INTEGRATED ELECTRICAL SERVICES INC
Form 424B3
August 16, 2013
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-188182

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

To the Stockholders of Integrated Electrical Services, Inc. and the Shareholders of MISCOR Group, Ltd.:

On or about August 8, 2013, Integrated Electrical Services, Inc. (IES) or MISCOR Group, Ltd. (MISCOR), respectively, mailed to you a joint proxy statement/prospectus relating to the special meeting of stockholders of IES (the IES Special Meeting) and the special meeting of shareholders of MISCOR (the MISCOR Special Meeting), to be held at the date, time and location set forth below, in connection with the proposed merger of MISCOR with and into IES Subsidiary Holdings, Inc., a wholly-owned subsidiary of IES (Merger Sub), with Merger Sub surviving the merger as the surviving corporation, a direct, wholly-owned subsidiary of IES (the merger), pursuant to that certain Agreement and Plan of Merger, dated as of March 13, 2013, as amended by the First Amendment to Agreement and Plan of Merger, dated as of July 10, 2013 (the merger agreement).

The accompanying supplement is provided to update the financial information beginning on page F-1 of the joint proxy statement/prospectus in order to (1) update to August 8, 2013 the unaudited pro forma condensed consolidated financial statements, (2) include the unaudited condensed combined financial statements of IES for the three and nine months ended June 30, 2013, set forth in IES Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed with the Securities and Exchange Commission (the SEC) on August 12, 2013, and (3) include the unaudited condensed consolidated financial statements of MISCOR for the three and six months ended June 30, 2013, set forth in MISCOR s Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed with the SEC on August 9, 2013.

At the IES Special Meeting, IES stockholders will be asked to approve the issuance of shares of IES common stock in the merger, as described in the joint proxy statement/prospectus. The IES board of directors has determined that the merger and the merger agreement are in the best interests of IES and its stockholders and recommends that the stockholders of IES approve the issuance of shares of IES common stock in the merger for the reasons described in the joint proxy statement/prospectus.

At the MISCOR Special Meeting, MISCOR shareholders will be asked to approve the adoption of the merger agreement and the golden parachute compensation proposal to be paid in connection with the merger, as described in the joint proxy statement/prospectus. The MISCOR board of directors has determined that the merger and the merger agreement are in the best interests of MISCOR and its shareholders and recommends that the MISCOR shareholders approve the adoption of the merger agreement and the golden parachute compensation for the reasons described in the joint proxy statement/prospectus.

Your vote is important. We cannot complete the merger unless, among other things, the holders of IES common stock vote to approve the issuance of IES common stock in the merger and the holders of MISCOR common stock vote to adopt the merger agreement. Regardless of whether you plan to attend your company s special meeting, please take the time to submit your proxy, if you have not done so already, by completing and mailing the proxy card delivered to you together with the joint proxy statement/prospectus or, in the case of MISCOR shareholders, by using the telephone or Internet procedures described in the joint proxy statement/prospectus. If your shares of IES common stock or MISCOR common stock are held in street name, you must instruct your broker how to vote those shares, if you have not done so already. If you have any questions about how to submit your proxy, or if you need additional copies of the accompanying supplement, the joint proxy statement/prospectus or the proxy card delivered therewith, voting instructions or the election form, please contact:

Banks and Brokers call toll-free: (800) 579-1639

IES stockholders of record call toll-free: (800) 937-5449

MISCOR shareholders of record call toll-free: (877) 830-4936

Information with respect to the IES Special Meeting and the MISCOR Special Meeting is as described below.

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For IES stockholders:

September 12, 2013 at 9:00 a.m. Central Time at the IES corporate office located at 5433 Westheimer Road,
Suite 500, Houston, Texas 77056.

The IES board of directors recommends that IES stockholders vote FOR the issuance of shares of IES common stock in the merger.

For MISCOR shareholders:

September 12, 2013 at 10:00 a.m. Eastern Daylight Time at the MISCOR corporate office located at 800 Nave Road, SE, Massillon, Ohio 44646.

The MISCOR board of directors recommends that MISCOR shareholders vote FOR the adoption of the merger agreement.

Before casting your vote, please take the time to review carefully the accompanying supplement and the joint proxy statement/prospectus, including the section entitled Risk Factors beginning on page 30 of the joint proxy statement/prospectus for a discussion of the risks relating to the merger.

Shares of IES common stock trade on the NASDAQ Global Select Market under the symbol IESC. Shares of MISCOR common stock trade on the OTCQB under the symbol MIGL.

Sincerely,

James M. Lindstrom
Chairman of the Board of Directors, President

and Chief Executive Officer
Integrated Electrical Services, Inc.

Michael P. Moore
Chief Executive Officer and President

MISCOR Group, Ltd.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under the accompanying supplement or the joint proxy statement/prospectus or has passed upon the adequacy or accuracy of the disclosure in the accompanying supplement or the joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This supplement to the joint proxy statement/prospectus is dated August 16, 2013, and is first being mailed to IES stockholders and MISCOR shareholders on or about August 20, 2013.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined statements of income for the nine months ended June 30, 2013 and for the year ended September 30, 2012 combines the historical consolidated statements of income of Integrated Electrical Services, Inc. (IES), MISCOR Group Ltd. (MISCOR) and Lonestar Renewable Technologies Corp (Acro or Lonestar), giving effect to the Transactions (as defined herein) as if they had occurred on October 1, 2011. The unaudited pro forma condensed combined balance sheet as of June 30, 2013 combines the historical consolidated balance sheets of IES and MISCOR, giving effect to the Transactions (except the February 15, 2013 acquisition of certain Acro assets) as if they had occurred on June 30, 2013. The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give pro forma effect to events that are (1) directly attributable to the Transactions, (2) factually supportable, and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the:

- Separate historical financial statements of IES for the year ended September 30, 2012, which are included herein;
- Separate historical financial statements of MISCOR for the period ended September 30, 2012, which are not included herein;
- Separate historical financial statements of IES for the period ended June 30, 2013, which are included herein;
- Separate historical financial statements of MISCOR for the year ended December 31, 2012, which are included herein;
- Separate historical financial statements of MISCOR for the period ended June 30, 2013, which are included herein; and
- Separate historical financial statements of Acro for the year ended December 31, 2012 which are included herein.

