EMCOR GROUP INC
Form 10-Q
October 25, 2018

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under the 2016 Credit Agreement bear interest at (1) a base rate plus a margin of 0.00% to 0.75%, based on certain financial tests, or (2) United States dollar LIBOR (2.24% and 2.39% at September?30, 2018 for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively) plus 1.00% to 1.75%, based on certain financial tests. The base rate is determined by the greater of (a) the prime commercial lending rate announced by Bank of Montreal from time to time (5.25% at September 30, 2018), (b) the federal funds effective rate, plus ? of 1.00%, (c) the daily one month LIBOR rate, plus 1.00%, or (d) 0.00%. The interest rates in effect at September 30, 2018 were 3.24% and 3.39% for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively. Fees for letters of credit issued under the 2016 Revolving Credit Facility range from 1.00% to 1.75% of the respective face amounts of outstanding letters of credit and are computed based on certain financial tests.
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0000105634 us-gaap:OperatingSegmentsMember country:US eme:UnitedStatesBuildingServicesMember 2018-07-01 2018-09-30 0000105634 us-gaap:IntersegmentEliminationMember 2017-07-01 2017-09-30 0000105634 us-gaap:IntersegmentEliminationMember 2018-01-01 2018-09-30 0000105634 us-gaap:OperatingSegmentsMember country:GB eme:UnitedKingdomBuildingServicesMemberMember 2017-01-01 2017-09-30 0000105634 us-gaap:OperatingSegmentsMember country:GB eme:UnitedKingdomBuildingServicesMemberMember 2018-01-01 2018-09-30 0000105634 country:US eme:UnitedStatesBuildingServicesMember 2017-01-01 2017-09-30 0000105634 country:US eme:UnitedStatesMechanicalConstructionAndFacilitiesServicesMember 2017-01-01 2017-09-30 0000105634 country:GB eme:UnitedKingdomBuildingServicesMemberMember 2017-01-01 2017-09-30 0000105634 country:US eme:UnitedStatesElectricalConstructionAndFacilitiesServicesMember 2017-01-01 2017-09-30 0000105634 country:US eme:UnitedStatesIndustrialServicesMember 2017-01-01 2017-09-30 0000105634 us-gaap:OperatingSegmentsMember country:US eme:UnitedStatesIndustrialServicesMember 2018-01-01 2018-09-30 0000105634 country:US 2017-01-01 2017-09-30 0000105634 us-gaap:OperatingSegmentsMember country:US eme:UnitedStatesIndustrialServicesMember 2017-01-01 2017-09-30 0000105634 us-gaap:IntersegmentEliminationMember 2017-01-01 2017-09-30 0000105634 us-gaap:CorporateNonSegmentMember 2018-07-01 2018-09-30 0000105634 us-gaap:CorporateNonSegmentMember 2017-07-01 2017-09-30 0000105634 us-gaap:CorporateNonSegmentMember 2017-01-01 2017-09-30 0000105634 us-gaap:CorporateNonSegmentMember 2018-01-01 2018-09-30 0000105634 us-gaap:OperatingSegmentsMember country:GB eme:UnitedKingdomBuildingServicesMemberMember 2017-12-31 0000105634 us-gaap:OperatingSegmentsMember country:US eme:UnitedStatesIndustrialServicesMember 2018-09-30 0000105634 us-gaap:OperatingSegmentsMember country:US eme:UnitedStatesIndustrialServicesMember 2017-12-31 0000105634 country:US 2017-12-31 0000105634 us-gaap:OperatingSegmentsMember country:GB eme:UnitedKingdomBuildingServicesMemberMember 2018-09-30 0000105634 us-gaap:CorporateNonSegmentMember 2017-12-31 0000105634 us-gaap:CorporateNonSegmentMember 2018-09-30 xbrli:pure xbrli:shares iso4217:USD xbrli:shares iso4217:USD eme:Company eme:plan
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission file number 1-8267

EMCOR GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**11-2125338**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
301 Merritt Seven Norwalk, Connecticut	**06851-1092**
(Address of Principal Executive Offices)	(Zip Code)

(203) 849-7800

(Registrant’s Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x

Applicable Only To Corporate Issuers

Number of shares of Common Stock outstanding as of the close of business on October 22, 2018: 57,560,139 shares.

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PART I. – FINANCIAL INFORMATION.
ITEM 1. FINANCIAL STATEMENTS.
EMCOR Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$353,912	$467,430
Accounts receivable, less allowance for doubtful accounts of $15,890 and $17,230, respectively	1,715,462	1,607,922
Contract assets	168,665	122,621
Inventories	41,932	42,724
Prepaid expenses and other	44,221	43,812
Total current assets	2,324,192	2,284,509
Investments, notes and other long-term receivables	3,542	2,309
Property, plant and equipment, net	128,765	127,156
Goodwill	978,243	964,893
Identifiable intangible assets, net	471,447	495,036
Other assets	89,704	92,001
Total assets	$3,995,893	$3,965,904
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$15,769	$15,364
Accounts payable	529,618	567,840
Contract liabilities	531,284	524,156
Accrued payroll and benefits	343,797	322,865
Other accrued expenses and liabilities	169,100	220,727
Total current liabilities	1,589,568	1,650,952
Borrowings under revolving credit facility	25,000	25,000
Long-term debt and capital lease obligations	258,569	269,786
Other long-term obligations	343,630	346,049
Total liabilities	2,216,767	2,291,787
Equity:		
EMCOR Group, Inc. stockholders' equity:		
Preferred stock, $0.10 par value, 1,000,000 shares authorized, zero issued and outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 60,089,035 and 59,870,980 shares issued, respectively	601	599
Capital surplus	17,162	8,005
Accumulated other comprehensive loss	(93,316)	(94,200)
Retained earnings	1,987,113	1,796,556
Treasury stock, at cost 2,337,405 and 1,072,552 shares, respectively	(133,332)	(37,693)
Total EMCOR Group, Inc. stockholders' equity	1,778,228	1,673,267
Noncontrolling interests	898	850
Total equity	1,779,126	1,674,117
Total liabilities and equity	$3,995,893	$3,965,904

See Notes to Condensed Consolidated Financial Statements.

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EMCOR Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	$2,047,049	$1,886,691	$5,901,323	$5,674,360
Cost of sales	1,737,710	1,591,621	5,032,021	4,838,449
Gross profit	309,339	295,070	869,302	835,911
Selling, general and administrative expenses	197,334	188,980	578,266	554,112
Restructuring expenses	229	46	693	954
Impairment loss on identifiable intangible assets	—	—	907	—
Operating income	111,776	106,044	289,436	280,845
Net periodic pension (cost) income	615	415	2,069	1,209
Interest expense	(3,588)	(3,324)	(10,041)	(9,464)
Interest income	852	277	2,030	607
Income from continuing operations before income taxes	109,655	103,412	283,494	273,197
Income tax provision	29,711	38,608	76,873	98,473
Income from continuing operations	79,944	64,804	206,621	174,724
Loss from discontinued operation, net of income taxes	(523)	(207)	(1,010)	(729)
Net income including noncontrolling interests	79,421	64,597	205,611	173,995
Less: Net income attributable to noncontrolling interests	(48)	—	(48)	—
Net income attributable to EMCOR Group, Inc.	$79,373	$64,597	$205,563	$173,995
Basic earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.37	$1.10	$3.54	$2.94
From discontinued operation	(0.01)	(0.00)	(0.02)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.36	$1.10	$3.52	$2.93
Diluted earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.36	$1.09	$3.52	$2.93
From discontinued operation	(0.01)	(0.00)	(0.02)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.35	$1.09	$3.50	$2.92
Dividends declared per common share	$0.08	$0.08	$0.24	$0.24

See Notes to Condensed Consolidated Financial Statements.

