k) Purchase of Initial U.S. Securities. Contemporaneously with the purchase by the International Managers of the Initial International Securities under this Agreement, the U.S. Underwriters shall have purchased the Initial U.S. Securities under the U.S. Purchase Agreement.

(l) Conditions to Purchase of International Option Securities. In the event that the International Managers exercise their option provided in Section 2(b) hereof to purchase all or any portion of the International Option Securities, the representations and warranties of the Company contained herein and the statements in any certificates furnished by the Company or any subsidiary of the Company hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Lead Managers shall have received:

(i) Officers' Certificate. A certificate, dated such Date of Delivery, of the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company confirming that the certificate delivered at the Closing Time pursuant to Section 5(d) hereof remains true and correct as of such Date of Delivery.

(ii) Opinion of Counsel for Company. The favorable opinion of Andrews & Kurth L.L.P., counsel for the Company, in form and substance satisfactory to counsel for the International Managers, dated such Date of Delivery, relating to the International Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinions required by Sections 5(b)(i) and (ii) hereof.

(iii) Opinion of Counsel for International Managers. The favorable opinion of Vinson & Elkins L.L.P., counsel for the International Managers, dated such Date of Delivery, relating to the International Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(iv) Bring-down Comfort Letter. A letter from Arthur Andersen LLP, in form and substance satisfactory to the Lead Managers and dated such Date of Delivery, substantially in the same form and substance as the letter furnished to the Lead Managers pursuant to Section 5(f) hereof, except that the "specified date" in the letter furnished pursuant to this paragraph shall be a date not more than five days prior to such Date of Delivery.

(m) Additional Documents. At Closing Time and at each Date of Delivery counsel for the International Managers shall have been furnished with such documents and opinions as they may require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Securities as herein contemplated shall be satisfactory in form and substance to the Lead Managers and counsel for the International Managers.

(n) Termination of Agreement. If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of International Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several International Managers to purchase the relevant Option Securities may be terminated by the Lead Managers by notice to the Company at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7 and 8 shall survive any such termination and remain in full force and effect.

#### SECTION 6. Indemnification.

(a) Indemnification of International Managers. The Company agrees to indemnify and hold harmless each International Manager and each person, if any, who controls any International Manager within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectuses (or any amendment or supplement thereto), or the omission or alleged

omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 6(d) below) any such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Merrill Lynch), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by any International Manager through the Lead Managers expressly for use in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary prospectus or the International Prospectus (or any amendment or supplement thereto).

(b) Indemnification of Company, Directors and Officers. Each International Manager severally agrees to indemnify and hold harmless the Company, its directors, each of its officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information and the Rule 434 Information, if applicable, or any preliminary international prospectus or the International Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such International Manager through the Lead Managers expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the International Prospectus (or any amendment or supplement thereto).

(c) Actions against Parties; Notification. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a) above, counsel to the indemnified parties shall be selected by Merrill Lynch, and, in the case of parties indemnified pursuant to Section 6(b) above, counsel to the indemnified parties shall be selected by the Company. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one

counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) Settlement without Consent if Failure to Reimburse. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(e) Indemnification for Reserved Securities. In connection with the offer and sale of the Reserved Securities, the Company agrees, promptly upon a request in writing, to indemnify and hold harmless the Underwriters from and against any and all losses, liabilities, claims, damages and expenses incurred by them as a result of the failure of any person or entity to whom Reserved Securities are offered to pay for and accept delivery of Reserved Securities which, by the end of the first business day following the date of this Agreement, were subject to a properly confirmed agreement to purchase.

SECTION 7. Contribution. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the International Managers on the other hand from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the International Managers on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company on the one hand and the International Managers on the other hand in connection with the offering of the International Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the International Securities pursuant to this Agreement (before deducting expenses) received by the Company and the total underwriting discount received by the International Managers, in each case as set forth on the cover of the International Prospectus, or, if Rule 434 is used, the corresponding location on the Term Sheet, bear to the aggregate initial public offering price of the International Securities as set forth on such cover.

The relative fault of the Company on the one hand and the International Managers on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the International Managers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the International Managers agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the International Managers were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no International Manager shall be required to contribute any amount in excess of the amount by which the total price at which the International Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such International Managers has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls an International Managers within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such International Manager, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company. The International Managers' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial International Securities set forth opposite their respective names in Schedule A hereto and not joint.

SECTION 8. Representations, Warranties and Agreements to Survive Delivery. All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company or any of its subsidiaries submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any International Manager or controlling person, or by or on behalf of the Company, and shall survive delivery of the Securities to the International Managers.

SECTION 9. Termination of Agreement.

(a) Termination; General. The Lead Managers may terminate this Agreement, by notice to the Company, at any time at or prior to Closing Time (i) if there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the International Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company, the Founding Companies and their subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) if there has occurred any material adverse

change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Lead Managers, impracticable to market the Securities or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or the New York Stock Exchange, or if trading generally on the American Stock Exchange or the New York Stock Exchange or in the Nasdaq National Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of Securities Dealers, Inc. or any other governmental authority, or (iv) if a banking moratorium has been declared by either Federal or New York authorities.

(b) Liabilities. If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7 and 8 shall survive such termination and remain in full force and effect.

SECTION 10. Default by One or More of the International Managers. If one or more of the International Managers shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Lead Managers shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting International Managers, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Lead Managers shall not have completed such arrangements within such 24-hour period, then:

(a) if the number of Defaulted Securities does not exceed 10% of the number of International Securities to be purchased on such date, each of the non-defaulting International Managers shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting International Managers, or

(b) if the number of Defaulted Securities exceeds 10% of the number of International Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after the Closing Time, the obligation of the International Managers to purchase and of the Company to sell the Option Securities to be purchased and sold on such Date of Delivery shall terminate without liability on the part of any non-defaulting International Manager.

No action taken pursuant to this Section shall relieve any defaulting International Manager from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which is after the Closing Time, which does not result in a termination of the obligation of the International Managers to purchase and the Company to sell the relevant International Option Securities, as the case may be, either the Lead Managers or the Company shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "International Manager" includes any person substituted for an International Manager under this Section 10.

SECTION 11. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the International Managers shall be directed to the Lead Managers at North Tower, World Financial Center, New York, New York 10281-1201 attention of \*; and notices to the Company shall be directed to it at \*, attention of \*.

SECTION 12. Parties. This Agreement shall each inure to the benefit of and be binding upon the International Managers and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the International Managers and the Company and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the International Managers and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any International Manager shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. SPECIFIED TIMES OF DAY IN THIS AGREEMENT REFER TO NEW YORK CITY TIME.

SECTION 14. Effect of Headings. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the International Managers and the Company in accordance with its terms.

Very truly yours,

INTEGRATED ELECTRICAL SERVICES, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CONFIRMED AND ACCEPTED,  
as of the date first above written:

MERRILL LYNCH INTERNATIONAL  
DONALDSON, LUFKIN & JENRETTE INTERNATIONAL  
EQUITABLE SECURITIES CORPORATION  
SANDERS MORRIS MUNDY INC.

By: MERRILL LYNCH INTERNATIONAL

By: \_\_\_\_\_  
Authorized Signatory

For themselves and as Lead Managers of the  
other International Managers named in Schedule A hereto.



SCHEDULE A

Name of International Manager	Number of Initial International Securities
-----	-----
Merrill Lynch International . . . . .	
Donaldson, Lufkin & Jenrette International . . . . .	
Equitable Securities Corporation . . . . .	
Sanders Morris Mundy Inc. . . . .	
	-----
Total . . . . .	1,400,000 =====

## SCHEDULE B

## INTEGRATED ELECTRICAL SERVICES, INC.

1,400,000 Shares of Common Stock  
(Par Value \$.01 Per Share)

1. The initial public offering price per share for the Securities, determined as provided in said Section 2, shall be \$\*.

2. The purchase price per share for the International Securities to be paid by the several International Managers shall be \$\*, being an amount equal to the initial public offering price set forth above less \$\* per share; provided that the purchase price per share for any International Option Securities purchased upon the exercise of the over-allotment option described in Section 2(b) shall be reduced by an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial International Securities but not payable on the International Option Securities.

## SCHEDULE C

## Persons Subject to Lock-Up

C. Byron Snyder  
Jon Pollock  
Jim P. Wise  
Jerry Mills  
Ben L. Mueller  
John S. Stanfield  
D. Merrill Cummings  
J. Paul Withrow  
Richard Muth  
Robert Stalvey  
Bob Weik  
[Others named in prospectus as officer or director]

Sch C - 1

## SCHEDULE D

## Founding Companies

Houston-Stafford Electric, Inc.

Stark Investments, Inc.

Mills Electrical Contractors, Inc. (including all equity interests in Forth Worth Regional Electrical Services, L.L.C.)

BW Consolidated, Inc. (including all equity interests in Bexar Electric Company, Ltd. and Calhoun Electric Company, Ltd.)

Pollock Electric, Inc.

Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast Inc.

Muth Electric, Inc.

Amber Electric, Inc.

Summit Electric of Texas, Inc.

Charles P. Bagby Company, Inc. and General Partner, Inc. (including all equity interests in Haymaker Electric, Ltd.)

Thurman & O'Connell Corp.

Hatfield Electric, Inc.

Ace Electric, Inc.

Reynolds Electric Corp.

Thomas Popp & Co., Inc.

Rodgers Electric Co., Inc.

FORM OF OPINION OF COMPANY'S COUNSEL  
TO BE DELIVERED PURSUANT TO  
SECTION 5(b)(i)

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware.

(ii) The Company has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and to enter into and perform its obligations under the U.S. Purchase Agreement and the International Purchase Agreement.

(iii) The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(iv) As of the Closing Time, the Company had authorized capital stock consisting of 100,000,000 shares of Common Stock, par value \$.01 per share, and 10,000,000 shares of Preferred Stock, par value \$.01 per share (the "Preferred Stock"). Prior to the closing of the transactions contemplated by each of the Acquisition Agreements and the issuance of shares of Common Stock as contemplated thereby and by the U.S. Purchase Agreement and the International Purchase Agreement, the Company had issued and outstanding 4,052,311 shares of Common Stock and no shares of Preferred Stock; upon consummation of the Combination and the issuance of 12,313,026 shares of Common Stock as contemplated by the Acquisition Agreements, (which, together with the 4,052,311 shares of Common Stock issued prior to the Combination, are all the shares of Common Stock issued or to be issued prior to the issuance and sale of the Securities), but without giving effect to the issuance of the Securities pursuant to the terms of the U.S. Purchase Agreement and the International Purchase Agreement, the Company will have issued and outstanding 16,365,337 shares of Common Stock and no shares of Preferred Stock. All of such shares of Common Stock have been duly authorized and, when issued and delivered to the purchasers thereof against payment therefor as provided in the Acquisition Agreements, will be validly issued, fully paid and nonassessable. None of the outstanding shares of capital stock of the Company was issued in violation of the preemptive or other similar rights of any security holder of the Company. Except as described in the Prospectuses, to our knowledge there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments to issue any shares of, capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company.