IES fiscal year end is September 30, 2012, whereas MISCOR s and Acro s fiscal year ends are December 31, 2012. In order to calculate the historical results for MISCOR and Acro in the unaudited pro forma condensed combined statements of income for the nine months ended June 30, 2013, we have deducted the nine months ended September 30, 2012 from the twelve months ended December 31, 2012 and added this to the six months ended June 30, 2013. For the year ended September 30, 2012, we have added the nine months ended September 30, 2012 to the three months ended December 31, 2011.

The unaudited pro forma condensed combined statements of operations are presented on a standalone and combined basis.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only. The unaudited pro forma condensed combined information is not necessarily indicative of what the combined company s financial position or results of operations actually would have been had the Transactions been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under U.S. generally accepted accounting principles, and the applicable regulations of the SEC. All material transactions between IES and Acro during the periods presented in the unaudited pro forma condensed combined financial statements have been eliminated. There were no transactions between IES and MISCOR for elimination purposes. IES has been treated as the acquirer in the Transactions for accounting purposes. The acquisition accounting is dependent upon certain valuations and other studies that have yet to progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing this unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting will occur, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company s future results of operations and financial position.

The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the merger, the costs to integrate the operations of IES, MISCOR and the Acro assets, or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of June 30, 2013

(In thousands)

	IES	MISCOR	Pro Forma Adjustments (Note 5)	Pro Forma Combined
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 15,134	$	$ 10,000[e]	$ 14,094
			(11,040)[Note 3]	
Restricted cash	7,052			7,052
Accounts receivable:				
Trade	67,547	5,596		73,143
Retainage	18,525			18,525
Inventories	12,280	6,193		18,473
Costs and estimated earnings in excess of billings on uncompleted contracts	6,517			6,517
Assets held for sale	900			900
Prepaid expenses and other current assets	3,474	853		4,327
Total current assets	131,429	12,642	(1,040)	143,031
LONG-TERM RECEIVABLE, net	203			203
PROPERTY AND EQUIPMENT, net	5,433	4,667	1,997[d]	12,097
GOODWILL	8,631		6,421[Note 4]	15,052
INTANGIBLE ASSETS, net	561	6,076	(1,976)[c]	4,661
OTHER NON-CURRENT ASSETS, net	5,216	2,009	(149)[Note 4]	7,176
			100[e]	
Total assets	$ 151,473	$ 25,394	$ 5,353	$ 182,220
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Current maturities of long-term debt	$ 3,198	$ 4,024	$ (4,024)[a]	$ 5,698
			2,500[e]	
Accounts payable and accrued expenses	65,530	4,754	660[c]	71,976
			100[e]	
			932[g]	
Billings in excess of costs and estimated earnings on uncompleted contracts	22,133			22,133
Total current liabilities	90,861	8,778	168	99,807
LONG-TERM DEBT	1,667	1,761	7,500[e]	9,167
			(1,761)[a]	
LONG-TERM DEFERRED TAX LIABILITY	285		2,273[Note 4]	2,558
OTHER NON-CURRENT LIABILITIES	6,617			6,617
Total liabilities	99,430	10,539	8,180	118,149
STOCKHOLDERS EQUITY:				
Preferred stock				
Common stock	154	59,346	(59,346)[a]	180

			26(Note 3)	
Treasury stock, at cost	(2,839)	(74)	74(a)	(2,839)
Additional paid-in capital	162,763		12,934(Note 3)	175,697
Accumulated other comprehensive income	19			19
Retained deficit	(108,054)	(44,417)	(932)(g)	(108,986)
			44,417(a)	
Total stockholders equity	52,043	14,855	(2,827)	64,071
Total liabilities and stockholders equity	$ 151,473	$ 25,394	$ 5,353	$ 182,220

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

MISCOR Transaction

For the nine months ended June 30, 2013

(In thousands, except share and per share amounts)

	IES	MISCOR	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 370,810	$ 35,436	$	$ 406,246
Cost of services	321,182	27,655	(822)[d]	348,630
			615[d]	
Gross profit	49,628	7,781	207	57,616
Selling, general and administrative expenses	48,104	7,181	(359)[c]	53,130
			195[c]	
			(105)[d]	
			66[d]	
			(1,952)[g]	
Gain on sale of assets	(56)			(56)
Income (loss) from operations	1,580	600	2,362	4,542
Interest and other (income) expense				
Interest expense	1,425	291	(291)[e]	1,821
			396[e]	
Interest income	(123)			(123)
Other (income) expense, net	1,048	39		1,087
Interest and other expense, net	2,350	330	105	2,785
(Loss) income from operations before income taxes	(770)	270	2,257	1,757
Provision (benefit) for income taxes	264	(1,855)	1,917[f]	326
Net (loss) income from continuing operations	$ (1,034)	$ 2,125	$ 340	$ 1,431
Earnings (loss) per share from continuing operations				
Basic	$ (0.07)			$ 0.08
Diluted	$ (0.07)			$ 0.08
Shares used in the computation of earnings (loss) per share				
Basic	14,882,687		2,634,146[Note 3]	17,516,833
Diluted	14,882,687		2,634,146[Note 3]	17,592,805[h]

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the nine months ended June 30, 2013

Acro Transaction

(In thousands, except share and per share amounts)

	IES	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 370,810	$ 4,186	$ (878)[(b)]	$ 374,118
Cost of services	321,182	2,734	(878)[(b)]	323,038
Gross profit	49,628	1,452		51,080
Selling, general and administrative expenses	48,104	2,885	62[(c)]	50,794
			(257)[(g)]	
Gain on sale of assets	(56)			(56)
Income (loss) from operations	1,580	(1,433)	195	342
Interest and other (income) expense				
Interest expense	1,425	696	(696)[(e)]	1,425
Interest income	(123)			(123)
Other (income) expense, net	1,048	1,126		2,174
Interest and other expense, net	2,350	1,822	(696)	3,476
(Loss) income from operations before income taxes	(770)	(3,255)	891	(3,134)
Provision (benefit) for income taxes	264		(26)[(f)]	238
Net (loss) income from continuing operations	$ (1,034)	$ (3,255)	$ 917	$ (3,372)
Earnings (loss) per share from continuing operations				
Basic	$ (0.07)			$ (0.23)
Diluted	$ (0.07)			$ (0.23)
Shares used in the computation of earnings (loss) per share				
Basic	14,882,687			14,882,687
Diluted	14,882,687			14,882,687