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EMCOR Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income including noncontrolling interests	$79,421	$64,597	$205,611	$173,995
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(289)	(39)	(669)	(730)
Post retirement plans, amortization of actuarial loss included in net income (1)	573	640	1,553	1,874
Other comprehensive income	284	601	884	1,144
Comprehensive income	79,705	65,198	206,495	175,139
Less: Comprehensive income attributable to noncontrolling interests	(48)	—	(48)	—
Comprehensive income attributable to EMCOR Group, Inc.	$79,657	$65,198	$206,447	$175,139

(1) Net of tax of $0.1 million and $0.2 million for the three months ended September 30, 2018 and 2017, respectively, and net of tax of $0.7 million and $0.5 million for the nine months ended September 30, 2018 and 2017, respectively.

See Notes to Condensed Consolidated Financial Statements.

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EMCOR Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)(Unaudited)

	Nine months ended September 30, 2018	2017
Cash flows - operating activities:		
Net income including noncontrolling interests	$205,611	$173,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,685	30,235
Amortization of identifiable intangible assets	31,482	36,320
Provision for doubtful accounts	261	6,027
Deferred income taxes	4,685	(5,991)
Excess tax benefits from share-based compensation	(1,065)	(1,565)
Equity income from unconsolidated entities	(247)	(1,132)
Non-cash expense for impairment of identifiable intangible assets	907	—
Non-cash share-based compensation expense	8,502	7,565
Distributions from unconsolidated entities	2,442	2,308
Other reconciling items	632	(2,830)
Changes in operating assets and liabilities, excluding the effect of businesses acquired	(216,003)	(6,609)
Net cash provided by operating activities	65,892	238,323
Cash flows - investing activities:		
Payments for acquisitions of businesses, net of cash acquired	(25,710)	(82,724)
Proceeds from sale of property, plant and equipment	915	2,125
Purchase of property, plant and equipment	(28,674)	(26,113)
Investments in and advances to unconsolidated entities	(3,484)	—
Distributions from unconsolidated entities	82	—
Net cash used in investing activities	(56,871)	(106,712)
Cash flows - financing activities:		
Repayments of long-term debt and debt issuance costs	(11,434)	(11,401)
Repayments of capital lease obligations	(1,050)	(1,079)
Dividends paid to stockholders	(14,036)	(14,266)
Repurchase of common stock	(90,804)	(90,944)
Taxes paid related to net share settlements of equity awards	(3,745)	(3,376)
Issuance of common stock under employee stock purchase plan	4,286	3,459
Payments for contingent consideration arrangements	(3,300)	(1,017)
Net cash used in financing activities	(120,083)	(118,624)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,985)	2,931
(Decrease) increase in cash, cash equivalents and restricted cash	(113,047)	15,918
Cash, cash equivalents and restricted cash at beginning of year (1)	469,388	466,660
Cash, cash equivalents and restricted cash at end of period (2)	$356,341	$482,578
Supplemental cash flow information:		
Cash paid for:		
Interest	$9,078	$8,507
Income taxes	$95,330	$95,584
Non-cash financing activities:		
Assets acquired under capital lease obligations	$1,035	$1,133

(1)

Includes $2.0 million of restricted cash classified as “Prepaid expenses and other” in the Condensed Consolidated Balance Sheet as of December 31, 2017 and 2016.

(2) Includes $2.4 million and $2.1 million of restricted cash classified as “Prepaid expenses and other” in the Condensed Consolidated Balance Sheet as of September 30, 2018 and 2017, respectively.

See Notes to Condensed Consolidated Financial Statements.

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EMCOR Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)(Unaudited)

		EMCOR Group, Inc. Stockholders					
	Total	Common stock	Capital surplus	Accumulated other comprehensive (loss) income (1)	Retained earnings	Treasury stock	Noncontrolling interests
Balance, December 31, 2016	$1,537,942	$606	$52,219	$(101,703)	$1,596,269	$(10,302)	$ 853
Net income including noncontrolling interests	173,995	—	—	—	173,995	—	—
Other comprehensive income	1,144	—	—	1,144	—	—	—
Common stock issued under share-based compensation plans	1	2	(1)	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(3,376)	—	(3,376)	—	—	—	—
Common stock issued under employee stock purchase plan	3,459	1	3,458	—	—	—	—
Common stock dividends	(14,266)	—	124	—	(14,390)	—	—
Repurchase of common stock (2)	(88,599)	(10)	(55,646)	—	(7,774)	(25,169)	—
Share-based compensation expense	7,565	—	7,565	—	—	—	—
Balance, September 30, 2017	$1,617,865	$599	$4,343	$(100,559)	$1,748,100	$(35,471)	$ 853
Balance, December 31, 2017	$1,674,117	$599	$8,005	$(94,200)	$1,796,556	$(37,693)	$ 850
Net income including noncontrolling interests	205,611	—	—	—	205,563	—	48
Other comprehensive income	884	—	—	884	—	—	—
Cumulative-effect adjustment (3)	(854)	—	—	—	(854)	—	—
Common stock issued under share-based compensation plans	—	1	(1)	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(3,745)	—	(3,745)	—	—	—	—
Common stock issued under employee stock purchase plan	4,286	1	4,285	—	—	—	—
Common stock dividends	(14,036)	—	116	—	(14,152)	—	—
Repurchase of common stock (2)	(95,639)	—	—	—	—	(95,639)	—
Share-based compensation expense	8,502	—	8,502	—	—	—	—
Balance, September 30, 2018	$1,779,126	$601	$17,162	$(93,316)	$1,987,113	$(133,332)	$ 898

(1) Represents cumulative foreign currency translation adjustments and post retirement liability adjustments.
(2) Beginning June 1, 2017, shares of common stock repurchased are held as treasury stock by the Company.
(3) Represents adjustment to retained earnings upon the adoption of Accounting Standards Codification Topic 606.

See Notes to Condensed Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. References to the “Company,” “EMCOR,” “we,” “us,” “our” and similar words refer to EMCOR Group, Inc. and its consolidated subsidiaries unless the context indicates otherwise. Readers of this report should refer to the consolidated financial statements and the notes thereto included in our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of those of a normal recurring nature) necessary to present fairly our financial position and the results of our operations. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.

NOTE 2 New Accounting Pronouncements

On January 1, 2018, we adopted the accounting pronouncement issued by the Financial Accounting Standards Board (“FASB”) to clarify existing guidance on revenue recognition. This guidance includes the required steps to achieve the core principle that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted this pronouncement on a modified retrospective basis, and its impact on our financial position and results of operations, as well as required additional disclosures, are included in Note 3 - Revenue from Contracts with Customers. As a result of the adoption of this standard, certain changes have been made to the Condensed Consolidated Balance Sheets. The accounts previously named “Costs and estimated earnings in excess of billings on uncompleted contracts” and “Billings in excess of costs and estimated earnings on uncompleted contracts” have been renamed “Contract assets” and “Contract liabilities”, respectively. In addition, for periods beginning after December 31, 2017, amounts representing deferred revenues on services contracts, which were previously included in “Other accrued expenses and liabilities” within the Condensed Consolidated Balance Sheets, have been reclassified as “Contract liabilities.”

On January 1, 2018, we adopted the accounting pronouncement issued by the FASB to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires entities to show changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. This guidance was adopted on a retrospective basis, and such adoption did not have a material impact on our financial position and/or results of operations.