(v) The Securities to be purchased by the U.S. Underwriters and the International Managers from the Company have been duly authorized for issuance and sale to the Underwriters pursuant to the U.S. Purchase Agreement and the International Purchase Agreement, respectively, and, when issued and delivered by the Company pursuant to the U.S. Purchase Agreement and the International Purchase Agreement, respectively, against payment of the consideration set forth in the U.S. Purchase Agreement and the

International Purchase Agreement, will be validly issued and fully paid and non-assessable and no holder of the Securities is or will be subject to personal liability by reason of being such a holder.

(vi) The issuance of the Securities is not subject to the preemptive or other similar rights of any security holder of the Company.

(vii) Each Acquisition Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes the valid and binding obligation of each of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally, or as may be modified by a court of equity.

(viii) The transactions contemplated by each Acquisition Agreement have been consummated as described in the Prospectuses. As a result of the Combination, all of the issued and outstanding capital stock or other equity interest of each Founding Company and their subsidiaries is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim, shareholders agreement, or voting trust, and no options, warrants or other rights to purchase, agreements, or other obligations to issue or other rights to convert any other obligations into shares of capital stock or ownership interests in any Founding Company or any subsidiary thereof are outstanding.

(ix) The U.S. Purchase Agreement and the International Purchase Agreement have been duly authorized, executed and delivered by the Company.

(x) The Registration Statement, including any Rule 462(b) Registration Statement, has been declared effective under the 1933 Act; any required filing of the Prospectuses pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or threatened by the Commission.

(xi) The Registration Statement including any Rule 462(b) Registration Statement and the Rule 430A Information, as applicable, the Prospectuses and each amendment or supplement to the Registration Statement and the Prospectuses as of their respective effective or issue dates (other than the financial statements and supporting schedules included therein or omitted therefrom, as to which we need express no opinion) complied as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations.

(xii) The form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the charter and by-laws of the Company and the requirements of the New York Stock Exchange.

(xiii) To the best of our knowledge, there is not pending or threatened any action, suit, proceeding, inquiry or investigation, to which the Company or any Founding Company is a party, or to which the property of the Company or any Founding Company is subject, before or brought by any court or governmental agency or body, domestic or foreign, which might reasonably be expected to result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the properties or assets thereof or the consummation of the transactions contemplated in the U.S. Purchase

Agreement, the International Purchase Agreement or the Acquisition Agreements or the performance by the Company of its obligations thereunder.

(xiv) The information in the Prospectuses under the headings "Management -- Employment Agreements," "--1997 Stock Plan," "--1997 Directors Stock Plan;" "Certain Transactions;" "Description of Capital Stock," "Certain United States Tax Considerations for Non-United States Holders" and "Shares Eligible For Future Sale," and in the Registration Statement under Item 14, to the extent that it constitutes matters of law, summaries of legal matters, the Company's charter and bylaws or legal conclusions, has been reviewed by us and is correct in all material respects.

(xv) To the best of our knowledge, there are no statutes or regulations that are required to be described in the Prospectuses that are not described as required.

(xvi) All descriptions in the Prospectuses of contracts and other documents to which the Company or any Founding Company is a party are accurate in all material respects; to the best of our knowledge, there are no franchises, contracts, indentures, mortgages, loan agreements, notes, leases or other instruments required to be described or referred to in the Registration Statement or to be filed as exhibits thereto other than those described or referred to therein or filed or incorporated by reference as exhibits thereto, and the descriptions thereof or references thereto are correct in all material respects.

(xvii) The Company is not in violation of its charter, by-laws or other governing documents and, to our best knowledge, no default by the Company exists in the due performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument that is described or referred to in the Registration Statement or the Prospectuses or filed or incorporated by reference as an exhibit to the Registration Statement.

(xviii) No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any court or governmental authority or agency, domestic or foreign (other than under the 1933 Act and the 1933 Act Regulations, which have been obtained, or as may be required under the securities or blue sky laws of the various states, as to which we express no opinion) is necessary or required in connection with the due authorization, execution and delivery of the U.S. Purchase Agreement and the International Purchase Agreement or for the offering, issuance, sale or delivery of the Securities.

(xix) No registration under the Act and no filing with, consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the issuance of the Company Common Stock to the stockholders of each Founding Company pursuant to the Acquisition Agreements or the consummation of the other transactions contemplated by the Acquisition Agreements, except such filings, consents, approvals, authorizations, registrations or qualifications as have been obtained or made.

(xx) The execution, delivery and performance of the U.S. Purchase Agreement and the International Purchase Agreement and the consummation of the transactions contemplated in the U.S. Purchase Agreement, the International Purchase Agreement and in the Registration Statement (including the issuance and sale of the Securities, and the use of the proceeds from the sale of the Securities as described in the Prospectuses under the caption "Use Of Proceeds") and compliance by the Company with its obligations under the U.S. Purchase Agreement and the International Purchase Agreement do not and will

not, whether with or without the giving of notice or lapse of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined in Section 1(a)(x) of the Purchase Agreements) under or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any Founding Company pursuant to any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or any other agreement or instrument, known to us, to which the Company or any Founding Company is a party or by which it or any of them may be bound, or to which any of the property or assets of the Company or any Founding Company is subject (except for such conflicts, breaches or defaults or liens, charges or encumbrances that would not have a Material Adverse Effect), nor will such action result in any violation of the provisions of the charter, by-laws or other governing documents of the Company or any Founding Company, or any applicable law, statute, rule, regulation, judgment, order, writ or decree, known to us, of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Company or any Founding Company or any of their respective properties, assets or operations.

(xxi) To the best of our knowledge, except as set forth in the Prospectuses, there are no persons with registration rights or other similar rights to have any securities registered pursuant to the Registration Statement or otherwise registered by the Company under the 1933 Act.

(xxii) The Company is not, and will not be after consummation of the Combination or application of the proceeds of the offering of the Securities as set forth in the Prospectuses, an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the 1940 Act.

Nothing has come to our attention that would lead us to believe that the Registration Statement or any amendment thereto, including the Rule 430A Information, (except for financial statements and schedules and other financial data included therein or omitted therefrom, as to which we make no statement), at the time such Registration Statement or any such amendment became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectuses or any amendment or supplement thereto (except for financial statements and schedules and other financial data included therein or omitted therefrom, as to which we make no statement), at the time the Prospectuses were issued, at the time any such amended or supplemented prospectus was issued or at the Closing Time, included or includes an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering opinions set forth above with respect to matters concerning the Founding Companies, such counsel may rely (A) as to matters involving the application of the laws of the jurisdiction of incorporation or organization of each Founding Company, upon the opinion of counsel to each Founding Company (which opinion shall be dated and furnished to the U.S. Representatives at the Closing Time, shall be satisfactory in form and substance to counsel for the U.S. Underwriters and shall expressly state that the U.S. Underwriters may rely on such opinion as if it were addressed to them), provided that such counsel shall state in their opinion that they believe that they and the U.S. Underwriters are justified in relying upon such opinion, and (B), as to matters of fact (but not as to legal conclusions), to the extent they deem proper, on certificates of responsible officers of the Company and public officials. Such opinion shall not state that it is to be governed or qualified by, or that it is otherwise subject to, any treatise, written policy or other document relating to legal opinions, including, without limitation, the Legal Opinion Accord of the ABA Section of Business Law (1991).



FORM OF OPINION OF COUNSEL OF EACH  
FOUNDING COMPANY  
TO BE DELIVERED PURSUANT TO SECTION 5(b)(ii)

(i) Such Founding Company or any subsidiary thereof that is a corporation has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect. None of the outstanding shares of capital stock of such Founding Company or any subsidiary thereof was issued in violation of the preemptive or similar rights of any security holder of such Founding Company or subsidiary. All of the issued and outstanding capital stock of such Founding Company or any subsidiary thereof has been duly authorized and validly issued, and is fully paid and non-assessable. Such Founding Company or subsidiary thereof that is a partnership or limited liability company has been duly formed and is validly existing in good standing under the laws of the jurisdiction of organization, has power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectuses and is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a Material Adverse Effect.

(ii) Each Acquisition Agreement has been duly and validly authorized by such Founding Company and its shareholders and constitutes the valid and binding obligation of such Founding Company and its shareholders enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency and other laws affecting creditors' rights generally, or as may be modified by a court of equity.

(iii) Neither such Founding Company nor any subsidiary is in violation of its charter, by-laws or other governing documents and, to the best of our knowledge, no default by such Founding Company or any of its subsidiaries exists in the due performance or observance of any material obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument that is described or referred to in the Registration Statement or the Prospectuses or filed or incorporated by reference as an exhibit to the Registration Statement.

In rendering opinions set forth above, such counsel may rely as to matters of fact (but not as to legal conclusions), to the extent they deem proper, on certificates of responsible officers of the Founding Company and public officials. Such opinion shall not state that it is to be governed or qualified by, or that it is otherwise subject to, any treatise, written policy or other document relating to legal opinions, including, without limitation, the Legal Opinion Accord of the ABA Section of Business Law (1991).

\*, 1997

MERRILL LYNCH INTERNATIONAL  
 Donaldson, Lufkin & Jenrette International  
 Equitable Securities Corporation  
 Sanders Morris Mundy Inc.  
 as Managers of the several International Managers  
 c/o Merrill Lynch International  
 Ropemaker Place  
 25 Ropemaker Street  
 London EC24 9L4  
 England

Re: Proposed Public Offering by Integrated Electrical Services, Inc.