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the nine months ended June 30, 2013

Combined

(In thousands, except share and per share amounts)

	IES	MISCOR	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 370,810	$ 35,436	$ 4,186	$ (878)(b)	$ 409,554
Cost of services	321,182	27,655	2,734	(878)(b)	350,486
				(822)(d)	
				615(d)	
Gross profit	49,628	7,781	1,452	207	59,068
Selling, general and administrative expenses	48,104	7,181	2,885	(359)(c)	55,820
				257(c)	
				(105)(d)	
				66(d)	
				(2,209)(g)	
Gain on sale of assets	(56)				(56)
Income (loss) from operations	1,580	600	(1,433)	2,557	3,304
Interest and other (income) expense					
Interest expense	1,425	291	696	(987)(e)	1,821
				396(e)	
Interest income	(123)				(123)
Other (income) expense, net	1,048	39	1,126		2,213
Interest and other expense, net	2,350	330	1,822	(591)	3,911
(Loss) income from operations before income	(770)	270	(3,255)	3,148	(607)
Provision (benefit) for income taxes	264	(1,855)		1,891(f)	300
Net (loss) income from continuing operations	$ (1,034)	$ 2,125	$ (3,255)	$ 1,257	$ (907)
Earnings (loss) per share from continuing operations					
Basic	$ (0.07)				$ (0.05)
Diluted	$ (0.07)				$ (0.05)
Shares used in the computation of earnings (loss) per share					
Basic	14,882,687			2,634,146(Note3)	17,516,833
Diluted	14,882,687			2,634,146(Note3)	17,516,833

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the year ended September 30, 2012

MISCOR Transaction

(In thousands, except share and per share amounts)

	IES	MISCOR	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 456,115	$ 48,983	$	$ 505,098
Cost of services	398,063	37,495	(1,449)(d)	434,930
			821(d)	
Gross profit	58,052	11,488	628	70,168
Selling, general and administrative expenses	58,609	8,963	(422)(c)	67,347
			260(c)	
			(150)(d)	
			87(d)	
Gain on sale of assets	(168)			(168)
Income (loss) from operations	(389)	2,525	853	2,989
Interest and other (income) expense				
Interest expense	2,324	787	(787)(e)	2,852
			528(e)	
Interest (income)	(34)			(34)
Other (income), net	(62)	(162)		(224)
Interest and other expense (income), net	2,228	625	(259)	2,594
Income (loss) from operations before income taxes	(2,617)	1,900	1,112	395
Provision (benefit) for income taxes	38		(f)	38
Net (loss) income from continuing operations	$ (2,655)	$ 1,900	$ 1,112	$ 357
Earnings (loss) per share from continuing operations				
Basic	$ (0.18)			$ 0.02
Diluted	$ (0.18)			$ 0.02
Shares used in the computation of earnings (loss) per share				
Basic	14,625,776		2,634,146(Note3)	17,259,922
Diluted	14,625,776		2,634,146(Note3)	17,381,797(h)

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the year ended September 30, 2012

Acro Transaction

(In thousands, except share and per share amounts)

	IES	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 456,115	$ 14,824	$(8,596)[(b)]	$ 462,343
Cost of services	398,063	10,019	(8,596)[(b)]	399,486
Gross profit	58,052	4,805		62,857
Selling, general and administrative expenses	58,609	8,462	147[(c)]	67,218
Impairment/(Gain) on sale of assets	(168)	1,297		1,129
Income (loss) from operations	(389)	(4,954)	(147)	(5,490)
Interest and other (income) expense				
Interest expense	2,324	400	(400)[(e)]	2,324
Interest (income)	(34)	(126)		(160)
Other (income), net	(62)	(524)		(586)
Interest and other expense (income), net	2,228	(250)	(400)	1,578
Income (loss) from operations before income taxes	(2,617)	(4,704)	253	(7,068)
Provision (benefit) for income taxes	38	1	[(f)]	39
Net (loss) income from continuing operations	$ (2,655)	$ (4,705)	$ 253	$ (7,107)
Earnings (loss) per share from continuing operations				
Basic	$ (0.18)			$ (0.49)
Diluted	$ (0.18)			$ (0.49)
Shares used in the computation of earnings (loss) per share				
Basic	14,625,776			14,625,776
Diluted	14,625,776			14,625,776

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the year ended September 30, 2012

Combined

(In thousands, except share and per share amounts)

	IES	MISCOR	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 456,115	$ 48,983	$ 14,824	$ (8,596)(b)	$ 511,326
Cost of services	398,063	37,495	10,019	(8,596)(b)	436,353
				(1,449)(d)	
				821(d)	
Gross profit	58,052	11,488	4,805	628	74,973
Selling, general and administrative expenses	58,609	8,963	8,462	(422)(c)	75,956
				407(c)	
				(150)(d)	
				87(d)	
Impairment/(Gain) on sale of assets	(168)		1,297		1,129
Income (loss) from operations	(389)	2,525	(4,954)	706	(2,112)
Interest and other (income) expense					
Interest expense	2,324	787	400	(1,187)(e)	2,852
				528(e)	
Interest (income)	(34)		(126)		(160)
Other (income), net	(62)	(162)	(524)		(748)
Interest and other expense (income), net	2,228	625	(250)	(659)	1,944
Income (loss) from operations before income taxes	(2,617)	1,900	(4,704)	1,365	(4,056)
Provision (benefit) for income taxes	38		1	(f)	39
Net (loss) income from continuing operations	$ (2,655)	$ 1,900	$ (4,705)	$ 1,365	$ (4,095)
Earnings (loss) per share from continuing operations					
Basic	$ (0.18)				$ (0.24)
Diluted	$ (0.18)				$ (0.24)
Shares used in the computation of earnings (loss) per share					
Basic	14,625,776			2,634,146(Note3)	17,259,922
Diluted	14,625,776			2,634,146(Note3)	17,259,922

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

(All Dollar Amounts in Thousands Except Per Share Amounts)