In February 2016, an accounting pronouncement was issued by the FASB to replace existing lease accounting guidance. This pronouncement is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet for most leases. Expenses associated with leases will continue to be recognized in a manner similar to current accounting guidance. This pronouncement is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB added a transition practical expedient to reduce the cost and complexity of implementing the new standard. Such transition option eliminates the requirement that entities apply the new lease standard to the comparative periods presented in the year of adoption. We will adopt this pronouncement on January 1, 2019 utilizing such transition option. In preparation for adoption, we have substantially completed a process to identify a complete population of our leases, including the review of various contracts to identify whether such arrangements convey the right to control the use of an identified asset. We have additionally begun implementing new accounting systems to assist with the adoption of this pronouncement and are currently in the process of quantifying the impact that the adoption will have on our financial position and/or results of operations. We have drafted revised accounting policies and will continue to evaluate the impact of the new accounting pronouncement, including enhanced disclosure requirements, on our business processes and controls.

NOTE 3 Revenue from Contracts with Customers

The Company adopted Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers” (“ASC 606”) on January 1, 2018. The adoption of ASC 606 represents a change in accounting principle that aligns revenue recognition with the timing of when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To achieve this core principle, the Company applies the following five steps in accordance with ASC 606:

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

(1) Identify the contract with a customer
A contract with a customer exists when: (a) the parties have approved the contract and are committed to perform their respective obligations, (b) the rights of the parties can be identified, (c) payment terms can be identified, (d) the arrangement has commercial substance, and (e) collectibility of consideration is probable. Judgment is required when determining if the contractual criteria are met, specifically in the earlier stages of a project when a formally executed contract may not yet exist. In these situations, the Company evaluates all relevant facts and circumstances, including the existence of other forms of documentation or historical experience with our customers that may indicate a contractual agreement is in place and revenue should be recognized. In determining if the collectibility of consideration is probable, the Company considers the customer’s ability and intention to pay such consideration through an evaluation of several factors, including an assessment of the creditworthiness of the customer and our prior collection history with such customer.
(2) Identify the performance obligations in the contract
At contract inception, the Company assesses the goods or services promised in a contract and identifies, as a separate performance obligation, each distinct promise to transfer goods or services to the customer. The identified performance obligations represent the “unit of account” for purposes of determining revenue recognition. In order to properly identify separate performance obligations, the Company applies judgment in determining whether each good or service provided is: (a) capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and (b) distinct within the context of the contract, whereby the transfer of the good or service to the customer is separately identifiable from other promises in the contract.
In addition, when assessing performance obligations within a contract, the Company considers the warranty provisions included within such contract. To the extent the warranty terms provide the customer with an additional service, other than assurance that the promised good or service complies with agreed upon specifications, such warranty is accounted for as a separate performance obligation. In determining whether a warranty provides an additional service, the Company considers each warranty provision in comparison to warranty terms which are standard in the industry.
Our contracts are often modified through change orders to account for changes in the scope and price of the goods or services we are providing. Although the Company evaluates each change order to determine whether such modification creates a separate performance obligation, the majority of our change orders are for goods or services that are not distinct within the context of our original contract, and therefore, are not treated as separate performance obligations.
(3) Determine the transaction price
The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to our customers. The consideration promised within a contract may include fixed amounts, variable amounts, or both. To the extent the performance obligation includes variable consideration, including contract bonuses and penalties that can either increase or decrease the transaction price, the Company estimates the amount of variable consideration to be included in the transaction price utilizing one of two prescribed methods, depending on which method better predicts the amount of consideration to which the entity will be entitled. Such methods include: (a) the expected value method, whereby the amount of variable consideration to be recognized represents the sum of probability weighted amounts in a range of possible consideration amounts, and (b) the most likely amount method, whereby the amount of variable consideration to be recognized represents the single most likely amount in a range of possible consideration amounts. When applying these methods, the Company considers all information that is reasonably available, including historical, current and estimates of future performance. The expected value method is typically utilized in situations where a contract contains a large number of

possible outcomes while the most likely amount method is typically utilized in situations where a contract has only two possible outcomes.
Variable consideration is included in the transaction price only to the extent it is probable, in the Company’s judgment, that a significant future reversal in the amount of cumulative revenue recognized under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This threshold is referred to as the variable consideration constraint. In assessing whether to apply the variable consideration constraint, the Company considers if factors exist that could increase the likelihood or the magnitude of a potential reversal of revenue, including, but not limited to, whether: (a) the amount of consideration is highly susceptible to factors outside of the Company’s influence, such as the actions of third parties, (b) the uncertainty surrounding the amount of consideration is not expected to be resolved for a long period of time, (c) the Company’s experience with similar types of contracts is limited or that experience has limited predictive value, (d) the Company has a practice

EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances, and (e) the contract has a large number and broad range of possible consideration amounts.

Pending change orders represent one of the most common forms of variable consideration included within contract value and typically represent contract modifications for which a change in scope has been authorized or acknowledged by our customer, but the final adjustment to contract price is yet to be negotiated. In estimating the transaction price for pending change orders, the Company considers all relevant facts, including documented correspondence with the customer regarding acknowledgment and/or agreement with the modification, as well as historical experience with the customer or similar contractual circumstances. Based upon this assessment, the Company estimates the transaction price, including whether the variable consideration constraint should be applied.

Contract claims are another form of variable consideration which is common within our industry. Claim amounts represent revenue that has been recognized for contract modifications that are not submitted or are in dispute as to both scope and price. In estimating the transaction price for claims, the Company considers all relevant facts available. However, given the uncertainty surrounding claims, including the potential long-term nature of dispute resolution and the broad range of possible consideration amounts, there is an increased likelihood that any additional contract revenue associated with contract claims is constrained. The resolution of claims involves negotiations and, in certain cases, litigation. In the event litigation costs are incurred by us in connection with claims, such litigation costs are expensed as incurred, although we may seek to recover these costs.

For some transactions, the receipt of consideration does not match the timing of the transfer of goods or services to the customer. For such contracts, the Company evaluates whether this timing difference represents a financing arrangement within the contract. Although rare, if a contract is determined to contain a significant financing component, the Company adjusts the promised amount of consideration for the effects of the time value of money when determining the transaction price of such contract. Although our customers may retain a portion of the contract price until completion of the project and final contract settlement, these retainage amounts are not considered a significant financing component as the intent of the withheld amounts is to provide the customer with assurance that we will complete our obligations under the contract rather than to provide financing to the customer. In addition, although we may be entitled to advanced payments from our customers on certain contracts, these advanced payments generally do not represent a significant financing component as the payments are used to meet working capital demands that can be higher in the early stages of a contract, as well as to protect us from our customer failing to meet its obligations under the contract.

Changes in the estimates of transaction prices are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. Such changes in estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in prior periods. Such changes in estimates may also result in the reversal of previously recognized revenue if the ultimate outcome differs from the Company’s previous estimate. For the three and nine months ended September 30, 2018, we recognized revenue of $6.3 million associated with final settlement of contract value for two projects which were completed in prior periods. During the nine months ended September 30, 2017, we recognized $18.1 million of gross profit associated with the recovery of certain contract costs previously disputed on a project completed in 2016. In addition, for the three and nine months ended September 30, 2018 and 2017, there were no significant reversals of revenue recognized associated with the revision to transaction prices.

(4) Allocate the transaction price to performance obligations in the contract

For contracts that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation based on a relative standalone selling price. The Company determines the standalone selling price based on the price at which the performance obligation would have been sold separately in similar circumstances to similar customers. If the standalone selling price is not observable, the Company estimates the standalone selling price taking into account all available information such as market conditions and internal pricing guidelines. In certain circumstances, the standalone selling price is determined using an expected profit margin on anticipated costs related to the performance obligation.