Dear Sirs:

The undersigned, a stockholder and an officer and/or director of Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), understands that Merrill Lynch International ("Merrill Lynch"), Donaldson, Lufkin & Jenrette International, Equitable Securities Corporation, and Sanders Morris Mundy Inc. propose to enter into an International Purchase Agreement (the "International Purchase Agreement") with the Company providing for the public offering of shares (the "Securities") of the Company's common stock, par value \$.01 per share (the "Common Stock"). In recognition of the benefit that such an offering will confer upon the undersigned as a stockholder and an officer and/or director of the Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agrees with each underwriter to be named in the International Purchase Agreement that, during a period of 180 days from the date of the International Purchase Agreement, the undersigned will not, without the prior written consent of Merrill Lynch, directly or indirectly, (i) 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 dispose of or transfer any shares of the Company's Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition, or file any registration statement under the Securities Act of 1933, as amended, 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, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise.

Very truly yours,

Signature: \_\_\_\_\_  
 Print Name: \_\_\_\_\_

AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION OF  
INTEGRATED ELECTRICAL SERVICES, INC.

Integrated Electrical Services, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware ("DGCL"), hereby certifies as follows pursuant to Sections 242 and 245 of the DGCL:

1. The original Certificate of Incorporation of the Corporation was filed in the Office of the Secretary of State of the State of Delaware (the "Secretary of State") on June 26, 1997.

2. The director and the stockholders of the Corporation, in accordance with Sections 242 and 245 of the DGCL, adopted and approved this Amended and Restated Certificate of Incorporation (including the amendments to the Corporation's Certificate of Incorporation effected hereby).

3. Effective immediately upon the filing of this Amended and Restated Certificate of Incorporation in the office of the Secretary of State, each outstanding share of previously existing Common Stock, par value \$0.01 per share, shall be and hereby is converted into and reclassified as 2,329.6 shares of Common Stock, par value \$0.01 per share. Certificates representing reclassified shares are hereby canceled and upon presentation of the canceled certificates to the Corporation, the holders thereof shall be entitled to receive certificate(s) representing the new shares into which such canceled shares have been converted.

4. The Certificate of Incorporation of the Corporation is hereby amended and restated to read in its entirety as follows:

1. The name of the Corporation is Integrated Electrical Services, Inc.

2. The address of its registered office in the State of Delaware is 1209 Orange Street, Wilmington County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Laws of the State of Delaware.

4. The total number of shares of all classes of stock which the Corporation shall have authority to issue is one hundred twelve million, six hundred fifty-five thousand, seven hundred nine (112,655,709), consisting of ten million (10,000,000) shares of preferred stock par value \$.01 per share (hereinafter called "Preferred Stock"), and one hundred million (100,000,000) shares of common stock, par value \$.01 per share (hereinafter called "Common Stock") and two million, six

hundred fifty-five thousand, seven hundred nine (2,655,709) shares of restricted voting common stock, par value \$.01 per share (hereinafter called "Restricted Voting Common Stock").

(a) The Preferred Stock may be issued from time to time in one or more series and in such amounts as may be determined by the Board of Directors. The voting powers, designations, preferences and relative, participating, optional or other special rights, if any, and the qualifications, limitations, or restrictions thereof, if any, of the Preferred Stock of each series shall be such as are fixed by the Board of Directors, authority so to do being hereby expressly granted, and as are stated and expressed in a resolution or resolutions adopted by the Board of Directors providing for the issue of such series of Preferred Stock (herein called the "Directors' Resolution"). The Directors' Resolution as to any series shall (1) designate the series, (2) fix the dividend rate, if any, of such series, establish whether dividends shall be cumulative or non-cumulative, fix the payment dates for dividends on shares of such series and the date or dates, or the method of determining the date or dates, if any, from which dividends on shares of such series shall be cumulative, (3) fix the amount or amounts payable on shares of such series upon voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, and (4) state the price or prices or rate or rates, and adjustments, if any, at which, the time or times and the terms and conditions upon which, the shares of such series may be redeemed at the option of the Corporation or at the option of the holder or holders of shares of such series or upon the occurrence of a specified event, and state whether such shares may be redeemed for cash, property or rights, including securities of the Corporation or another entity; and such Directors' Resolutions may (i) limit the number of shares of such series that may be issued, (ii) provide for a sinking fund for the purchase or redemption of shares of such series and specify the terms and conditions governing the operations of any such fund, (iii) grant voting rights to the holders of shares of such series, (iv) impose conditions or restrictions upon the creation of indebtedness of the Corporation or upon the issuance of additional Preferred Stock or other capital stock ranking on a parity therewith, or prior thereto, with respect to dividends or distributions of assets upon liquidation, (v) impose conditions or restrictions upon the payment of dividends upon, or the making of other distributions to, or the acquisition of, shares ranking junior to the Preferred Stock or to any series thereof with respect to dividends or distributions of assets upon liquidation, (vi) state the time or times, the price or prices or the rate or rates of exchange and other terms, conditions and adjustments upon which shares of any such series may be made convertible into, or exchangeable for, at the option of the holder or the Corporation or upon the occurrence of a specified event, shares of any other class or classes or of any other series of Preferred Stock or any other class or classes of stock or other securities of the Corporation, and (vii) grant such other special rights and impose such qualifications, limitations or restrictions thereon as shall be fixed by the Board of Directors, to the extent not inconsistent with this Section 4 and to the full extent now or hereafter permitted by the laws of the State of Delaware.

Except as by law expressly provided, or except as may be provided in any Directors' Resolution, the Preferred Stock shall have no right or power to vote on any question or in any

proceeding or to be represented at, or to receive notice of, any meeting of stockholders of the Corporation.

Preferred Stock that is redeemed, purchased or retired by the Corporation shall, assume the status of authorized but unissued Preferred Stock and may thereafter, subject to the provisions of any Directors' Resolution providing for the issue of any particular series of Preferred Stock, be reissued in the same manner as authorized but unissued Preferred Stock.

(b) Subject to the preferred rights of the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the holders of the Common Stock shall be entitled to receive, as and when declared by the Board of Directors out of the funds of the Corporation legally available therefor, such dividends (payable in cash, stock or otherwise) as the Board of Directors may from time to time determine, payable to stockholders of record on such dates, not exceeding 60 days preceding the dividend payment dates, as shall be fixed for such purpose by the Board of Directors in advance of payment of each particular dividend. All dividends on Common Stock shall be paid pari passu with dividends on Restricted Voting Common Stock.

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after the distribution or payment to the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the remaining assets of the Corporation available for distribution to stockholders shall be distributed among and paid to the holders of Common Stock and Restricted Voting Common Stock ratably in proportion to the number of shares of Common Stock and Restricted Voting Common Stock held by them respectively.

Except as otherwise required by law, each holder of shares of Common Stock shall be entitled to one vote for each share of Common Stock standing in such holder's name of the books of the Corporation.

(c) Subject to the preferred rights of the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the holders of the Restricted Voting Common Stock shall be entitled to receive, as and when declared by the Board of Directors out of the funds of the Corporation legally available therefor, such dividends (payable in cash, stock or otherwise) as the Board of Directors may from time to time determine, payable to stockholders of record on such dates, not exceeding 60 days preceding the dividend payment dates, as shall be fixed for such purpose by the Board of Directors in advance of payment of each particular dividend. All dividends on Restricted Voting Common Stock shall be paid pari passu with dividends on Common Stock.

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntarily or involuntarily, after the distribution or payment to the holders of shares of any class or series of Preferred Stock as provided by the Board of Directors with respect to any such class or series of Preferred Stock, the remaining assets of the Corporation available for distribution to stockholders shall be distributed among and paid to the holders of Restricted Voting Common Stock and Common Stock ratably in proportion to the number of shares of Restricted Voting Common Stock and Common Stock held by them respectively.

Holders of Restricted Voting Common Stock voting as a class shall be entitled to elect one member of the Board of Directors, but shall not otherwise be entitled to vote in the election of directors of the Corporation. Subject to the foregoing, and except as otherwise required by law, each holder of shares of Restricted Voting Common Stock shall be entitled to one-half of one vote for each share of Restricted Voting Common Stock standing in such holder's name of the books of the Corporation.

Each share of the Restricted Voting Common Stock will automatically convert into Common Stock on a share-for-share basis (a) in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a disposition which is a distribution by a holder to its partners or beneficial owners or a transfer to a related party of such holder (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)), (b) in the event any person acquires beneficial ownership of 15% or more of the outstanding shares of Common Stock of the Corporation, or (c) in the event any person offers to acquire 15% or more of the outstanding shares of Common Stock of the Corporation.

After January 1, 2000, the Corporation may elect to convert any outstanding shares of Restricted Voting Common Stock into shares of Common Stock.

(d) The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable laws.

5. The Board of Directors is hereby authorized to create and issue, whether or not in connection with the issuance and sale of any of its stock or other securities, rights (the "Rights") entitling the holders thereof to purchase from the Corporation shares of capital stock or other securities. The times at which and the terms upon which the Rights are to be issued will be determined by the Board of Directors and set forth in the contracts or instruments that evidence the Rights. The authority of the Board of Directors with respect to the Rights shall include, but not be limited to, determination of the following:

(a) The initial purchase price per share of the capital stock or other securities of the Corporation to be purchased upon exercise of the Rights;

(b) Provisions relating to the times at which and the circumstances under which the Rights may be exercised or sold or otherwise transferred, either together with or separately from, any other securities of the Corporation;

(c) Provisions that adjust the number or exercise price of the Rights or amount or nature of the securities or other property receivable upon exercise of the Rights in the event of a combination, split or recapitalization of any capital stock of the Corporation, a change in ownership of the Corporation's securities or a reorganization, merger, consolidation, sale of assets or other occurrence relating to the Corporation or any capital stock of the Corporation, and provisions restricting the ability of the Corporation to enter into any such transaction absent an assumption by the other party or parties thereto of the obligations of the Corporation under such Rights;

(d) Provisions that deny the holder of a specified percentage of the outstanding securities of the Corporation the right to exercise the Rights and/or cause the Rights held by such holder to become void;

(e) Provisions that permit the Corporation to redeem the Rights; and

(f) The appointment of a Rights Agent with respect to the Rights;

and such other provisions relating to the Rights as may be determined by the Board of Directors.

6. No holder of stock of the Corporation shall be entitled as of right to purchase or subscribe for any part of any unissued stock of the Corporation or any additional stock to be issued whether or not by reason of any increase of the authorized capital stock of the Corporation, or any bonds, certificates of indebtedness, debentures or other securities convertible into stock or such additional authorized issuance of new stock, but rather such stock, bonds, certificates of indebtedness, debentures and other securities may be issued and disposed of pursuant to resolution of the Board of Directors to such persons, firms, corporations or associations, and upon such terms as may be deemed advisable by the Board of Directors in the exercise of their discretion.

7. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and for creating, defining, limiting and regulating the powers of the Corporation, the directors and the stockholders.

(a) Subject to any limitation contained in the bylaws, the Board of Directors may make bylaws, and from time to time may alter, amend or repeal any bylaws, but any bylaws made by the Board of Directors may be altered, amended or repealed by the stockholders at

any meeting of stockholders by the affirmative vote of the holders of at least 66 2/3% of the outstanding shares entitled to vote thereon, provided notice that an amendment is to be considered and acted upon is inserted in the notice of waiver of notice of such meeting.

(b) Any vote or votes authorizing liquidation of the Corporation or proceedings for its dissolution may provide, subject to (i) any agreements among and between stockholders, (ii) the rights of creditors and (iii) rights expressly provided for particular classes or series of stocks, for the distribution pro rata among the stockholders of the Corporation of the assets of the Corporation, wholly or in part in kind, whether such assets be in cash or other property, and may authorize the Board of Directors of the Corporation to determine the value of the different assets of the Corporation for the purpose of such liquidation and may divide, such assets or any part thereof among the stockholders of the Corporation in such manner that every stockholder will receive a proportionate amount in value (determined as aforesaid) of cash or property of the Corporation upon such liquidation or dissolution even though each stockholder may not receive a strictly proportionate part of each such asset.

(c) The Corporation shall, to the maximum extent permitted from time to time under the General Corporation Law of the State of Delaware, indemnify and upon request shall advance expenses to any person who is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to be a director or officer of the Corporation, or while a director or officer is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees and expenses), judgments, fines, penalties and amounts paid in settlement or incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to be a director or officer of the Corporation, or while a director or officer is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees and expenses), judgments, fines, penalties and amounts paid in settlement or incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding, claim or counterclaim initiated by or on behalf of such person. Such indemnification shall not be exclusive of other indemnification rights arising under any bylaw, agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any repeal or modification of the foregoing provisions of this Section 7(c) shall be prospective only, and shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such repeal or modification.



(d) A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended. Any repeal or modification of this Section by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

8. Subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specific circumstances:

(a) after March 1, 1998, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing of such stockholders;

(b) special meetings of the stockholders of the Corporation may be called only by the Chairman of the Board of Directors and shall be called within ten (10) days after receipt of the written request of the Board of Directors, pursuant to a resolution approved by a majority of the whole Board of Directors; and

(c) the business permitted to be conducted at any special meeting of the stockholders is limited to the business brought before the meeting by the Chairman or by the Secretary at the request of a majority of the Board of Directors.

9. The number of directors which shall constitute the whole board shall be such as from time to time shall be fixed by, or in the manner provided in, the bylaws, but in no case shall the number be less than two nor more than 15.

The directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes which classes shall consist of an equal, or as near to equal as possible, number of directors. As to the initial election, the director or directors of the first class shall be elected for a term expiring at the next annual meeting of stockholders to be held in 1998; the director or directors of the second class for a term expiring at the annual meeting to be held in 1999; and the director or directors of the third class for a term expiring at the annual meeting to be

held in 2000. At each annual meeting, commencing with the annual meeting in 1998, the successor or successors to the class of directors whose term shall expire in that year shall be elected to hold office or the term of three years, so that the term of office or one class of directors shall expire in each year. Any increase or decrease in the number of directors constituting the Board shall be apportioned among the classes so as to maintain the number of directors in each class as near as possible to one-third the whole number of directors as so adjusted. Any director elected or appointed to fill a vacancy shall hold office for the remaining term of the class to which such directorship is assigned. No decrease in the number of directors constituting the Corporation's Board of Directors shall shorten the term of any incumbent director. Any vacancy in the Board of Directors, whether arising through death, resignation or removal of a director, or through an increase in the number of directors of any class, shall be filled by the majority vote of the remaining directors, although less than a quorum, or by a sole remaining director. The bylaws may contain any provision regarding classification of the Corporation's directors not inconsistent with the terms hereof. The right to cumulate votes in the election of directors is expressly prohibited.

A director of the Corporation may be removed only for cause and only upon the affirmative vote of the holders of 66 2/3 percent of the outstanding capital stock of the Corporation entitled to vote at an election of directors, subject to further restrictions on removal, not inconsistent with this Section 9, as may be contained in the bylaws.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the Directors' Resolutions applicable thereto, and such directors so elected shall not be subject to the provisions of this Section 9 unless expressly provided by such terms.

Notwithstanding the foregoing, the holders of Restricted Voting Common Stock voting as a class shall be entitled to elect one member of the Board of Directors, and only the holders of the Restricted Voting Common Stock shall be entitled to remove such member from the Board of Directors.

10. Election of directors need not be by written ballot unless the bylaws of the Corporation shall so provide. Meetings of stockholders may be held within or without the State of Delaware, as the bylaws may provide. The books of the Corporation may be kept (subject to any provisions contained in the statutes of the State of Delaware) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or the bylaws of the Corporation.

11. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner set forth below, and all rights and conferred upon the directors or stockholders of the Corporation herein or in any amendment hereof are granted subject to this reservation.

The affirmative vote of the holders of at least 75% of the then outstanding shares entitled to vote thereon and the affirmative vote of the holders of at least 75% of the then outstanding shares of each class of stock of the Corporation voting separately as a class, shall be required to adopt any amendment to Sections 5, 7, 8, 9 and 11 of the Certificate of Incorporation of the Corporation.

The affirmative vote of the holders of at least a majority of the then outstanding shares entitled to vote thereon and the affirmative vote of the holders of at least a majority of the then outstanding shares of each class of stock of the Corporation voting separately as a class, shall be required to adopt any amendment to Sections 1, 2, 3, 4, 6 and 10 of the Certificate of Incorporation of the Corporation.

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed for and on behalf of the Corporation by its officers thereunto duly authorized as of October 23, 1997.

/s/ JIM P. WISE  
-----  
Jim P. Wise  
Chief Financial Officer

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

## ARTICLE I

## OFFICES

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

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

## ARTICLE II

## MEETINGS OF STOCKHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ARTICLE III

#### DIRECTORS

Number, Nomination, Removal

Section 1. The number of Directors shall be fixed from time to time by the Board of Directors, but shall not be less than 2 nor more than 15 persons. The Directors shall be elected at

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

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

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

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

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



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

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

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

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

#### Meetings of the Board of Directors

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

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

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

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

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

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

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

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

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

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

Executive Committee; Committees of Directors

Section 13. The Company shall have an Executive Committee of the Board of Directors and Company that shall consist of the following persons whether or not they are directors of the Company: the Chief Executive Officer, the President and the Chief Operating Officers. The Executive Committee will be responsible for, shall meet on a regular basis to consult and make decisions regarding, and shall have oversight authority of the daily operational management of the Company. The Executive Committee shall periodically report to the Board of Directors.

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

Any such committee, to the extent provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the

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

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

#### Compensation of Directors

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

### ARTICLE IV

#### NOTICES

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

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

### ARTICLE V

#### OFFICERS

Section 1. The officers of the Corporation shall be chosen by the Board of Directors and shall be the Chairman of the Board of Directors, a chief executive officer, a president, a vice president, a secretary and a treasurer. The Board of Directors may also appoint chief operating

officers, additional vice presidents and one or more assistant secretaries and assistant treasurers. Any number of offices may be held by the same person, unless the certificate of incorporation or these Bylaws otherwise provide.

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

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

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

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

#### The Chairman of the Board of Directors

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

#### The Chief Executive Officer

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

#### The President

Section 8. The president of the Corporation shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall have the authority to execute all documents and instruments necessary to carry out the management of the business of the Corporation. He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where

required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of this Corporation. He shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe. He shall report to the Board of Directors.

#### The Chief Operating Officers

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

#### The Vice Presidents

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

#### The Secretary and the Assistant Secretary

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

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

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

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

#### ARTICLE VI

##### CERTIFICATES OF STOCK

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

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

## Lost Certificates

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

## Transfers of Stock

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

## Fixing Record Date

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

## Registered Stock Holders

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

ARTICLE VII  
GENERAL PROVISIONS

Dividends

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

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

Checks

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

Fiscal Year

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

Seal

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

Interested Directors and Officers

Section 6.

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



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

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

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

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

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

#### ARTICLE VIII

##### AMENDMENTS

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

## ARTICLE IX

## INDEMNIFICATION AND INSURANCE

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

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

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

## DESCRIPTION OF SPECIMEN COMMON STOCK CERTIFICATE

[FRONT]

TEMPORARY CERTIFICATE EXCHANGEABLE FOR DEFINITIVE ENGRAVED  
CERTIFICATE WHEN READY FOR DELIVERYINCORPORATED UNDER THE LAWS OF  
THE STATE OF DELAWARECOMMON STOCK  
PAR VALUE \$.01NUMBER  
C

SHARES

THIS CERTIFICATE IS TRANSFERABLE  
EITHER IN CHICAGO, IL OR  
IN NEW YORK, NYCUSIP  
SEE REVERSE FOR CERTAIN  
DEFINITIONSINTEGRATED ELECTRICAL  
SERVICES, INC.

This certifies that

is the owner of

SHARES OF FULLY PAID AND NON-ASSESSABLE COMMON STOCK OF

Integrated Electrical Services, Inc. transferable on the books of the  
Corporation by the holder hereof in person or by duly authorized attorney, upon  
surrender of this certificate properly endorsed. This certificate is not valid  
until countersigned by the Transfer Agent and registered by the Registrar.

Witnesseth

CERTIFICATE OF STOCK

/s/ C. Byron Snyder  
Chairman of the Board

DATE

COUNTERSIGNED AND REGISTERED  
HARRIS TRUST AND SAVINGS BANK  
TRANSFER AGENT  
AND REGISTRAR,

/s/ C. Byron Snyder  
Secretary

BY

AUTHORIZED SIGNATURE

INTEGRATED ELECTRICAL SERVICES, INC.  
CORPORATE  
SEAL  
DELAWARE

[REVERSE]

INTEGRATED ELECTRICAL SERVICES, INC.

The Corporation will furnish to any stockholder, upon request and without charge, a statement of the powers, designations, and relative rights, preferences and limitations of each class of stock or series thereof of the Corporation, and the qualifications, limitations or restrictions of such preferences and/or rights. Such request may be made to the Corporation or the Transfer Agent.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common  
TEN ENT - as tenants by the entireties  
JT TEN - as joint tenants with rights of survivorship and not as tenants in common

UNIF GIFT MIN ACT - \_\_\_\_\_ (Cust)  
Custodian \_\_\_\_\_(Minor) under Uniform  
Gifts to Minors Act \_\_\_\_\_ (State)

Additional abbreviations may also be used though not in the above list.