Note 1: Description of Transactions

MISCOR

On March 13, 2013, IES and MISCOR entered into a definitive merger agreement pursuant to which, subject to the terms and conditions set forth in the agreement and discussed below, MISCOR will merge with and into IES Subsidiary Holdings, Inc., a wholly-owned subsidiary of IES (Merger Sub), with Merger Sub surviving the merger as the surviving corporation, a wholly-owned subsidiary of IES (the MISCOR Transaction). At the effective time of the merger, all outstanding MISCOR restricted stock will immediately vest into MISCOR common stock, and IES will issue, subject to the terms of the merger agreement, at the election of each MISCOR shareholder, shares of IES common stock or cash for each share of MISCOR common stock issued and outstanding (including shares of MISCOR common stock issued upon exercise of MISCOR options and warrants, if any), subject to the Maximum Cash Amount (as described in Note 3 to these unaudited pro forma condensed combined financial statements). At the time of this filing, it is expected by IES management that MISCOR shareholders holding approximately 75% of MISCOR s issued and outstanding common stock (as of the Merger Consideration Determination Date, as defined below) will elect to receive shares of IES common stock in the merger and that MISCOR shareholders holding approximately 25% of MISCOR s issued and outstanding common stock (as of such date) will elect to receive cash consideration. See Note 3 to these unaudited pro forma condensed combined financial statements for a discussion of the facts underlying this assumption.

Based on the assumptions described in Note 3 to these unaudited pro forma condensed combined financial statements, which assumptions will not be definitively determined until the fifteenth business day prior to the closing date of the merger (the Merger Consideration Determination Date), each MISCOR shareholder will have the right to receive, subject to the terms of the merger agreement, at his or her election, either $1.47 in cash or 0.298 shares of IES common stock for each share of MISCOR common stock issued and outstanding, subject to the sensitivity assumptions set forth herein. See Note 3 to these unaudited pro forma condensed combined financial statements for further discussion of these assumptions and a sensitivity analysis related to the potential consideration that may be received by MISCOR shareholders.

Acro

On February 8, 2013, IES Renewable Energy, LLC (IES Renewable), an indirect wholly-owned subsidiary of IES, entered into an asset purchase agreement with a group of entities operating under the name of the Acro Group: Residential Renewable Technologies, Inc., Energy Efficiency Solar, Inc. and Lonestar Renewable Technologies Acquisition Corp. (collectively, the Acro Group). Pursuant to the terms of the asset purchase agreement, IES agreed to acquire certain assets (the Acquired Assets) in connection with the Acro Group s turn-key residential solar integration business (the Acro Transaction). The Acquired Assets include, but are not limited to, assets relating to the Acro Group s solar installation sales and marketing platform and the backlog of contracts entered into by the Acro Group with residential solar customers, which provide for the payment of sales and marketing fees in connection with the sale, installation and third-party financing of residential solar equipment. The transaction closed on February 15, 2013 (the Closing Date).

Following consummation of the transaction, IES Residential, Inc. (IES Residential), a wholly-owned subsidiary of IES, began offering full-service residential solar integration services, including design, procurement, permitting, installation, financing services through third parties and warranty services for residential customers. IES Residential had previously provided solar installation subcontracting services to the Acro Group, and as of February 8, 2013, was owed $3,800 for subcontracting services provided up to that date (such balance, as of the day prior to the Closing Date, the Accounts Receivable Balance).

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Total consideration received by the Acro Group for the Acquired Assets consists of (i) IES Residential s release of the Accounts Receivable Balance, (ii) payment by IES Renewable to the Acro Group of a percentage of future gross revenue generated from the Acquired Assets in an amount not to exceed $2,000 over the 12-month period beginning the first full month following the Closing Date, subject to certain reductions as described in the asset purchase agreement, and (iii) $828 representing amounts paid by IES Residential, to the Acro Group to fund certain of its operating expenses between January 4, 2013 and the Closing Date.

On February 21, 2013, an affiliate of the Acro Group, Acro Energy Technologies, Inc. (the Debtor), filed a petition under Chapter 7 of the United States Code with the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the bankruptcy case). The Debtor was not party to the asset purchase agreement or otherwise involved in the Acro asset transaction. As such, the bankruptcy case is not anticipated to have an impact on the asset purchase agreement, the transactions contemplated thereunder or the Acquired Assets.

According to Note 5 to the Consolidated Financial Statements of Lonestar Renewable Technologies Corp. (referred to herein as Acro or Lonestar) for the years ended December 31, 2012 and 2011, on May 13, 2011, Lonestar granted collateral security on all of its assets and the assets of two of its subsidiaries to four individuals (the Secured Parties) who had advanced sums and other financial accommodations to Lonestar. Thereafter, on June 19, 2012, the Secured Parties assigned their collateral security rights to Residential Renewable Technologies, Inc. (Residential), and Lonestar assigned all of its assets to Residential, which agreed to lease the assets to Energy Efficiency Solar, Inc., a subsidiary of Lonestar, for a monthly lease payment of $1.00.

The financial statements of Lonestar for the year ending December 31, 2012 do not appear to reflect the transfer of assets to Residential. The assets and operations acquired by IES are fully included in the financial statements of Lonestar, thus precluding the necessity to include the financial statements of Residential. Residential is a party to the asset purchase agreement because it owned certain assets acquired by IES.

Both the MISCOR Transaction and the Acro Transaction are significant and, as such, are presented separately in the unaudited pro forma condensed combined financial statements. The combination of the MISCOR Transaction and the Acro Transaction is referred to as the Transactions in the notes to these unaudited pro forma condensed combined financial statements.

Note 2: Basis of Presentation

The Transactions are reflected in the unaudited pro forma condensed combined financial statements as being accounted for under the acquisition method of accounting. Under the acquisition method, the total estimated purchase price for the MISCOR Transaction as described in Note 3 will be measured at the closing date of the MISCOR Transaction using the quoted market price of IES common stock at that time, which may be different from the VWAP as defined and discussed further in Note 3. Therefore, this may result in a per-share equity value that is different from that assumed for purposes of preparing these unaudited pro forma condensed combined financial statements. The assets and liabilities of MISCOR and Acro have been measured at fair value based on various preliminary estimates using assumptions that IES management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. There are limitations on the type of information that can be exchanged between MISCOR and IES at this time. Until the MISCOR acquisition is complete, IES will not have complete access to all relevant information.