(5) Recognize revenue as performance obligations are satisfied

The Company recognizes revenue at the time the related performance obligation is satisfied by transferring a promised good or service to its customers. A good or service is considered to be transferred when the customer obtains control. The Company can transfer control of a good or service and satisfy its performance obligations either over time or at a point in time. The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time

EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

if one of the following three criteria are met: (a) the customer simultaneously receives and consumes the benefits provided by the Company’s performance as we perform, (b) the Company’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (c) the Company’s performance does not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date.
For our performance obligations satisfied over time, we recognize revenue by measuring the progress toward complete satisfaction of that performance obligation. The selection of the method to measure progress towards completion can be either an input method or an output method and requires judgment based on the nature of the goods or services to be provided.
For our construction contracts, revenue is generally recognized over time as our performance creates or enhances an asset that the customer controls. Our fixed price construction projects generally use a cost-to-cost input method to measure our progress towards complete satisfaction of the performance obligation as we believe it best depicts the transfer of control to the customer. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. For our unit price construction contracts, progress towards complete satisfaction is measured through an output method, such as the amount of units produced or delivered, when our performance does not produce significant amounts of work in process or finished goods prior to complete satisfaction of such performance obligations.
For our services contracts, revenue is also generally recognized over time as the customer simultaneously receives and consumes the benefits of our performance as we perform the service. For our fixed price service contracts with specified service periods, revenue is generally recognized on a straight-line basis over such service period when our inputs are expended evenly, and the customer receives and consumes the benefits of our performance throughout the contract term.
The timing of revenue recognition for the manufacturing of new build heat exchangers within our United States industrial services segment depends on the payment terms of the contract, as our performance does not create an asset with an alternative use to us. For those contracts for which we have a right to payment for performance completed to date at all times throughout our performance, inclusive of a cancellation, we recognize revenue over time. These performance obligations use a cost-to-cost input method to measure our progress towards complete satisfaction of the performance obligation as we believe it best depicts the transfer of control to the customer. However, for those contracts for which we do not have a right, at all times, to payment for performance completed to date, we recognize revenue at the point in time when control is transferred to the customer. For bill-and-hold arrangements, revenue is recognized when the customer obtains control of the heat exchanger, which may be prior to shipping, if the criteria of ASC 606 are met.
For certain of our revenue streams, such as call-out repair and service work, outage services, refinery turnarounds and specialty welding services that are performed under time and materials contracts, our progress towards complete satisfaction of such performance obligations is measured using an output method as the customer receives and consumes the benefits of our performance completed to date.
Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation will be revised in the near-term. For those performance obligations for which revenue is recognized using a cost-to-cost input method, changes in total estimated costs, and related progress towards complete satisfaction of the performance obligation, are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. When the current estimate of total costs for a performance obligation indicate a loss, a provision for the entire estimated loss on the unsatisfied performance obligation is made in the period in which the loss becomes evident. During the three and nine months ended September 30, 2018, we recognized losses of $4.7 million and $5.5 million, respectively, related to a change in total estimated costs on a transportation project within our United States

electrical construction and facilities services segment, resulting in part from contract scope issues. There were no other changes in total estimated costs that resulted in a significant impact to our operating results for the three and nine months ended September 30, 2018 and 2017.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

Disaggregation of Revenues

Our revenues are principally derived from contracts to provide construction services relating to electrical and mechanical systems, as well as to provide a number of building services and industrial services to our customers. Our contracts are with many different customers in numerous industries. Refer to Note 14 - Segment Information of the notes to the condensed consolidated financial statements for additional information on how we disaggregate our revenues by reportable segment, as well as a more complete description of our business.

The following tables provide further disaggregation of our revenues by categories we use to evaluate our financial performance within each of our reportable segments (in thousands):

	For the three months ended September 30, 2018	% of Total	For the nine months ended September 30, 2018	% of Total
United States electrical construction and facilities services:				
Commercial market sector	$196,293	40%	$579,958	41%
Institutional market sector	27,903	6 %	86,971	6 %
Hospitality market sector	9,860	2 %	22,665	2 %
Manufacturing market sector	100,563	20%	280,375	20%
Healthcare market sector	28,121	6 %	103,307	7 %
Transportation market sector	72,816	15%	216,591	15%
Water and wastewater market sector	4,194	1 %	14,947	1 %
Short duration projects (1)	38,452	8 %	93,177	6 %
Service work	8,147	2 %	25,151	2 %
	486,349		1,423,142	
Less intersegment revenues	(375)		(2,874)	
Total segment revenues	$485,974		$1,420,268	
United States mechanical construction and facilities services:				
Commercial market sector	$289,032	37%	$784,543	35%
Institutional market sector	78,084	10%	221,790	10%
Hospitality market sector	26,170	3 %	73,888	3 %
Manufacturing market sector	96,203	12%	295,126	13%
Healthcare market sector	55,844	7 %	181,964	8 %
Transportation market sector	3,072	1 %	13,002	1 %
Water and wastewater market sector	43,032	6 %	122,302	6 %
Short duration projects (1)	76,711	10%	236,720	11%
Service work	107,168	14%	291,694	13%
	775,316		2,221,029	
Less intersegment revenues	(2,984)		(9,193)	
Total segment revenues	$772,332		$2,211,836	

(1) Represents those projects which generally are completed within three months or less.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

	For the three months ended September 30, 2018	% of Total	For the nine months ended September 30, 2018	% of Total
United States building services:				
Commercial site-based services	$120,917	26%	$386,721	28%
Government site-based services	52,332	11%	162,888	12%
Mechanical services	276,722	58%	764,313	55%
Energy services	23,730	5 %	75,564	5 %
Total segment revenues	$473,701		$1,389,486	
United States industrial services:				
Field services	$169,036	79%	$442,653	78%
Shop services	45,440	21%	124,117	22%
Total segment revenues	$214,476		$566,770	
Total United States operations	$1,946,483		$5,588,360	
United Kingdom building services:				
Service work	$51,815	52%	$162,088	52%
Projects & extras	48,751	48%	150,875	48%
Total segment revenues	$100,566		$312,963	
Total worldwide operations	$2,047,049		$5,901,323	

Contract Assets and Contract Liabilities

Accounts receivable are recognized in the period when our right to consideration is unconditional. Accounts receivable are recognized net of an allowance for doubtful accounts. A considerable amount of judgment is required in assessing the likelihood of realization of receivables.

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our long-term construction projects when revenues recognized under the cost-to-cost measure of progress exceed the amounts invoiced to our customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from our customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. In addition, many of our time and materials arrangements, as well as our contracts to perform turnaround services within the United States industrial services segment, are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings. Also included in contract assets are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders or modifications in dispute or unapproved as to both scope and/or price, or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Our contract assets do not include capitalized costs to obtain and fulfill a contract. Contract assets are generally classified as current within the Condensed Consolidated Balance Sheets.

Contract liabilities from our long-term construction contracts occur when amounts invoiced to our customers exceed revenues recognized under the cost-to-cost measure of progress. Contract liabilities additionally include advanced payments from our customers on certain contracts. Contract liabilities decrease as we recognize revenue from the satisfaction of the related performance obligation and are recorded as either current or long-term, depending upon when we expect to recognize such revenue. The long-term portion of contract liabilities is included in “Other long-term obligations” in the Condensed Consolidated Balance Sheets.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

Net contract liabilities consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Contract assets, current	$168,665	$122,621
Contract assets, non-current	—	—
Contract liabilities, current	(531,284)	(524,156)
Contract liabilities, non-current	(2,905)	—
Deferred revenue [(1)]	—	(47,328)
Net contract liabilities	$(365,524)	$(448,863)

(1) Represents deferred revenue on service contracts, which was included in "Accrued expenses and other" and "Other long-term liabilities" in the Condensed Consolidated Balance Sheet as of December 31 2017. For the periods after December 31, 2017, these amounts are included within "Contract liabilities."