For value received, \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ [PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE] [PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE] \_\_\_\_\_ shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney to transfer the said stock on the books of the within-named Company with full power of substitution in the premises. Dated, \_\_\_\_\_

NOTICE:  
THE SIGNATURE(S) TO  
THIS ASSIGNMENT MUST  
CORRESPOND WITH THE  
NAME(S) AS WRITTEN  
UPON THE FACE OF THE  
CERTIFICATE IN EVERY  
PARTICULAR WITHOUT  
ALTERATION OR  
ENLARGEMENT OR ANY  
CHANGE WHATEVER.

X\_\_\_\_\_ (SIGNATURE)

X\_\_\_\_\_ (SIGNATURE)

THE SIGNATURE(S) SHOULD BE  
GUARANTEED BY AN ELIGIBLE  
GUARANTOR INSTITUTION (BANKS,  
STOCKBROKERS, SAVINGS AND LOAN  
ASSOCIATIONS AND CREDIT UNIONS  
WITH MEMBERSHIP IN AN APPROVED  
SIGNATURE GUARANTEE MEDALLION  
PROGRAM), PURSUANT TO S.E.C. RULE  
17Ad-15.  
SIGNATURE(S) GUARANTEED BY:

[Letterhead of Andrews & Kurth, L.L.P.]  
4200 Texas Commerce Tower  
Houston, Texas 77002

EXHIBIT 5.1

November 28, 1997

Integrated Electrical Services  
2301 Preston  
Houston, Texas 77003

Gentlemen:

We have acted as counsel to Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), in connection with the preparation of its Registration Statement on Form S-1 (Registration No. 333-38715) (the "Registration Statement"), filed by the Company under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the offering and sale by the Company of up to 8,050,000 shares of its common stock, par value \$0.01 per share (the "Common Stock"). This opinion also relates to any registration statement of the Company relating to the registration of additional shares of Common Stock pursuant to Rule 462(b) under the Securities Act.

We have examined originals or copies of (i) the Amended and Restated Certificate of Incorporation of the Company; (ii) the Bylaws of the Company, as amended; (iii) certain resolutions of the Board of Directors and the stockholders of the Company; and (iv) such other documents and records as we have deemed necessary and relevant for purposes hereof. We have relied upon certificates of public officials and officers of the Company as to certain matters of fact relating to this opinion and have made such investigations of law as we have deemed necessary and relevant as a basis hereof. We have not independently verified any factual matter relating to this opinion.

We have assumed the genuineness of all signatures, the authenticity of all documents, certificates and records submitted to us as copies, and the conformity to original documents, certificates and records of all documents, certificates and records submitted to us as copies.

Based upon the foregoing, and subject to the limitations and assumptions set forth herein, and having due regard for such legal considerations as we deem relevant, we are of the opinion that:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware.

2. The issuance of the Common Stock has been duly authorized, and when issued and delivered by the Company against payment therefor as described in the Registration Statement, such shares will be validly issued, fully paid and nonassessable.

The foregoing opinion is based on and is limited to the General Corporation Law of the State of Delaware and the relevant laws of the United States of America, and we render no opinion with respect to the laws of any other jurisdiction.

We hereby consent to the filing of this opinion with the Securities and Exchange Commission as Exhibit 5.1 to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus contained in the Registration Statement. By giving such consent, we do not admit that we are included within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations issued thereunder. This opinion may be incorporated by reference in a registration statement of the Company relating to the registration of additional shares of Common Stock pursuant to Rule 462(b) under the Securities Act, in which case the opinions expressed herein will apply to the additional shares registered thereunder.

Very truly yours,

/s/ Andrews & Kurth, L.L.P.

FOUNDERS' AND MANAGEMENT EMPLOYMENT AGREEMENT  
TO BE EXECUTED BY FOUNDERS AND KEY EXECUTIVES OF IES  
ANNEX V

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") by and between \_\_\_\_\_  
\_\_\_\_\_ (the "Company"), a \_\_\_\_\_ corporation  
and a wholly-owned subsidiary of Integrated Electrical Services, Inc., a  
Delaware corporation ("IES"), and \_\_\_\_\_ ("Executive") is  
hereby entered into effective as of the date of the consummation of the initial  
public offering of the common stock of IES (the "Effective Date").

RECITALS

The following statements are true and correct:

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

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

Therefore, in consideration of the mutual promises, terms, covenants  
and conditions set forth herein and the performance of each, it is hereby  
agreed as follows:

AGREEMENTS

1. Employment and Duties.

(a) The Company hereby employs Executive as \_\_\_\_\_  
of the Company. As such, Executive shall have responsibilities,  
duties and authority reasonably accorded to, expected of and  
consistent with Executive's position as \_\_\_\_\_ of the  
Company and will report directly to the [\_\_\_\_\_] of the  
Company. Executive hereby accepts this employment upon the terms and  
conditions herein contained and, subject to paragraph 1(c), agrees to  
devote substantially all of his time, attention and efforts to promote  
and further the business and interests of the Company and its  
affiliates.



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

(c) Except as set forth on Schedule 1(c) hereto, Executive shall not, during the term of his employment hereunder, engage in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes in any material respect with Executive's duties and responsibilities hereunder. The foregoing limitations shall not be construed as prohibiting Executive from making personal investments in such form or manner as will neither require his services in the operation or affairs of the companies or enterprises in which such investments are made nor violate the terms of paragraph 3 hereof.

(d) Executive shall be entitled to vacation in accordance with the policies of the Company.

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

(a) Base Salary. The base salary payable to Executive during the term shall be \$\_\_\_\_\_ per year, payable in accordance with the Company's payroll procedures for officers, but not less frequently than monthly. Such base salary may be increased from time to time, at the discretion of the Board of Directors of IES (the "IES Board"), in light of the Executive's position, responsibilities and performance.

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

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

(ii) Executive shall, subject to the satisfaction of any general eligible criteria, be eligible to participate in all compensation and benefit plans and programs as are maintained from time to time for executives of the Company.

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

3. Non-Competition Agreement.

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

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

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

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

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

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

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Executive from acquiring as an investment (i) not more than 1% of the capital stock of a

competing business, whose stock is traded on a national securities exchange, the Nasdaq Stock Market or on an over-the-counter or similar market or (ii) not more than 5% of the capital stock of a competing business whose stock is not publicly traded unless the Board of Directors of the Company consents to such acquisition.

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

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

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

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

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

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

4. Term; Termination; Rights on Termination. The term of this Agreement shall begin on the Effective Date and continue for five years (the "Initial Term") and, unless terminated sooner as herein provided, shall continue thereafter at Executive's and Company's mutual election on a year-to-year basis on the same terms and conditions contained herein in effect as of the time of renewal (the "Extended Term"); provided, however, upon a Change in Control (as defined in paragraph 11(d)) the term of this Agreement shall automatically continue following such Change in Control for a period equal to the then remaining term or two years, whichever period is longer, unless earlier terminated as provided in paragraph 11. This Agreement and Executive's employment may be terminated in any one of the followings ways:

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

(b) Disability. If, as a result of incapacity due to physical or mental illness or injury, Executive shall have been absent from his full-time duties hereunder for four consecutive months, then 30 days after receiving written notice (which notice may occur before or after the end of such four-month period, but which shall not be effective earlier than the last day of such four-month period), the Company may terminate Executive's employment hereunder, provided that Executive is unable to resume his full-time duties at the conclusion of such notice period. Also, Executive may terminate his employment

hereunder if his health should become impaired to an extent that makes the continued performance of his duties hereunder hazardous to his physical or mental health, provided that Executive shall have furnished the Company with a written statement from a doctor reasonably acceptable to the Company to such effect and provided, further, that, at the Company's request made within 30 days of the date of such written statement, Executive shall submit to an examination by a doctor selected by the Company who is reasonably acceptable to Executive or Executive's doctor and such second doctor shall have concurred in the conclusion of Executive's doctor. In the event this Agreement is terminated as a result of Executive's disability, Executive shall receive from the Company, in a lump sum payment due within 10 days of the effective date of termination, the base salary at the rate then in effect (i) during the Initial Term, for whatever time period, if any, is remaining under the Initial Term, provided that such period shall not be less than one year, and (ii) during the Extended Term, equivalent to one year of base salary.

(c) Cause. The Company may terminate this Agreement and Executive's employment 10 days after written notice to Executive for "Cause", which shall be: (1) Executive's willful, material and irreparable breach of this Agreement (which remains uncured 10 days after receipt of written notice); (2) Executive's gross negligence in the performance or intentional nonperformance (in either case continuing for 10 days after receipt of written notice of need to cure) of any of Executive's material duties and responsibilities hereunder; (3) Executive's dishonesty or fraud with respect to the business, reputation or affairs of the Company or IES which materially and adversely affects the Company or IES (monetarily or otherwise); or (4) Executive's conviction of a felony crime involving moral turpitude. In the event of a termination for Cause, Executive shall have no right to any severance compensation.

(d) Without Cause. Executive may, without Good Reason (as hereinafter defined) terminate this Agreement and Executive's employment, effective 30 days after written notice is provided to the Company. Executive may only be terminated without Cause by the Company during either the Initial Term or Extended Term if such termination is approved by at least 51% of the members of the IES Board. Should Executive be terminated by the Company without Cause or should Executive terminate with Good Reason during the Initial Term, Executive shall receive from the Company, in a lump sum payment due on the effective date of termination, the base salary at the rate then in effect for whatever time period is remaining under the Initial Term or for one year, whichever amount is greater. Should Executive be terminated by the Company without Cause or should Executive terminate with Good Reason during the Extended Term, Executive shall receive from the Company, in a lump sum payment due on the effective date of termination, the base salary at the rate then in effect equivalent to one year of base salary. Further, any termination without Cause by the Company or by Executive for Good Reason shall operate to shorten the period set forth in paragraph 3(a) and during which the terms of paragraph 3 apply to one

year from the date of termination of employment. If Executive resigns or otherwise terminates his employment without Good Reason, rather than the Company terminating his employment pursuant to this paragraph 4(d), Executive shall receive no severance compensation.