The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows. The excess of the estimated purchase consideration over the estimated amounts of identifiable assets and liabilities of MISCOR and Acro as of the effective dates of the Transactions have been allocated to Goodwill. The purchase price allocation is subject to finalization of IES analysis of the fair value of the assets and liabilities of MISCOR and Acro as of the effective dates of the Transactions. Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuations. Such adjustments could be material.

In accordance with the SEC s rules and regulations, the unaudited pro forma condensed combined financial statements do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Transactions or the costs to integrate the operations of IES, MISCOR and Acro or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

IES is performing a detailed review of MISCOR s accounting policies. As a result of this review, IES may identify differences between the accounting policies that, when conformed, could have a material impact on the consolidated financial statements of the combined company.

Certain reclassifications have been made to the historical presentation of MISCOR and Acro to conform to the presentation used in the unaudited pro forma condensed combined financial statements. Upon consummation of the MISCOR Transaction, further review of MISCOR s financial statements may result in additional revisions to MISCOR s classifications to conform to IES presentation.

Note 3: Estimate of Consideration Expected to be Transferred

MISCOR

The following is a preliminary estimate of the consideration expected to be transferred to effect the acquisition of MISCOR. Pursuant to the merger agreement, the aggregate cash consideration to be paid in connection with the merger shall not exceed a threshold (the Maximum Cash Amount) equal to the product obtained by multiplying (x) the per share cash consideration by (y) 50% of the number of shares of MISCOR common stock outstanding immediately prior to the effective time of the merger. The Maximum Cash Amount will be equal to approximately 50% of the total consideration received by MISCOR shareholders in the merger.

One of the variables incorporated in the unaudited pro forma financial statements for the MISCOR Transaction is the assumption of IES management that MISCOR shareholders holding approximately 75% of MISCOR s issued and outstanding common stock (as of the Merger Consideration Determination Date) will elect to receive shares of IES common stock in the merger and that MISCOR shareholders holding approximately 25% of MISCOR s issued and outstanding common stock (as of such date) will elect to receive cash consideration. This is IES management s best estimate at this time, which is based, in part, on the expectation that Tontine will elect to receive stock consideration for 100% of its MISCOR common stock (or 49.9% of MISCOR s outstanding common stock as of August 8, 2013) and John Martell will elect to receive stock consideration for between 18.3% and 54.8% of his MISCOR common stock (or between 4.2% and 12.7% of MISCOR s outstanding common stock as of August 8, 2013).

Mr. Martell and representatives of Tontine have each engaged in non-binding discussions with representatives of MISCOR and IES regarding their intentions to elect to receive sufficient stock consideration in the merger to avoid triggering the Maximum Cash Amount and, thereby, limiting the cash consideration available to unaffiliated MISCOR shareholders in the merger.

Tontine has indicated that it intends to take stock consideration for 100% of its MISCOR common stock, subject to the exercise of fiduciary duties in the management of its funds and other factors. Similarly, Mr. Martell has indicated that he intends to exchange at least 500,000 shares and up to 1,500,000 shares of MISCOR common stock for IES common stock (or between 18.3% and 54.8% of his shares of MISCOR common stock as of August 8, 2013), depending on certain factors and considerations. Based on these non-binding indications, IES management anticipates (as described above) that, at a minimum, 54% of the MISCOR common stock outstanding as of August 8, 2013 will elect to receive stock consideration in the merger.

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The table below shows the sensitivity of using the floor, which assumes a 50% split between cash consideration and stock consideration, and the ceiling, which assumes 100% stock consideration.

	Sensitivity Assumptions:		
	50% Stock 50% Cash	75% Stock 25% Cash	100% Stock
Total estimate of consideration expected to be transferred[(b)(e)]	$ 24,000	$ 24,000	$ 24,000
Less: MISCOR debt balance at August 8, 2013[(b)(g)]	$ 6,720	$ 6,720[(f)]	$ 6,720
Equals: Estimate of consideration after MISCOR debt balance	$ 17,280	$ $17,280	$ $17,280
Allocation to: Estimated cash consideration[(b)]	$ 8,640	$ 4,320[(f)]	$
Allocation to: IES common stock equity consideration[(b)(e)]	$ 8,640	$ 12,960[(h)]	$ 17,280
Number of shares of MISCOR common stock (including shares of restricted stock) outstanding as of August 8, 2013	11,765,987	11,765,987	11,765,987
Plus: Number of MISCOR stock options outstanding as of August 8, 2013	1,000	1,000	1,000
Plus: Number of MISCOR warrants outstanding as of August 8, 2013	8,079	8,079	8,079
Equals: Total MISCOR equity units as of August 8, 2013[(a)]	11,775,066	11,775,066	11,775,066
MISCOR equity units electing to receive stock consideration[(b)]	5,887,533	8,831,300	11,775,066
Estimated cash consideration per share[(i)]	$ 1.47	$ 1.47	$ 1.47
IES common stock share price on August 8, 2013[(b)(d)]	$ 4.92	$ 4.92	$ 4.92
IES shares expected to be issued as stock consideration[(b)]	1,756,098	2,634,146	3,512,195
Estimated exchange ratio[(b)(c)]	0.298	0.298	0.298
Pro forma earnings per share for the year ended September 30, 2012 MISCOR only	$ 0.02	$ 0.02	$ 0.02
Pro forma earnings per share for the period ended June 30, 2013 MISCOR only	$ 0.08	$ 0.08	$ 0.08

(a) Assumes for purposes of these unaudited pro forma condensed combined financial statements that the total number of MISCOR equity units outstanding as of August 8, 2013 is reflective of the total number of MISCOR equity units that will be outstanding as of the Merger Consideration Determination Date.