The $83.3 million decrease in net contract liabilities for the nine months ended September 30, 2018 was attributable to a decrease in the net contract liability balance on our uncompleted long-term construction contracts as a result of the completion or substantial completion of certain large projects which were previously billed ahead pursuant to contract terms. Contract assets and contract liabilities increased by approximately $0.3 million and $2.1 million, respectively, as a result of acquisitions made in 2018. There was no significant impairment of contract assets recognized during the period.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

The following table presents the transaction price allocated to remaining unsatisfied performance obligations ("remaining performance obligations") for each of our reportable segments and their respective percentages of total remaining performance obligations (in thousands, except for percentages):

	September 30, 2018	% of Total
Remaining performance obligations:		
United States electrical construction and facilities services	$1,181,620	30 %
United States mechanical construction and facilities services	2,152,271	54 %
United States building services	434,386	11 %
United States industrial services	74,659	2 %
Total United States operations	3,842,936	97 %
United Kingdom building services	126,732	3 %
Total worldwide operations	$3,969,668	100%

Our remaining performance obligations at September 30, 2018 were $3.97 billion. Remaining performance obligations increase with awards of new contracts and decrease as we perform work and recognize revenue on existing contracts. We include a project within our remaining performance obligations at such time the project is awarded and agreement on contract terms has been reached. Our remaining performance obligations include amounts related to contracts for which a fixed price contract value is not assigned when a reasonable estimate of total transaction price can be made.

Remaining performance obligations include unrecognized revenues to be realized from uncompleted construction contracts. Although many of our construction contracts are subject to cancellation at the election of our customers, in accordance with industry practice, we do not limit the amount of unrecognized revenue included within remaining performance obligations due to the inherent substantial economic penalty that would be incurred by our customers upon cancellation. We believe our reported remaining performance obligations for our construction contracts are firm and contract cancellations have not had a material adverse effect on us.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

Remaining performance obligations also include unrecognized revenues expected to be realized over the remaining term of service contracts. However, to the extent a service contract includes a cancellation clause which allows for the termination of such contract by either party without a substantive penalty, the remaining contract term, and therefore, the amount of unrecognized revenues included within remaining performance obligations, is limited to the notice period required for the termination.

Our remaining performance obligations are comprised of: (a) original contract amounts, (b) change orders for which we have received written confirmations from our customers, (c) pending change orders for which we expect to receive confirmations in the ordinary course of business, (d) claim amounts that we have made against customers for which we have determined we have a legal basis under existing contractual arrangements and as to which the variable consideration constraint does not apply, and (e) other forms of variable consideration to the extent that such variable consideration has been included within the transaction price of our contracts. Such claim and other variable consideration amounts were immaterial for all periods presented.

Refer to the table below for additional information regarding our remaining performance obligations, including an estimate of when we expect to recognize such remaining performance obligations as revenue (in thousands):

	Within one year	Greater than one year
Remaining performance obligations:		
United States electrical construction and facilities services	$1,054,046	$127,574
United States mechanical construction and facilities services	1,571,103	581,168
United States building services	421,903	12,483
United States industrial services	74,659	—
Total United States operations	3,121,711	721,225
United Kingdom building services	76,905	49,827
Total worldwide operations	$3,198,616	$771,052

Impact of the Adoption of ASC 606 on our Financial Statements

The Company adopted ASC 606 on a modified retrospective basis. As part of such adoption, the new standard was applied only to those contracts which were not completed as of the date of adoption. Additionally, the Company has not retrospectively restated contract positions for contract modifications made prior to the adoption of ASC 606. The cumulative effect of applying the new guidance was recorded on January 1, 2018 as a reduction to retained earnings in the amount of $0.9 million, net of tax. The majority of this adjustment related to: (a) a change in the measurement of our progress towards complete satisfaction of performance obligations for certain of our contracts within the United States electrical construction and facilities services segment, (b) a change in the timing of revenue recognition from a point in time to over time for certain repair projects within the United Kingdom building services segment, (c) the recognition of revenue for certain bill-and-hold arrangements within our United States industrial services segment that was not allowed under previous revenue recognition guidance, (d) the recognition of variable consideration for contract bonuses within certain of our construction contracts, and (e) a change in the timing of revenue recognition from a point in time to over time for certain of our contracts within our United States industrial services segment to manufacture or repair heat exchangers. These adjustments were not material to our financial position either individually or in the aggregate.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

The following tables compare the differences between our reported and pro forma results under previous revenue guidance for each financial statement line item within our reported Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Operations, as of and for the three and nine months ended September 30, 2018 (in thousands):

	As reported	Pro forma
	September 30, 2018 (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$353,912	$353,912
Accounts receivable	1,715,462	1,715,012
Contract assets	168,665	162,481
Inventories	41,932	50,019
Prepaid expenses and other	44,221	43,068
Total current assets	2,324,192	2,324,492
Investments, notes and other long-term receivables	3,542	3,542
Property, plant and equipment, net	128,765	128,765
Goodwill	978,243	978,243
Identifiable intangible assets, net	471,447	471,447
Other assets	89,704	89,704
Total assets	$3,995,893	$3,996,193
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$15,769	$15,769
Accounts payable	529,618	529,618
Contract liabilities	531,284	486,518
Accrued payroll and benefits	343,797	343,797
Other accrued expenses and liabilities	169,100	213,048
Total current liabilities	1,589,568	1,588,750
Borrowings under revolving credit facility	25,000	25,000
Long-term debt and capital lease obligations	258,569	258,569
Other long-term obligations	343,630	343,998
Total liabilities	2,216,767	2,216,317
Total equity	1,779,126	1,779,876
Total liabilities and equity	$3,995,893	$3,996,193

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 Revenue from Contracts with Customers - (Continued)

	As reported	Pro forma	As reported	Pro forma
	For the three months ended September 30, 2018 (Unaudited)		For the nine months ended September 30, 2018 (Unaudited)	
Revenues	$2,047,049	$2,038,281	$5,901,323	$5,893,227
Cost of sales	1,737,710	1,732,027	5,032,021	5,028,089
Gross profit	309,339	306,254	869,302	865,138
Selling, general and administrative expenses	197,334	197,334	578,266	578,266
Restructuring expenses	229	229	693	693
Impairment loss on identifiable intangible assets	—	—	907	907
Operating income	111,776	108,691	289,436	285,272
Net periodic pension (cost) income	615	615	2,069	2,069
Interest expense	(3,588)	(3,588)	(10,041)	(10,041)
Interest income	852	852	2,030	2,030
Income from continuing operations before income taxes	109,655	106,570	283,494	279,330
Income tax provision	29,711	28,875	76,873	75,744
Income from continuing operations	79,944	77,695	206,621	203,586
Loss from discontinued operation, net of income taxes	(523)	(523)	(1,010)	(1,010)
Net income including noncontrolling interests	79,421	77,172	205,611	202,576
Less: Net income attributable to noncontrolling interests	(48)	(48)	(48)	(48)
Net income attributable to EMCOR Group, Inc.	$79,373	$77,124	$205,563	$202,528
Basic earnings per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.37	$1.33	$3.54	$3.48
Diluted earnings per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.36	$1.33	$3.52	$3.46

The adoption of ASC 606 had no impact on the Company’s cash flows from operations.
The differences between our reported operating results and the pro forma operating results presented in the above tables for the three and nine months ended September 30, 2018 primarily related to the previously referenced items identified upon adoption of ASC 606.

EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 4 Acquisitions of Businesses

During the second quarter of 2018, we acquired two companies, each for an immaterial amount. One company provides mobile mechanical services within the Western region of the United States, and the other company is a full service provider of mechanical services within the Southern region of the United States. Both of their results have been included in our United States building services segment.

On January 4, 2017, March 1, 2017 and November 1, 2017, we acquired three companies for a total consideration of $111.9 million. One company provides fire protection and alarm services primarily in the Southern region of the United States. The second company provides millwright services for manufacturing companies throughout the United States. Both of their results have been included in our United States mechanical construction and facilities services segment. The third company provides mobile mechanical services within the Western region of the United States, and its results have been included in our United States building services segment. In connection with these acquisitions, we acquired working capital of $12.3 million and other net assets of $2.3 million and have preliminarily ascribed $40.7 million to goodwill and $56.6 million to identifiable intangible assets. We expect that all of the acquired goodwill will be deductible for tax purposes.