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

If termination of Executive's employment arises out of the Company's failure to pay Executive on a timely basis the amounts to which he is entitled under this Agreement or as a result of any other breach of this Agreement by the Company, as determined by a court of competent jurisdiction or pursuant to the provisions of paragraph 18 below, the Company shall pay all amounts and damages to which Executive may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expenses and other costs incurred by Executive to enforce his rights hereunder. Further, none of the provisions of paragraph 3 shall apply in the event this Agreement is terminated as a result of a breach by the Company.

Upon termination of this Agreement for any reason provided above, in addition to the above payments, if any, Executive shall be entitled to receive all compensation earned and all benefits and reimbursements due through the effective date of termination, paid to Executive in a lump sum on the effective date. All other rights and obligations of the Company and Executive under this Agreement shall cease as of the effective date of termination, except that the Executive's obligations under paragraphs 3, 5, 6, 7, and 8 herein shall survive such termination in accordance with their terms.

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

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

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

8. Confidentiality.

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

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

applies to all Confidential Information, whether now known or later to become known to Executive.

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

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

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

10. Assignment; Binding Effect. Executive understands that he has been selected for employment by the Company on the basis of his personal qualifications, experience and skills. Executive agrees, therefore, that he cannot assign all or any portion of his performance under this



Agreement. Subject to the preceding two sentences and the express provisions of paragraph 12 below, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective heirs, legal representatives, successors and assigns.

11. Change in Control.

(a) Executive understands and acknowledges that the Company may be merged or consolidated with or into another entity and that such entity shall automatically succeed to the rights and obligations of the Company hereunder or that the Company may undergo a Change in Control (as defined below). In the event a Change in Control is initiated or occurs during the Initial Term or Extended Term, then the provisions of this paragraph 11 shall be applicable.

(b) In the event of a Change in Control wherein the Company and Executive have not received written notice at least ten business days prior to the date of the event giving rise to the Change in Control from the successor to all or a substantial portion of the Company's business and/or assets that such successor is willing as of the closing to assume and agrees to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company is hereby required to perform, then Executive may, at Executive's sole discretion, elect to terminate Executive's employment on such Change in Control by providing written notice to the Company prior to the closing of the transaction giving rise to the Change in Control. In such case, the applicable provisions of paragraph 4(d) will apply as though the Company had terminated Executive without Cause; however, the amount of the lump sum severance payment due Executive shall be triple the amount calculated under the terms of paragraph 4(d), but shall in no event exceed nine times Executive's base salary.

(c) In any Change in Control situation, Executive may, at Executive's sole discretion, elect to terminate Executive's employment upon the effective date of such Change in Control by providing written notice to the Company at least five business days prior to the closing of the transaction giving rise to the Change in Control. In such case, the applicable provisions of paragraph 4(d) will apply as though the Company had terminated Executive without Cause; however, the amount of the lump sum severance payment due Executive shall be double the amount calculated under the terms of paragraph 4(d), but shall in no event exceed six times Executive's base salary.

(d) If, on or within two years following the effective date of a Change in Control the Company terminates Executive's employment other than for Cause or Executive terminates his employment for Good Reason, or if Executive's employment with the Company is terminated by the Company within three months before the effective date of a Change in Control and it is reasonably demonstrated that such termination (i) was at the

request of a third party that has taken steps reasonably calculated to effect a Change in Control, or (ii) otherwise arose in connection with or anticipation of a Change in Control, then Executive shall receive from Company, in a lump sum payment due on the effective date of termination, the greater of (i) the equivalent of three years' base salary at the rate then in effect, or (ii) the base salary for whatever period is then remaining on the Initial Term, if any.

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

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

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

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

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

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

(f) Notwithstanding anything in this Agreement to the contrary, a termination pursuant to paragraph 11(b), (c), or (d) shall operate to automatically waive in full the noncompetition restrictions imposed on Executive pursuant to paragraph 3(a).

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

12. No Mitigation or Offset. Executive shall not be required to mitigate the amount of any Company payment provided for in this Agreement by seeking other employment or otherwise. The amount of any payment required to be paid to Executive by the Company pursuant to this Agreement shall not be reduced by any amounts that are owed to the Company by Executive, or by any setoff, counterclaim, recoupment, defense or other claim, right or action.

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

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

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

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

To the Company: c/o Integrated Electrical Services, Inc.  
Attn:

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To Executive:

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

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

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

If the parties do not promptly agree on a mediator, the parties shall request the Association of Attorney Mediators in Harris County, Texas to appoint a mediator certified by the Supreme Court of Texas. If the mediator is unable to facilitate a settlement of the dispute within a reasonable period of time, as determined by the mediator, the mediator shall issue a written statement to the parties to that effect and any unresolved dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in Houston, Texas, in accordance with the rules of the American Arbitration Association then in effect. The arbitrators shall have the authority to order back-pay, severance compensation, vesting of options (or cash compensation in lieu of vesting of options), reimbursement of costs, including those incurred to enforce this Agreement, and interest thereon in the event the arbitrators determine that Executive was terminated without disability or Cause, as defined in paragraphs 4(b) and 4(c), respectively, or that the Company has otherwise materially breached this Agreement. A decision by a majority of the arbitration panel shall be final and binding. Judgment may be entered on the arbitrators' award in any court having jurisdiction. The costs and expenses, including reasonable attorneys' fees, of the prevailing party in any dispute arising under this Agreement will be promptly paid by the other party.

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

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

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

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By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXECUTIVE  
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## INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT is made as of \_\_\_\_\_, 1997, and is entered into by and between Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), and \_\_\_\_\_ ("Indemnitee").

## R E C I T A L S:

WHEREAS, the certificate of incorporation and bylaws of the Company provide for the indemnification of the Company's directors and executive officers to the maximum extent permitted from time to time under applicable law and, along with the Delaware General Corporation Law, contemplate that the Company may enter into agreements with respect to such indemnification; and

WHEREAS, the Board of Directors of the Company has concluded that it is reasonable, prudent and in the best interests of the Company's stockholders for the Company to contractually obligate itself to indemnify certain of its Authorized Representatives (defined below) so that they will serve or continue to serve with greater certainty that they will be adequately protected.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnitee hereby agree as follows:

1. Definitions. For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Authorized Representative" means (i) a director, officer, employee, agent or fiduciary of the Company or any Subsidiary and (ii) a person serving at the request of the Company or any Subsidiary as a director, officer, employee, fiduciary or other representative of another Enterprise.

"Enterprise" means any corporation, partnership, limited liability company, association, joint venture, trust, employee benefit plan or other entity.

"Expenses" means all expenses, including (without limitation) reasonable fees and expenses of counsel.

"Liabilities" means all liabilities, including (without limitation) the amounts of any judgments, fines, penalties, excise taxes and amounts paid in settlement.

"Proceeding" means any threatened, pending or completed claim, action (including any action by or in the right of the Company), suit or proceeding (whether formal or informal, or civil, criminal, administrative, legislative, arbitral or investigative) in respect of which Indemnitee is, was or at any time becomes, or is threatened to be made, a party, witness, subject or target, by reason of the fact that Indemnitee is or was an Authorized Representative or a prospective Authorized Representative.

"Subsidiary" means, at any time, (i) any corporation of which at least a majority of the outstanding voting stock is owned by the Company at such time, directly or indirectly through subsidiaries, and (ii) any other Enterprise in which the Company, directly or indirectly, owns more than a 50% equity interest at such time.

2. Interpretation. (a) In this Agreement, unless a clear contrary intention appears:

(i) the singular number includes the plural number and vice versa;

(ii) reference to any gender includes each other gender;

(iii) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision;

(iv) unless the context indicates otherwise, reference to any Section means such Section hereof; and

(v) the words "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term.

(b) The Section headings herein are for convenience only and shall not affect the construction hereof.

(c) No provision of this Agreement shall be interpreted or construed against any party solely because that party or its legal representative drafted such provision.

(d) In the event of any ambiguity, vagueness or other similar matter involving the interpretation or meaning of this Agreement, this Agreement shall be liberally construed so as to provide to Indemnitee the full benefits contemplated hereby.

(e) If the indemnification to which Indemnitee is entitled as respects any aspect of any claim varies between two or more provisions of this Agreement, that provision providing the most comprehensive indemnification shall apply.

3. Limitation on Personal Liability. To the fullest extent permitted by applicable law, Indemnatee shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director of the Company, provided that the foregoing shall not eliminate or limit the liability of Indemnatee (i) for any breach of Indemnatee's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law relating to unlawful dividend payments and unlawful stock purchases or redemptions or (iv) for any transaction from which Indemnatee derived an improper personal benefit.

4. Indemnity. (a) Subject to the following provisions of this Agreement, the Company shall hold harmless and indemnify Indemnatee against all Expenses and Liabilities actually incurred by Indemnatee in connection with any Proceeding; provided, however, that no indemnity shall be paid by the Company pursuant to this Agreement:

(i) for amounts actually paid to Indemnatee pursuant to one or more policies of directors and officers liability insurance maintained by the Company or pursuant to a trust fund, letter of credit or other security or funding arrangement provided by the Company; provided, however, that if it should subsequently be determined that Indemnatee is not entitled to retain any such amount, this clause (i) shall no longer apply to such amount;

(ii) in respect of remuneration paid to Indemnatee if it shall be determined by a final judgment or other final adjudication that payment of such remuneration was in violation of applicable law;

(iii) on account of Indemnatee's conduct which is finally adjudged to constitute willful misconduct or to have been knowingly fraudulent, deliberately dishonest or from which the Indemnatee derives an improper personal benefit; or

(iv) on account of any suit in which final judgment is rendered against Indemnatee for an accounting of profits made from the sale or purchase by Indemnatee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended.

(b) If Indemnatee is entitled under any provision of this Agreement to indemnification by the Company for only a portion (but not, however, for the total amount) of any Expenses or Liabilities actually incurred by Indemnatee in connection with any Proceeding, the Company shall nevertheless indemnify Indemnatee for the portion of such Expenses and Liabilities to which Indemnatee is entitled. If the indemnification provided for herein in respect of any Expenses or Liabilities actually incurred by Indemnatee in connection with any Proceeding is finally determined by a court of competent jurisdiction to be prohibited by applicable law, then the Company, in lieu of indemnifying Indemnatee, shall contribute to the amount paid or payable by Indemnatee as a result of such Expenses and Liabilities in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnatee on the other hand from the events, circumstances, conditions, happenings, actions or transactions from which such Proceeding arose, (ii) the relative fault of the Company (including its other Authorized Representatives) on the one hand and of Indemnatee on the other hand in connection with the events,



circumstances and happenings which resulted in such Expenses and Liabilities, such relative fault to be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the events, circumstances and/or happenings resulting in such Expenses and Liabilities, and (iii) any other relevant equitable considerations, it being agreed that it would not be just and equitable if such contribution were determined by pro rata or other method of allocation which does not take into account the foregoing equitable considerations.