(b) Actual amounts may vary from these estimates based on, among other factors, (i) the number of MISCOR equity units for which cash consideration is elected and the number of MISCOR equity units for which stock consideration is elected, (ii) the volume-weighted average of the sale prices per share of IES common stock for the 60 consecutive trading days ending on the Merger Consideration Determination Date (the IES Common Stock Value), (iii) if the IES Common Stock Value is greater than $6.036 per share or less than $4.024 per share (the VWAP Collar) on the Consideration Determination Date, (iv) the market price of IES common stock on the closing date, (v) fluctuations in MISCOR s Net Debt prior to the Merger Consideration Determination Date, and (vi) the number of MISCOR stock options and warrants actually exercised. See sensitivity disclosures below.

(c) Estimated exchange ratio equal to (x) the estimated cash consideration of $1.47 per share (see footnote (i) below), divided by (y) the closing price of IES common stock, as reported on the NASDAQ Global Market System on August 8, 2013 (see footnote (d) below).

(d) Assumes for purposes of these unaudited pro forma condensed combined financial statements that the closing price of IES common stock, as reported on the NASDAQ Global Market System on August 8, 2013, of $4.92 per share may better reflect the anticipated VWAP of IES common stock for the 60-day period ending on the Merger Consideration Determination Date than the VWAP of IES common stock for the 60- day period ending on August 8, 2013 of $4.9230. Keeping all other factors unchanged, using the VWAP of IES common stock for the 60-day period ended on August 8, 2013, in lieu of the market price of IES common stock at August 8, 2013, in the calculation of estimated consideration set forth in the table above would not have a material impact on the overall consideration because the closing price of IES common

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stock on August 8, 2013 is approximately equal to the VWAP of IES common stock for the 60-day period ending on August 8, 2013.

(e) The estimated consideration expected to be transferred related to the MISCOR acquisition reflected in these unaudited pro forma condensed combined financial statements does not purport to represent what the actual consideration transferred will be when the transaction is completed. The fair value of the shares of IES common stock to be issued as part of the consideration transferred is required to be measured on the closing date of the transaction at the then-current market price of IES common stock. This requirement will likely result in a per-share equity component different from what has been assumed in these unaudited pro forma condensed combined financial statements and that difference may be material.

A $1.00 increase in the closing price per share for IES common stock, as reported on the NASDAQ Global Market system on August 8, 2013 (see footnote (d) above) would not have a material impact on the overall consideration because a market price of $5.92 per share would be within the VWAP Collar. A $1.00 decrease in the closing price per share for IES common stock, as reported on the NASDAQ Global Market system on August 8, 2013 would be below the VWAP floor of $4.024. This would result in approximately $335 in lower overall consideration which would be recorded against Goodwill. The total consideration for the MISCOR acquisition may be higher or lower than $24,000 as a result of the fluctuations in the factors described in footnote (b) above, including, specifically, if the IES Common Stock Value is outside of the VWAP Collar. Given that this information is not yet available to IES, these unaudited pro forma condensed combined financial statements assume that total consideration will be $24,000.

(f) Cash adjustment in unaudited pro forma condensed combined balance sheet is $11,040.

(g) Assumes for purposes of these unaudited pro forma condensed combined financial statements that MISCOR s total debt outstanding at August 8, 2013 of $6,720 may better reflect MISCOR s anticipated Net Debt as of the Merger Consideration Determination Date than MISCOR s Net Debt for the 30-day period ended as of August 8, 2013 of $6,261. Net Debt, as defined in the merger agreement, is a 30-day average of the sum of MISCOR s funded debt and other debt, not including ordinary trade payables. Keeping all other factors unchanged, using MISCOR s Net Debt for the 30-day period ended August 8, 2013, in lieu of MISCOR s total debt outstanding as of August 8, 2013, in the calculation of estimated consideration set forth in the table above would result in an increase in consideration after the MISCOR debt balance of approximately $460, which would be recorded as an increase to Goodwill in the unaudited pro forma condensed combined balance sheet.

(h) Allocation on the unaudited pro forma condensed combined balance sheet between Common Stock and APIC is $26 and $12,934, respectively, based on par value of $0.01.

(i) Estimated cash consideration per share equal to (x) the difference between $24,000 and MISCOR s debt balance as of August 8, 2013 (see footnote (g) above) divided by (y) the number of MISCOR equity units outstanding as of August 8, 2013 (see footnote (a) above).

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Note 4: Preliminary Purchase Price Allocation

The following is a preliminary estimate of the assets acquired and liabilities assumed by IES in the MISCOR acquisition, reconciled to the estimate of consideration expected to be transferred:

Estimate of consideration expected to be transferred (see Note 3)	$ 24,000
Book value of net assets (liabilities) acquired at June 30, 2013	$ 14,855
Plus: Debt at June 30, 2013 repaid in connection with the transaction	5,785
Equals: Adjusted book value of net assets acquired	20,640
Fair value and deferred tax adjustments to (see Note 5):	
Intangible assets(c)	(1,976)
Fixed assets(d)	1,997
Deferred tax assets(f)	(149)
Deferred tax liabilities(f)	(2,273)
Unfavorable leases(c)	(660)
Goodwill	6,421
Total fair value and deferred tax adjustments	3,360
Fair value of net assets acquired	$ 24,000

Note 5: Adjustments to Unaudited Pro Forma Condensed Combined Financial Statements

(a) Liabilities and Equity Not Acquired: Based on the terms of the MISCOR purchase agreement, MISCOR outstanding debt will be retired commensurate with the merger. The unaudited pro forma condensed combined financial statements have been adjusted to remove such debt as well as historical MISCOR equity at the respective historical carrying values.

(b) Intercompany Eliminations: Reflects the elimination of revenue and cost of services in connection with historical services provided by IES to Acro and related Acro cost for these services as if the entities were combined as of October 1, 2011 for the unaudited pro forma condensed combined statements of operations. There were no related transactions between IES and MISCOR for elimination purposes.