The purchase price allocation for the businesses acquired in 2018 and the business acquired in November of 2017 are still preliminary and subject to change during their respective measurement periods. The purchase price allocations for the businesses acquired in January and March of 2017 were finalized during the first quarter of 2018 with an insignificant impact. The acquisition of each business was accounted for by the acquisition method, and the prices paid for them have been allocated to their respective assets and liabilities, based upon the estimated fair value of their assets and liabilities at the dates of their respective acquisitions by us.

NOTE 5 Disposition of Assets

Due to a historical pattern of losses in the construction operations of our United Kingdom segment and our negative assessment of construction market conditions in the United Kingdom for the foreseeable future, we ceased construction operations in the United Kingdom during the third quarter of 2014. The results of the construction operations of our United Kingdom segment for all periods are presented in the Condensed Consolidated Financial Statements as discontinued operations.

The results of discontinued operations are as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenues	$—	$(81)	$—	$863
Loss from discontinued operation, net of income taxes	$(523)	$(207)	$(1,010)	$(729)
Diluted loss per share from discontinued operation	$(0.01)	$(0.00)	$(0.02)	$(0.01)

The loss from discontinued operations in 2018 and 2017 was primarily due to costs related to an ongoing legal matter and the settlement of final contract balances on certain construction projects completed in prior years.

Included in the Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017 are the following major classes of assets and liabilities associated with the discontinued operation (in thousands):

	September 30, 2018	December 31, 2017
Assets of discontinued operation:		
Current assets	$ 100	$ 242
Liabilities of discontinued operation:		
Current liabilities	$ 2,252	$ 2,811

At September 30, 2018, the assets and liabilities of the discontinued operation consisted of accounts receivable, contract retentions, contract warranty obligations and other accrued liabilities that are expected to be collected or fulfilled in the ordinary course of business. Additionally at September 30, 2018, there remained less than $0.1 million of obligations related to employee severance, which are expected to be paid during the remainder of 2018. The settlement of the remaining assets and liabilities may result in additional income and/or expenses. Such income and/or expenses are expected to be immaterial and will be reflected as discontinued operations as incurred.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 6 Earnings Per Share

Calculation of Basic and Diluted Earnings (Loss) per Common Share

The following tables summarize our calculation of Basic and Diluted Earnings (Loss) per Common Share ("EPS") for the three and nine months ended September 30, 2018 and 2017 (in thousands, except share and per share data):

	For the three months ended September 30,	
	2018	2017
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	$79,896	$64,804
Loss from discontinued operation, net of income taxes	(523)	(207)
Net income attributable to EMCOR Group, Inc. common stockholders	$79,373	$64,597
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	58,208,203	59,061,768
Effect of dilutive securities—Share-based awards	333,107	357,432
Shares used to compute diluted earnings (loss) per common share	58,541,310	59,419,200
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.37	$1.10
From discontinued operation	(0.01)	(0.00)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.36	$1.10
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.36	$1.09
From discontinued operation	(0.01)	(0.00)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.35	$1.09

	For the nine months ended September 30,	
	2018	2017
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	$206,573	$174,724
Loss from discontinued operation, net of income taxes	(1,010)	(729)
Net income attributable to EMCOR Group, Inc. common stockholders	$205,563	$173,995
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	58,422,928	59,371,672
Effect of dilutive securities—Share-based awards	331,939	349,513
Shares used to compute diluted earnings (loss) per common share	58,754,867	59,721,185
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$3.54	$2.94
From discontinued operation	(0.02)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$3.52	$2.93
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$3.52	$2.93
From discontinued operation	(0.02)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$3.50	$2.92

The number of outstanding share-based awards that were excluded from the computation of diluted EPS for the three and nine months ended September 30, 2018 because they would be anti-dilutive were zero and 550, respectively. The number of outstanding share-based awards that were excluded from the computation of diluted EPS for each of the three and nine months ended September 30, 2017 because they would be anti-dilutive were 500.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 7 Inventories

Inventories in the accompanying Condensed Consolidated Balance Sheets consisted of the following amounts (in thousands):

	September 30, 2018	December 31, 2017
Raw materials and construction materials	$ 24,924	$ 23,924
Work in process	17,008	18,800
Inventories	$ 41,932	$ 42,724

NOTE 8 Debt

Debt in the accompanying Condensed Consolidated Balance Sheets consisted of the following amounts (in thousands):

	September 30, 2018	December 31, 2017
Revolving credit facility	$25,000	$25,000
Term loan	273,418	284,810
Unamortized debt issuance costs	(3,361)	(4,251)
Capitalized lease obligations	4,271	4,571
Other	10	20
Total debt	299,338	310,150
Less: current maturities	15,769	15,364
Total long-term debt	$283,569	$294,786

Credit Agreement

We have a credit agreement dated as of August 3, 2016, which provides for a $900.0 million revolving credit facility (the “2016 Revolving Credit Facility”) and a $400.0 million term loan (the “2016 Term Loan”) (collectively referred to as the “2016 Credit Agreement”) expiring August 3, 2021. We may increase the 2016 Revolving Credit Facility to $1.3 billion if additional lenders are identified and/or existing lenders are willing to increase their current commitments. We may allocate up to $300.0 million of available capacity under the 2016 Revolving Credit Facility to letters of credit for our account or for the account of any of our subsidiaries. Obligations under the 2016 Credit Agreement are guaranteed by most of our direct and indirect subsidiaries and are secured by substantially all of our assets. The 2016 Credit Agreement contains various covenants providing for, among other things, maintenance of certain financial ratios and certain limitations on payment of dividends, common stock repurchases, investments, acquisitions, indebtedness and capital expenditures. We were in compliance with all such covenants as of September 30, 2018 and December 31, 2017. A commitment fee is payable on the average daily unused amount of the 2016 Revolving Credit Facility, which ranges from 0.15% to 0.30%, based on certain financial tests. The fee was 0.15% of the unused amount as of September 30, 2018. Borrowings under the 2016 Credit Agreement bear interest at (1) a base rate plus a margin of 0.00% to 0.75%, based on certain financial tests, or (2) United States dollar LIBOR (2.24% and 2.39% at September 30, 2018 for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively) plus 1.00% to 1.75%, based on certain financial tests. The base rate is determined by the greater of (a) the prime commercial lending rate announced by Bank of Montreal from time to time (5.25% at September 30, 2018), (b) the federal funds effective rate, plus ½ of 1.00%, (c) the daily one month LIBOR rate, plus 1.00%, or (d) 0.00%. The interest rates in effect at September 30, 2018 were 3.24% and 3.39% for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively. Fees for letters of credit issued under the 2016 Revolving Credit Facility range from 1.00% to 1.75% of the respective face amounts of outstanding letters of credit and are computed based on certain financial tests. Debt issuance costs are amortized over the life of the agreement and are included as part of interest expense. The 2016 Term Loan previously required us to make principal payments of $5.0 million on the last day of March, June, September and December of each year, which commenced with the calendar quarter ended December 31, 2016. On December 30, 2016, we made a payment of $100.0 million, of which $5.0 million represented our required quarterly payment and $95.0 million represented a prepayment of outstanding principal. Such prepayment was applied against the remaining mandatory quarterly payments on a ratable basis. As a result, commencing with the calendar quarter ended March 31, 2017, our required quarterly payment has been reduced to $3.8 million. All unpaid principal and interest is due on August 3, 2021. As of September 30, 2018 and December 31, 2017, the balance of the 2016 Term Loan was $273.4 million and $284.8 million, respectively. As of September 30, 2018 and December 31,

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Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 8 Debt - (Continued)

2017, we had approximately $110.0 million and $110.1 million of letters of credit outstanding, respectively. There were $25.0 million in borrowings outstanding under the 2016 Revolving Credit Facility as of September 30, 2018 and December 31, 2017.