(c) The indemnification provided herein shall be applicable only to Proceedings commenced after the date hereof, regardless, however, of whether they arise from acts, omissions, facts or circumstances occurring before or after the date hereof.

(d) The indemnification provided herein shall be applicable whether or not negligence of Indemnitee is alleged or proved, and regardless of whether such negligence be contributory or sole.

(e) Amounts paid by the Company to Indemnitee under this Section 4 are subject to refund by Indemnitee as provided in Section 8.

5. Notification and Defense of Claims. (a) Promptly after the receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement of such Proceeding; provided, however, that the omission to so notify the Company will not relieve the Company (i) from any liability which it may have to Indemnitee under this Agreement unless, and then only to the extent that, such omission results in insufficient time being available to permit the Company or its counsel to effectively defend against or make timely response to any loss, claim, damage, liability or expense resulting from such Proceeding or otherwise has a material adverse effect on the Company's ability to promptly deal with such loss, claim, damage, liability or expense or (ii) from any liability which it may have to Indemnitee otherwise than under this Agreement.

(b) The following provisions shall apply with respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

(i) The Company shall be entitled to participate therein at its own expense.

(ii) Except as otherwise provided below, to the extent it may elect to do so, the Company (jointly with any other indemnifying party similarly notified) will be entitled to assume the defense thereof, with counsel of its own selection reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof, the Company will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense of such Proceeding other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ separate counsel in such

Proceeding but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnitee unless (1) the employment of separate counsel by Indemnitee has been authorized by the Company; (2) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of the defense of such Proceeding; or (3) the Company shall not in fact have employed counsel to assume the defense of such Proceeding, in each of which cases the reasonable fees and expenses of Indemnitee's counsel shall be borne by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have made the conclusion provided for in (2) above. Nothing in this subparagraph (ii) shall affect the obligation of the Company to indemnify Indemnitee against Expenses and Liabilities paid in settlement for which it is otherwise obligated hereunder.

(iii) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceedings or claims effected without its prior written consent. The Company shall not settle any Proceeding or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's prior written consent. Neither the Company nor Indemnitee will unreasonably withhold or delay its consent to any proposed settlement.

6. Advancement of Expenses, etc. If requested to do so by Indemnitee with respect to any Proceeding, the Company shall advance to or for the benefit of Indemnitee, prior to the final disposition of such Proceeding, the Expenses actually incurred by Indemnitee in investigating, defending or appealing such Proceeding. Any judgments, fines or amounts to be paid in settlement of any Proceeding shall also be advanced by the Company upon request by Indemnitee. Advances made by the Company under this Section 6 are subject to refund by Indemnitee as provided in Section 8.

7. Right of Indemnitee to Bring Suit. (a) If a claim for indemnification or a claim for an advance under this Agreement is not paid in full by the Company within 30 days after receipt by the Company from Indemnitee of a written request or demand therefor, Indemnitee may bring suit against the Company to recover the unpaid amount of the claim. If, in any such action, Indemnitee makes a prima facie showing of entitlement to indemnification under this Agreement, the Company shall have the burden of proving that indemnification is not required under this Agreement. The only defense to any such action shall be that indemnification is not required by this Agreement.

(b) In the event that any action is instituted by Indemnitee to enforce Indemnitee's rights or to collect monies due to Indemnitee under this Agreement and if Indemnitee is successful in such action, the Company shall reimburse Indemnitee for all Expenses incurred by Indemnitee with respect to such action.

8. Repayment Obligation of Indemnitee. If the Company advances or pays any amount to Indemnitee under Section 4, 6 or 7 and if it shall thereafter be finally adjudicated that Indemnitee was not entitled to be indemnified hereunder for all or any portion of such amount, Indemnitee shall promptly repay such amount or such portion thereof, as the case may be, to the Company. If the Company advances or pays any amount to Indemnitee under Section 4, 6 or 7 and if Indemnitee shall thereafter receive all or a portion of such amount under one or more policies of directors and officers liability insurance maintained by the Company or pursuant to a trust fund, letter of credit or other security or funding arrangement provided by the Company, Indemnitee shall promptly repay such amount or such portion thereof, as the case may be, to the Company.

9. Changes in Law. If any change after the date of this Agreement in any applicable law, statute or rule expands the power of the Company to indemnify Authorized Representatives, such change shall be within the purview of Indemnitee's rights and the Company's obligations under this Agreement. If any change after the date of this Agreement in any applicable law, statute or rule narrows the right of the Company to indemnify an Authorized Representative, such change shall, to the fullest extent permitted by applicable law, leave this Agreement and the parties' rights and obligations hereunder unaffected.

10. Continuation of Indemnity. All agreements and obligations of the Company hereunder shall continue during the period Indemnitee is an Authorized Representative, and shall continue after Indemnitee has ceased to occupy such position or have such relationship so long as Indemnitee shall be subject to any possible Proceeding.

11. Nonexclusivity. The indemnification and other rights provided by any provision of this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under (i) any statutory or common law, (ii) the Company's certificate of incorporation, (iii) the Company's bylaws, (iv) any other agreement or (v) any vote of stockholders or disinterested directors or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while occupying any of the positions or having any of the relationships referred to in this Agreement. Nothing in this Agreement shall in any manner affect, impair or compromise any indemnification Indemnitee has or may have by virtue of any agreement previously entered into between Indemnitee and the Company.

12. Severability. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable (i) the validity, legality or enforceability of the remaining provisions of this Agreement shall not be in any way affected or impaired thereby and (ii) to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable. Each provision of this Agreement is a separate and independent portion of this Agreement.

13. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties. No waiver of any of

the provisions of this Agreement shall be binding unless executed in writing by the person making the waiver nor shall such waiver constitute a continuing waiver.

14. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be addressed (i) if to the Company, at its principal office address as shown on the signature page hereof or such other address as it may have designated by written notice to Indemnatee for purposes hereof, directed to the attention of the Secretary and (ii) if to Indemnatee, at Indemnatee's address as shown on the signature page hereof or to such other address as Indemnatee may have designated by written notice to the Company for purposes hereof. Each such notice or other communication shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) transmitted by facsimile transmission, at the time that receipt of such transmission is confirmed, or (c) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed.

15. Governing Law. THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER, AND SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

16. Heirs, Successors and Assigns. (a) This Agreement shall be binding upon, inure to the benefit of and be enforceable by (i) Indemnatee and Indemnatee's personal or legal representatives, executors, administrators, heirs, devisees and legatees and (ii) the Company and its successors and assigns. This Agreement shall not inure to the benefit of any other person or Enterprise.

(b) The Company agrees to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption and agreement provided for in this Section 16 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

ENTERED into on the day and year first above written.

THE COMPANY:

INTEGRATED ELECTRICAL SERVICES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Address:

Telecopier:

INDEMNITEE:

\_\_\_\_\_

Address:

Telecopier:

INTEGRATED ELECTRICAL SERVICES, INC.  
1997 STOCK PLAN

SECTION 1. Purpose of the Plan.

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

SECTION 2. Definitions.

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

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

"Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Performance Award, Phantom Shares, Bonus Shares, Other Stock-Based Award or Cash Award.

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

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

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

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

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

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

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

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

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

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

"Incentive Stock Option" or "ISO" shall mean an option granted under Section 6(a) of the Plan that is intended to qualify as an "incentive stock option" under Section 422 of the Code or any successor provision thereto.

"Non-Qualified Stock Option" or "NQO" shall mean an option granted under Sections 6(a) of the Plan that is not intended to be an Incentive Stock Option.

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

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

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

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

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

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

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

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

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

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

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

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

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

### SECTION 3. Administration.

The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the following, the Committee, in its sole discretion, may delegate any or all of its powers and duties under the Plan, including the power to grant Awards under the Plan, to the President of the Company, subject to such limitations on such delegated powers and duties as the Committee may impose. Upon any such delegation all references in the Plan to the "Committee", other than in Section 7, shall be deemed to include the President; provided, however, that such delegation shall not limit the President's right to receive Awards under the Plan. Notwithstanding the foregoing, the President may not grant Awards to, or take any action with respect to any Award previously granted to, a person who is an officer or a member of the Board. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and



under what circumstances Awards may be settled or exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, any stockholder and any Employee.

#### SECTION 4. Shares Available for Awards.

(a) Shares Available. Subject to adjustment as provided in Section 4(c), the number of Shares with respect to which Awards may be granted under the Plan shall be the greater of (i) 3,500,000 or (ii) 15% of the aggregate number of Shares outstanding determined immediately after the grant of such Award; however, Incentive Stock Options may not be granted with respect to more than 1,000,000 Shares. If any Award is forfeited or otherwise terminates or is canceled without the delivery of Shares or other consideration, then the Shares covered by such Award, to the extent of such forfeiture, termination or cancellation, shall again be Shares with respect to which Awards may be granted.

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

(c) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, in each case, that with respect to Awards of Incentive Stock Options and Awards intended to qualify

as performance based compensation under Section 162(m)(4)(C) of the Code, no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or would cause such Award to fail to so qualify under Section 162(m) of the Code, as the case may be, or any successor provisions thereto; and provided, further, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

#### SECTION 5. Eligibility.

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

#### SECTION 6. Awards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Payment of Performance Awards. Performance Awards may be paid (in cash and/or in Shares, in the sole discretion of the Committee) in a lump sum or in installments following the close of the performance period, in accordance with procedures established by the Committee with respect to such Award.

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

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

(i) Terms and Conditions. Each Phantom Share Award shall constitute an agreement by the Company to issue or transfer a specified number of Shares or pay an

amount of cash equal to a specified number of Shares, or a combination thereof to the Participant in the future, subject to the fulfillment during the Restricted Period of such conditions, including performance objectives, if any, as the Committee may specify at the date of grant. During the Restricted Period, the Participant shall not have any right to transfer any rights under the subject Award, shall not have any rights of ownership in the Phantom Shares and shall not have any right to vote such shares.

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

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

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

(i) Replacement Grants. Awards may be granted from time to time in substitution for similar awards held by employees of other corporations who become Participants as the result of a merger or consolidation of the employing corporation with the Company or any subsidiary, or the acquisition by the Company or any subsidiary of the assets of the employing corporation, or the acquisition by the Company or any subsidiary or an affiliate of stock of the employing corporation. The terms and conditions of substitute Awards granted may vary from the terms and conditions set forth in the Plan, to the extent the Committee, at the time of grant, deems it appropriate to conform, in whole or in part, to the provisions of awards in substitution for which they are granted.