(c) Intangible Assets: The fair value of identifiable intangible assets is determined primarily using the income approach, which requires a forecast of all of the expected future cash flows either through the use of the relief-from-royalty method or the multi-period excess earnings method. Some of the more significant assumptions inherent in the development of intangible asset values include: the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows, and the assessment of the asset s life cycle, as well as other factors. However, for purposes of these unaudited pro forma condensed combined financial statements, using certain high-level assumptions, the fair value of the identifiable intangible assets, the related amortization expense and their weighted-average useful lives have been estimated as follows:

					Amortization Expense	
	Carrying Value	**Estimated Fair Value**	**Step Up (Down)**	**Weighted Average Estimated Useful Life**	**Year Ended September 30, 2012**	**Nine Months Ended June 30, 2013**
MISCOR						
Trademarks	$	$ 1,200	$ 1,200	Indefinite	$	$
Technical library	505	400	(105)	20 Years	20	15
Customer relationships	5,571	2,500	(3,071)	6.8 Years	369	277

Unfavorable leases		(660)	(660)	5.1 Years	(129)	(97)
Total MISCOR, net[(2)]	$ 6,076	$ 3,440	$ (2,636)		$ 260	$ 195

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	Carrying Value	Estimated Fair Value	Step Up (Down)	Weighted Average Estimated Useful Life	Amortization Expense Year Ended September 30, 2012	Amortization Expense Period Ended February 14, 2013
Acro						
Backlog	$	$ 350	$ 350	5 Months	$ (1)	$ (1)
Covenant not-to-compete		140	140	3 Years	47	23(3)
Developed technology		400	400	4 Years	100	50(3)
Total Acro, net(2)		890	890		147	73
Total MISCOR and Acro, net	$ 6,181	$ 4,330	$ (1,851)		$ 407	$ 203(3)

(1) Note that subsequent amortization of the new backlog intangible asset recorded at fair value is expected to be less than 12 months. As this does not have a continuing impact, the unaudited pro forma condensed combined statements of operations do not include this amortization expense.

(2) MISCOR fair value adjustments, excluding unfavorable leases, is $(1,976).

(3) Note that amortization expense of $11 was recorded subsequent to the acquisition of Acro. This amount was excluded from the as calculated pro forma interest expense for the period.

Historical MISCOR amortization of $359 and $422 for the nine months ended June 30, 2013 and the year ended September 30, 2012, respectively, is derecognized in the unaudited pro forma statements of operations.

These preliminary estimates of fair value and estimated useful life will likely be different from the final acquisition accounting, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements. Once IES has full access to the specifics of MISCOR s intangible assets, additional insight will be gained that could impact: (i) the estimated total value assigned to intangible assets and (ii) the estimated weighted average useful life of each category of intangible assets. The estimated intangible asset values and their useful lives could be impacted by a variety of factors that may become known to IES only upon access to the additional information and/or changes in such factors that may occur prior to the effective time of the transaction.

(d) Fixed Assets: For purposes of these unaudited pro forma condensed combined financial statements, IES has estimated the fair values of MISCOR fixed assets set forth below. This estimate of fair value is preliminary and subject to change once IES has sufficient information as to the specific types, nature, age, condition and location of MISCOR fixed assets. The below table calculates the MISCOR step up adjustment and related depreciation expense recorded in the accompanying unaudited pro forma condensed combined financial statements:

	Carrying Value	Estimated Fair Value	Step Up (Down)	Remaining Useful Life (in years)	Depreciation Expense Year Ended September 30, 2012	Depreciation Expense Nine Months Ended June 30, 2013
MISCOR						
Land	$ 250	$ 250	$	N/A	$ N/A	$ N/A
Buildings	1,319	1,550	231	20	78	58
Leasehold improvements	280	301	21	3	100	75
Machinery and equipment	2,528	2,778	250	7	397	298
Construction in process(1)	110	308	198	N/A	(1)	(1)
Vehicles		46	46	3	15	12
Office & computer equipment	180	1,431	1,251	4.5	318	238
Total MISCOR	**$ 4,667**	**$ 6,664**	**$ 1,997**		**$ 908**	**$ 681**
Allocated to cost of services					821	615
Allocated to SG&A					87	66

(1) Carrying value expected to approximate fair value for construction in process and is not depreciated consistent with IES accounting policies.

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Historical MISCOR depreciation of $927 ($822 cost of services and $105 selling, general and administrative) and $1,599 ($1,449 cost of services and $150 selling, general and administrative) for the nine months ended June 30, 2013 and the year ended September 30, 2012, respectively, was derecognized in the unaudited pro forma condensed combined statements of operations.

(e) Debt and Interest: Based on the terms of the asset purchase agreement with Acro, none of the historical Acro debt was assumed by IES in the transaction. As such, there is an adjustment in the unaudited pro forma condensed combined statements of operations to remove the interest related to this debt as it will not have a continuing impact.

Based on the terms of the definitive merger agreement, the MISCOR debt will be assumed in the transaction by IES. Simultaneous with the closing of the MISCOR Transaction, IES expects to refinance the assumed debt with a new $10,000 fixed rate term loan with Wells Fargo which is expected to bear interest at 5.03% per annum. Approximately $2,500 is due within the first year and $7,500 thereafter. Debt issue costs are estimated at $100, which are expected to be amortized over approximately 4 years. To reflect this refinancing and the related deal terms, there is an adjustment to remove the historical debt and related interest expense in the unaudited pro forma condensed combined financial statements. A summary of the pro forma adjustment to interest expense is as follows:

Year Ended September 30, 2012	**MISCOR**	**Acro**	**Total**
Annual interest expense on new term loan	$ 503	$	$ 503
Annual amortization of debt issue costs	25		25
Total annual pro forma interest expense	528		528
Historical annual interest expense	787	400	1,187
Net pro forma adjustment to interest expense	$ 259	$ 400	$ 659

Nine Months Ended June 30, 2013	**MISCOR**	**Acro**	**Total**
Pro forma interest expense on new term loan	$ 377	$	$ 377
Annual amortization of debt issue costs	19		19
Total pro forma interest expense	396		396
Less: Historical interest expense	291	696	987
Net pro forma adjustment to interest expense	$ 105	$ (696)	$ (591)

(f) Deferred taxes:

In assessing the recovery of net operating loss carryforwards, IES considers whether it is more likely than not that some portion or all of net operating loss carryforwards will be realized. The realization of net operating loss carryforwards is dependent upon the generation of taxable income during the periods the net operating loss carryforwards may be utilized. In assessing the likelihood of future taxable income, considerably more weight is placed upon historical results and less weight on future projections when there is negative evidence such as cumulative pretax loss in recent years. IES believes the future benefits of the Transactions are not of sufficient weight to offset the historical cumulative pretax loss generated by IES. Accordingly, IES has provided a valuation allowance for the net operating loss carryforward resulting from the pretax loss for year ended September 30, 2012. The effect of the net operating loss carryfoward results in actual income tax expense from the pro forma adjustment differing from income tax expense computed by applying the statutory corporate tax rate. No income tax expense or benefit was recorded in the unaudited pro forma condensed combined statement of operations for the year ended September 30, 2012 as a result of the pro forma adjustments.