NOTE 9 Fair Value Measurements

We use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy, which gives the highest priority to quoted prices in active markets, is comprised of the following three levels:

Level 1 – Unadjusted quoted market prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs, other than Level 1 inputs. Level 2 inputs would typically include quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are both significant to the measurement and unobservable.

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	Assets at Fair Value as of September 30, 2018			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents (1)	$353,912	$ —	$ —	$353,912
Restricted cash (2)	2,429	—	—	2,429
Deferred compensation plan assets (3)	25,075	—	—	25,075
Total	$381,416	$ —	$ —	$381,416

	Assets at Fair Value as of December 31, 2017			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents (1)	$467,430	$ —	$ —	$467,430
Restricted cash (2)	1,958	—	—	1,958
Deferred compensation plan assets (3)	22,054	—	—	22,054
Total	$491,442	$ —	$ —	$491,442

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(1) Cash and cash equivalents include money market funds with original maturity dates of three months or less, which are Level 1 assets. At September 30, 2018 and December 31, 2017, we had $157.4 million and $194.2 million, respectively, in money market funds.

(2) Restricted cash is classified as “Prepaid expenses and other” in the Condensed Consolidated Balance Sheets. Restricted cash primarily represents cash held in account for use on customer contracts.

(3) Deferred compensation plan assets are classified as “Other assets” in the Condensed Consolidated Balance Sheets.

We believe that the carrying values of our financial instruments, which include accounts receivable and other financing commitments, approximate their fair values due primarily to their short-term maturities and low risk of counterparty default. The carrying value of our debt associated with the 2016 Credit Agreement approximates its fair value due to the variable rate on such debt.

NOTE 10 Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act made broad and complex changes to the U.S. tax code, including, among other things, reducing the U.S. federal corporate tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings from certain foreign subsidiaries and creating new taxes on certain foreign sourced earnings. The Company applied the guidance in Staff Accounting Bulletin 118 when accounting for the enactment date effects of the Tax Act, which allowed the Company to make provisional estimates at December 31, 2017.

As a result of the reduction of the U.S. corporate tax rate to 21%, U.S. generally accepted accounting principles required a re-measurement of our deferred tax assets and liabilities as of the date of enactment, with the resulting tax effects accounted for in the reporting period of enactment. Based on available information, the Company’s estimated value of its net deferred federal and state tax liability balances were reduced by approximately $39.3 million, which was recorded as a reduction of income tax

NOTE 10 Income Taxes - (Continued)

expense in the Company's Consolidated Statements of Operations for the year ended December 31, 2017. During the third quarter of 2018, we completed the accounting for such revaluation and determined that no material adjustment was required.

The Tax Act provides for a change from a worldwide to a territorial tax system and requires a one-time transition tax on certain deferred foreign income of specified foreign corporations. The Company has concluded, after completion of its analysis that it is not subject to such transition tax.

Our income tax provision for the three and nine months ended September 30, 2018 included an estimate of the minimum tax on global intangible low-taxed income for certain earnings of our foreign subsidiaries, as required under the Tax Act. The Company has elected to recognize such tax as an expense in the period incurred. Additionally, during the third quarter of 2018, we completed our analysis of the effects of the Tax Act related to the repatriation of certain foreign earnings and have recognized a tax liability of approximately $0.1 million as a result of such evaluation.

For the three months ended September 30, 2018 and 2017, our income tax provision from continuing operations was $29.7 million and $38.6 million, respectively, based on an effective income tax rate, before discrete items and less amounts attributable to noncontrolling interests, of 27.7% and 37.1%, respectively. The actual income tax rate on income from continuing operations, less amounts attributable to noncontrolling interests, for the three months ended September 30, 2018 and 2017, inclusive of discrete items, was 27.1% and 37.3%, respectively. For the nine months ended September 30, 2018 and 2017, our income tax provision from continuing operations was $76.9 million and $98.5 million, respectively, based on an effective income tax rate, before discrete items and less amounts attributable to noncontrolling interests, of 27.7% and 37.4%, respectively. The actual income tax rate on income from continuing operations, less amounts attributable to noncontrolling interests, for the nine months ended September 30, 2018 and 2017, inclusive of discrete items, was 27.1% and 36.0%, respectively. The decrease in the 2018 income tax provision and the 2018 actual income tax rate on income from continuing operations was primarily due to the enactment of the Tax Act.

As of September 30, 2018 and December 31, 2017, the amount of unrecognized income tax benefits was $0.8 million. We report interest expense and/or income related to unrecognized income tax benefits in the income tax provision. As of September 30, 2018 and December 31, 2017, we had approximately $0.1 million of accrued interest expense related to unrecognized income tax benefits included as a liability in the Condensed Consolidated Balance Sheets. Total income tax reserves included in "Other long-term liabilities" were $0.9 million as of September 30, 2018 and December 31, 2017. For the three months ended September 30, 2018 and 2017, less than $0.1 million of interest income and $0.1 million of interest expense, respectively, was recognized in the income tax provision. For the nine months ended September 30, 2018 and 2017, less than $0.1 million and $0.3 million of interest income, respectively, was recognized in the income tax provision.

We do not anticipate any significant changes to our reserves for uncertain tax positions in the next twelve months. We file income tax returns with the Internal Revenue Service and various state, local and foreign tax agencies. The Company is currently under examination by various taxing authorities for the years 2012 through 2016. During the first quarter of 2017, the Company settled an examination with a taxing authority which resulted in a $3.3 million reversal of reserves for previously uncertain tax positions.

NOTE 11 Common Stock

As of September 30, 2018 and December 31, 2017, there were 57,751,630 and 58,798,428 shares of our common stock outstanding, respectively.

During the three months ended September 30, 2018 and 2017, we issued 47,125 and 19,679 shares of common stock, respectively. During the nine months ended September 30, 2018 and 2017, we issued 218,055 and 213,060 shares of common stock, respectively. These shares were issued primarily upon: (a) the satisfaction of required conditions under certain of our share-based compensation plans, (b) the purchase of common stock pursuant to our employee stock purchase plan and (c) the exercise of stock options.

On September 26, 2011, our Board of Directors authorized us to repurchase up to $100.0 million of our outstanding common stock. On December 5, 2013, October 23, 2014, October 28, 2015 and October 25, 2017, our Board of Directors authorized us to repurchase up to an additional $100.0 million, $250.0 million, $200.0 million and $100.0 million of our outstanding common stock, respectively. During 2018, we have repurchased 1,264,853 shares of our common stock for approximately $95.6 million. Since the inception of the repurchase programs through September 30, 2018, we have repurchased approximately 14.1 million shares of our common stock for approximately $670.9 million. As of September 30, 2018, there remained authorization for us to repurchase approximately $79.1 million of our shares. Subsequent to September 30, 2018, our Board of Directors authorized

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 11 Common Stock - (Continued)

us to repurchase up to an additional $200.0 million of our outstanding common stock. The repurchase programs have no expiration date and do not obligate the Company to acquire any particular amount of common stock and may be suspended, recommenced or discontinued at any time or from time to time without prior notice. We may repurchase our shares from time to time to the extent permitted by securities laws and other legal requirements, including provisions in our 2016 Credit Agreement, placing limitations on such repurchases. The repurchase programs have been and will be funded from our operations.

NOTE 12 Retirement Plans

Our United Kingdom subsidiary has a defined benefit pension plan covering all eligible employees (the “UK Plan”); however, no individual joining the company after October 31, 2001 may participate in the UK Plan. On May 31, 2010, we curtailed the future accrual of benefits for active employees under such plan. We also sponsor three domestic retirement plans in which participation by new individuals is frozen.