(j) General.

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

be granted either at the same time as or at a different time from the grant of such other Awards or awards.

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

(iii) Limits on Transfer of Awards.

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

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

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

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

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

applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

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

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

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

#### SECTION 7. Amendment and Termination.

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

(i) Amendments to the Plan. The Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan without the consent of any stockholder, Participant, other holder or beneficiary of an Award, or other Person; provided, however,

notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company no such amendment, alteration, suspension, discontinuation, or termination shall be made that would increase the total number of Shares available for Awards under the Plan, except as provided in Section 4(c) of the Plan.

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

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

#### SECTION 8. Change in Control.

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

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



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

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

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

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

#### SECTION 9. General Provisions.

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

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

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

Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement.

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

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

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

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

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

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

(j) **Parachute Tax Gross-Up.** To the extent that the grant, payment, or acceleration of vesting or payment, whether in cash or stock, of any Award made to a Participant under the Plan (a "Benefit") is subject to a golden parachute excise tax under Section 4999(a) of the Code (a

"Parachute Tax"), the Company shall pay such person an amount of cash (the "Gross-up Amount") such that the "net" Benefit received by the person under this Plan, after paying all applicable Parachute Taxes (including those on the Gross-up Amount) and any federal or state taxes on the Gross-up Amount, shall be equal to the Benefit that such person would have received if such Parachute Tax had not been applicable.

SECTION 10. Effective Date of the Plan.

The Plan shall be effective as of the date of its approval by the Board.

SECTION 11. Term of the Plan.

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

INTEGRATED ELECTRICAL SERVICES, INC.  
1997 DIRECTORS STOCK PLAN

SECTION 1. Purpose of the Plan.

The Integrated Electrical Services, Inc. 1997 Directors Stock Plan (the "Plan") is intended to promote the interests of Integrated Electrical Services, Inc., a Delaware corporation (the "Company"), by providing the non-employee directors of the Company with stock options whereby they may develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to devote their best efforts to the business of the Company thereby advancing the interests of the Company and its stockholders. The Plan is also contemplated to enhance the ability of the Company to attract highly qualified individuals to serve as non-employee directors of the Company.

SECTION 2. Definitions.

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

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

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

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

"Director" shall mean a member of the Board who is a "non-employee director" for purposes of Rule 16b-3.

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

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

"Option" shall mean an option granted under the Plan.

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

"Participant" shall mean each Person who has an outstanding Option.

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

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

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

"Shares" or "Common Shares" or "Common Stock" shall mean the common stock of the Company, \$0.01 par value.

### SECTION 3. Administration.

The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) determine the members of the Board who are Directors; (ii) interpret and administer the Plan and any instrument or agreement relating to Options granted under the Plan; (iii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (iv) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Option shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Participant, any holder or beneficiary of any Option and any stockholder.

### SECTION 4. Shares Available for Options.

(a) Shares Available. Subject to adjustment as provided in Section 4(c), the number of Shares with respect to which Options may be granted under the Plan shall be 250,000. If any Option is forfeited, terminates or is canceled without the delivery of Shares or other consideration, then the

Shares covered by such Option, to the extent of any such forfeiture, termination or cancellation, shall again be Shares with respect to which Options may be granted.

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

(c) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Options may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Options, and (iii) the grant or exercise price with respect to any Option; and provided, further, that the number of Shares subject to any Option shall always be a whole number.

#### SECTION 5. Eligibility.

Each member of the Board who is a Director automatically shall be a Participant.

#### SECTION 6. Options.

(a) Initial Grants. Each Director who serves in such capacity on the date of the closing of the initial public offering of the Common Stock (the "IPO") shall automatically receive, on such date, an Option for 5,000 shares of Common Stock. Each person who is elected as a Director for the first time after such IPO date shall automatically receive, on the date of his or her election, an Option for 5,000 shares of Common Stock.

(b) Annual Grants. On each September 30th that this Plan is in effect, each Director on that day shall automatically receive an Option for 5,000 shares of Common Stock.

(c) Exercise Price. Subject to adjustment pursuant to Section 4(c), the purchase price per Share purchasable under an Option shall be the Fair Market Value per Share at the time the Option is granted.

(d) Vesting. Subject to the further provisions of the Plan, each Option shall become vested (exercisable) as to 20% of the shares of Common Stock granted on each anniversary of the date of grant of such Option.

(e) Time and Method of Exercise. An Option may be exercised in whole or in part by cash, check acceptable to the Company, Shares already owned for more than six months, a "cashless-broker" exercise (through procedures approved by the Company), or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price.

(f) Term. Each Option shall expire 10 years from its date of grant, but shall be subject to earlier termination as follows: Options, to the extent exercisable as of the date the Participant ceases to serve as a member of the Board, must be exercised within three months of such date unless such termination results from the Participant's death or disability, in which case the Participant's Options may be exercised by the Participant's legal representative or the person to whom the Participant's rights shall pass by will or the laws of descent and distribution, as the case may be, within one year from the date of termination; provided, however, that such event shall not extend the normal expiration date of such Options.

(g) Automatic Limits. In the event that the number of shares of Common Stock available for grants under this Plan is insufficient to make all automatic grants provided for in paragraphs (a) or (b) above on the applicable date, then all Directors who are entitled to a grant on such date shall share ratably in the number of shares then available for grant under this Plan, and shall have no right to receive a grant with respect to the deficiencies in the number of available shares and all future grants under this Section 6 shall terminate.

(h) Discretionary Grants. The Board may make additional grants of Options to a Director when, in the discretion of the Board, such additional grant is merited by the circumstances. Such discretionary grants shall be on such terms as the Board may establish for the grant.

(i) Limits on Transfer of Options.

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

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

(C) Notwithstanding anything in the Plan to the contrary, an Option may be transferred to immediate family members or related family trusts, limited partnerships or similar entities or on such terms and conditions as the Committee may establish.

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

(k) Delivery of Shares or other Securities and Payment by Participant of Consideration. No Shares or other securities shall be delivered pursuant to any Option until payment in full of any amount required to be paid pursuant to the Plan or the applicable Option agreement (including, without limitation, any exercise price, tax payment or tax withholding) is received by the Company.

#### SECTION 7. Amendment and Termination.

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

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

(ii) Adjustment of Options Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Options in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4(c) of the Plan) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

#### SECTION 8. Change in Control.

Notwithstanding any other provision of this Plan to the contrary, in the event of a Change in Control of the Company all outstanding Options automatically shall become fully vested immediately prior to such Change in Control (or such earlier time as set by the Committee). For purposes of this Plan, a "Change in Control" shall be deemed to occur:



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

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

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

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

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

#### SECTION 9. General Provisions.

(a) No Rights to Options. No Participant or other Person shall have any claim to be granted any Option, and there is no obligation for uniformity of treatment of Participants or holders or beneficiaries of Options.

(b) Withholding. The Company is authorized to withhold from any Option or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities, Shares that would otherwise be issued pursuant to such Option, other Options or other property) of any applicable taxes payable in respect of an Option, its exercise, or any payment or transfer under an Option or under the Plan and to take such other action as may be necessary in the opinion of the

Company to satisfy all obligations for the payment of such taxes. In addition, the Participant may direct the Company to satisfy such Participant's tax obligation through the withholding of Shares otherwise to be acquired upon the exercise or payment of such Option.

(c) No Right to Continued Board Membership. The grant of an Option shall not be construed as giving a Participant the right to be a member of the Board.

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

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

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

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

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

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

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

SECTION 10. Effective Date of the Plan.

The Plan shall be effective as of the date of its approval by the Board.

SECTION 11. Term of the Plan.

No Option shall be granted under the Plan after the 10th anniversary of the approved date. However, unless otherwise expressly provided in the Plan, any Option granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, or terminate such Option shall extend beyond such termination date.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports dated November 14, 1997 on the financial statements of the following businesses included in or made a part of this registration statement: Integrated Electrical Services, Inc.; BW Consolidated, Inc. and Subsidiaries; Houston-Stafford Electric, Inc. and Consolidated Entity; Mills Electrical Contractors, Inc. and Subsidiary; Muth Electric, Inc.; Amber Electric, Inc.; Daniel Electrical Contractors, Inc. and Daniel Electrical of Treasure Coast, Inc.; Pollock Electric Inc.; Thurman & O'Connell Corporation; Charles P. Bagby Company, Inc.; Summit Electric of Texas, Inc.; and Rodgers Electric Company, Inc.; and to all references to our firm included in this registration statement.

ARTHUR ANDERSEN LLP

Houston, Texas

November 28, 1997

YEAR	
SEP-30-1997	
OCT-01-1996	
SEP-30-1997	2,492
	0
	12,091
	342
	2,878
	19,557
	3,499
	(1,374)
	24,470
(14,143)	
	(968)
0	
	0
	(295)
(24,470)	(7,913)
	81,575
	81,575
	(64,831)
	(64,831)
	11,049
	0
	(187)
	5,508
	(2,192)
3,316	
	0
	0
	0
	3,316
	0
	0

## CONSENT

The undersigned hereby consents to being named in the Registration Statement (the "Registration Statement") on Form S-1 of Integrated Electrical Services, Inc. ("IES") as a director to be appointed after consummation of the initial public offering of IES.

IN WITNESS WHEREOF, the undersigned has executed this Consent effective as of the 24th day of November, 1997.

By: /s/ THOMAS E. WHITE

Name: Thomas E. White

CONSENT

The undersigned hereby consents to being named in the Registration Statement (the "Registration Statement") on Form S-1 of Integrated Electrical Services, Inc. ("IES") as a director to be appointed after consummation of the initial public offering of IES.

IN WITNESS WHEREOF, the undersigned has executed this Consent effective as of the 24th day of November, 1997.

By: /s/ ALAN SIELBECK  
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Name: Alan Sielbeck

## CONSENT

The undersigned hereby consents to being named in the Registration Statement (the "Registration Statement") on Form S-1 of Integrated Electrical Services, Inc. ("IES") as a director to be appointed after consummation of the initial public offering of IES.

IN WITNESS WHEREOF, the undersigned has executed this Consent effective as of the 24th day of November, 1997.

By: /s/ RICHARD L. TUCKER

Name: Richard L. Tucker