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For the nine month period ended June 30, 2013, MISCOR recognized an income tax benefit of $1,942 related to reducing a valuation allowance for the utilization of future net operating loss carryforwards. IES believes on a combined basis it is not more likely than not that this is recoverable and has provided for $1,942 pro forma adjustment to reverse the income tax benefit of the valuation allowance adjustment. Additionally, IES recorded a $51 income tax benefit due to the effect of the pro forma adjustment resulting in a net pro forma income tax provision adjustment of $1,891. A net pro forma income tax provision of $1,917 is applicable to MISCOR and a net pro forma income tax benefit of $26 is applicable to Acro. The net operating loss carryfoward results in actual income tax expense form the pro forma adjustment differing from income tax expense computed by applying the statutory corporate tax rate.

MISCOR

A summary of MISCOR deferred tax assets and deferred tax liabilities is as follows (in thousands):

	Deferred Tax Assets	Valuation Allowance	Deferred Tax Liabilities	Total
Historical MISCOR balances as of June 30, 2013	$ 11,035	$ (9,093)	$	$ 1,942
Pro forma Adjustments:				
To confirm MISCOR presentation to IES	837		(837)	
Revaluation of trademarks			(480)	(480)
Revaluation of customer relationships and technical library	1,350			1,350
Recharacterization of goodwill as non-deductible	(1,949)			(1,949)
Revaluation of property and equipment			(692)	(692)
Unfavorable operating leases			(264)	(264)
Adjust Valuation Allowance		(387)		(387)
Total pro forma adjustments	238(1)	(387)(1)	(2,273)	(2,422)
Pro forma deferred taxed related to MISCOR	$ 11,273	$ (9,480)	$ (2,273)	$ (480)

(1) Net adjustment is $149 as shown in Note 4.

A valuation allowance of $9,480 is provided for the deferred tax assets. IES believes $1,793 of deferred tax assets will be offset by deferred tax liabilities. The remaining deferred tax liability of $480 is related to an indefinite lived intangible asset. For purposes of these unaudited pro forma condensed combined financial statements, deferred tax assets are provided at the 35% U.S. federal statutory income tax rate and 5% state blended income tax rate.

Acro

Since the Acro Transaction was taxable, no deferred taxes were recorded as the tax bases and financial reporting bases are revalued in the same manner.

(g) Reflects an estimate of the future costs of $932 directly attributable to the Transactions, including advisory and legal fees that are recorded as an adjustment to the unaudited pro forma condensed combined balance sheet only. These amounts will be expensed as incurred in the future and are not reflected in the unaudited pro forma condensed combined statement of operations because they have not yet been incurred for accompanying periods presented and they will not have a continuing impact. We incurred expenses of $2,209 in the period ended June 30, 2013, which is the amount of direct, incremental costs for the MISCOR and Acro transactions recorded in these historical financial statements. Of these amounts incurred, $1,952 related to the MISCOR Transaction, while $257 related to the Acro Transaction. There were no such expenditures incurred in the year ended September 30, 2012. For pro forma purposes, these expenditures have been removed from the unaudited pro forma condensed combined statements of operations as they will not have a continuing impact.

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(h) For the nine months ended June 30, 2013 and the year ended September 30, 2012, for the MISCOR transaction, IES on a pro forma basis has income from continuing operations. Therefore, 14,958,659 and 14,747,651 shares are the diluted number of shares, respectively, before issuing 2,634,146 pro forma shares in connection with the transaction, which in total, equal 17,592,805 and 17,381,797 shares, respectively.

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INTEGRATED ELECTRICAL SERVICES, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Integrated Electrical Services, Inc.

We have audited the accompanying consolidated balance sheets of Integrated Electrical Services, Inc. and subsidiaries (the Company) as of September 30, 2012 and 2011, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended September 30, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated Electrical Services, Inc. and subsidiaries at September 30, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Houston, Texas

December 14, 2012

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In Thousands, Except Share Information)

	Years Ended September 30, 2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,729	$ 35,577
Restricted cash	7,155	
Accounts receivable:		
Trade, net of allowance of $1,788 and $2,704, respectively	76,259	85,728
Retainage	17,004	17,944
Inventories	15,141	8,443
Costs and estimated earnings in excess of billings on uncompleted contracts	8,180	9,963
Assets held for sale	1,110	
Prepaid expenses and other current assets	3,807	2,840
Total current assets	147,385	160,495
LONG-TERM RECEIVABLE, net of allowance of $0 and $59, respectively	259	200
PROPERTY AND EQUIPMENT, net	6,480	8,016
GOODWILL	4,446	4,446
OTHER NON-CURRENT ASSETS, net	6,143	7,087
Total assets	$ 164,713	$ 180,244
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 10,456	$ 209
Accounts payable and accrued expenses	68,673	78,980
Billings in excess of costs and estimated earnings on uncompleted contracts	25,255	19,585
Total current liabilities	104,384	98,774
LONG-TERM DEBT, net of current maturities	24	10,289
LONG-TERM DEFERRED TAX LIABILITY	285	284
OTHER NON-CURRENT LIABILITIES	6,863	6,596
Total liabilities	111,556	115,943
STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued and outstanding		
Common stock, $0.01 par value, 100,000,000 shares authorized; 15,407,802 and 15,407,802 shares issued and 14,977,400 and 14,956,473 outstanding, respectively	154	154
Treasury stock, at cost, 430,402 and 451,329 shares, respectively	(4,546)	(5,595)
Additional paid-in capital	163,871	164,262
Retained deficit	(106,322)	(94,520)
Total stockholders equity	53,157	64,301

Total liabilities and stockholders equity	$ 164,713	$ 180,244

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In Thousands, Except Share Information)

	Years Ended September 30,		
	2012	2011	2010
Revenues	$ 456,115	$ 406,141	$ 382,431
Cost of services			