Components of Net Periodic Pension Cost

The components of net periodic pension cost of the UK Plan for the three and nine months ended September 30, 2018 and 2017 were as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Interest cost	$1,959	$2,162	$6,103	$6,331
Expected return on plan assets	(3,344)	(3,388)	(10,415)	(9,919)
Amortization of unrecognized loss	638	738	1,985	2,160
Net periodic pension cost (income)	$(747)	$(488)	$(2,327)	$(1,428)

The net periodic pension cost associated with the domestic plans was approximately $0.1 million for each of the three months ended September 30, 2018 and 2017 and $0.2 million for each of the nine months ended September 30, 2018 and 2017.

Employer Contributions

For the nine months ended September 30, 2018, our United Kingdom subsidiary contributed approximately $3.2 million to the UK Plan and anticipates contributing an additional $1.4 million during the remainder of 2018. Contributions to the domestic plans were approximately $0.1 million for the nine months ended September 30, 2018.

NOTE 13 Commitments and Contingencies

Government Contracts

As a government contractor, we are subject to U.S. government audits and investigations relating to our operations, fines, penalties and compensatory and treble damages, and possible suspension or debarment from doing business with the government. Based on currently available information, we believe the outcome of ongoing government disputes and investigations will not have a material impact on our financial position, results of operations or liquidity.

Legal Matters

One of our subsidiaries was a subcontractor to a mechanical contractor (“Mechanical Contractor”) on a construction project where an explosion occurred in 2010. The Mechanical Contractor has asserted claims, in the context of an arbitration proceeding against our subsidiary, alleging that our subsidiary is responsible for a portion of the damages for which the Mechanical Contractor may be liable as a result of: (a) personal injury suffered by individuals as a result of the explosion and (b) the Mechanical Contractor’s legal fees and associated management costs in defending against any and all such claims. The Mechanical Contractor previously asserted claims under the Connecticut and Massachusetts Unfair and Deceptive Trade Practices Acts, but such claims have been withdrawn. The general contractor (as assignee of the Mechanical Contractor) on the construction project, and for whom the Mechanical Contractor worked, has alleged that our subsidiary is responsible for losses asserted by the owner of the project and/or the general contractor because of delays in completion of the project and for damages to the owner's property. We believe, and have been advised by counsel, that we have a number of meritorious defenses to all such matters. We believe that the ultimate outcome of such matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity. Notwithstanding our assessment of the final impact of this matter, we are not able to estimate with any certainty the amount of loss, if any, which would be associated with an adverse resolution.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 13 Commitments and Contingencies - (Continued)

We are involved in several other proceedings in which damages and claims have been asserted against us. We believe that we have a number of valid defenses to such proceedings and claims and intend to vigorously defend ourselves. Other potential claims may exist that have not yet been asserted against us. We do not believe that any such matters will have a material adverse effect on our financial position, results of operations or liquidity. Litigation is subject to many uncertainties and the outcome of litigation is not predictable with assurance. It is possible that some litigation matters for which liabilities have not been recorded could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on our financial position, results of operations or liquidity.

Restructuring expenses

Restructuring expenses, relating to employee severance obligations, were $0.2 million and $0.7 million for the three and nine months ended September 30, 2018, respectively, and less than $0.1 million and $1.0 million for the three and nine months ended September 30, 2017, respectively. As of September 30, 2018, the balance of these restructuring obligations yet to be paid was $0.2 million, and the majority of such amount is expected to be paid during the remainder of 2018. No material expenses in connection with restructuring from continuing operations are expected to be incurred during the remainder of 2018.

The changes in restructuring activity by reportable segments during the nine months ended September 30, 2018 and 2017 were as follows (in thousands):

	United States electrical construction and facilities services segment	United States mechanical construction and facilities services segment	United States building services segment	Total
Balance at December 31, 2016	$ —	$ 188	$ 13	$ 201
Charges	—	181	773	954
Payments	—	(369)	(737)	(1,106)
Balance at September 30, 2017	$ —	$ —	$ 49	$ 49
Balance at December 31, 2017	$ 452	$ —	$ 40	$ 492
Charges	—	—	693	693
Payments	(330)	—	(646)	(976)
Balance at September 30, 2018	$ 122	$ —	$ 87	$ 209

NOTE 14 Segment Information

We have the following reportable segments, which provide services associated with the design, integration, installation, start-up, operation and maintenance of various systems: (a) United States electrical construction and facilities services (involving systems for electrical power transmission and distribution; premises electrical and lighting systems; process instrumentation in the refining, chemical process, food process and mining industries; low-voltage systems, such as fire alarm, security and process control; voice and data communication; roadway and transit lighting; and fiber optic lines); (b) United States mechanical construction and facilities services (involving systems for heating, ventilation, air conditioning, refrigeration and clean-room process ventilation; fire protection; plumbing, process and high-purity piping; controls and filtration; water and wastewater treatment; central plant heating and cooling; cranes and rigging; millwrighting; and steel fabrication, erection and welding); (c) United States building services; (d) United States industrial services; and (e) United Kingdom building services. The “United States building services” and “United Kingdom building services” segments principally consist of those operations which provide a portfolio of services needed to support the operation and maintenance of customers’ facilities, including commercial and government site-based operations and maintenance; facility maintenance and services, including reception, security and catering services; outage services to utilities and industrial plants; military base operations support services; mobile maintenance and services; floor care and janitorial services; landscaping, lot sweeping and snow removal; facilities management; vendor management; call center services; installation and support for building systems; program development, management and maintenance for energy systems; technical consulting and diagnostic services; infrastructure and building projects for federal, state and local governmental agencies and bodies; and small modification and retrofit projects, which services are not generally related to customers' construction programs. The "United States industrial services" segment principally consists of those operations which provide industrial maintenance and services, including those for refineries and petrochemical plants, including on-site repairs, maintenance and service of heat exchangers, towers, vessels and piping; design, manufacturing, repair and hydro blast cleaning of shell and tube heat exchangers and related equipment; refinery turnaround planning and engineering services; specialty

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
NOTE 14 Segment Information - (Continued)

welding services; overhaul and maintenance of critical process units in refineries and petrochemical plants; and specialty technical services for refineries and petrochemical plants.

The following tables present information about industry segments and geographic areas for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the three months ended September 30,	
	2018	2017
Revenues from unrelated entities:		
United States electrical construction and facilities services	$485,974	$457,919
United States mechanical construction and facilities services	772,332	760,084
United States building services	473,701	437,107
United States industrial services	214,476	145,679
Total United States operations	1,946,483	1,800,789
United Kingdom building services	100,566	85,902
Total worldwide operations	$2,047,049	$1,886,691
Total revenues:		
United States electrical construction and facilities services	$486,642	$460,066
United States mechanical construction and facilities services	783,454	767,398
United States building services	490,624	451,396
United States industrial services	214,650	147,133
Less intersegment revenues	(28,887)	(25,204)
Total United States operations	1,946,483	1,800,789
United Kingdom building services	100,566	85,902
Total worldwide operations	$2,047,049	$1,886,691

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
NOTE 14 Segment Information - (Continued)

	For the nine months ended September 30, 2018	2017
Revenues from unrelated entities:		
United States electrical construction and facilities services	$1,420,268	$1,350,157
United States mechanical construction and facilities services	2,211,836	2,173,030
United States building services	1,389,486	1,315,401
United States industrial services	566,770	591,694
Total United States operations	5,588,360	5,430,282
United Kingdom building services	312,963	244,078
Total worldwide operations	$5,901,323	$5,674,360
Total revenues:		
United States electrical construction and facilities services	$1,425,190	$1,355,206
United States mechanical construction and facilities services	2,239,660	2,197,231
United States building services	1,437,498	1,360,189
United States industrial services	568,238	593,648
Less intersegment revenues	(82,226)	(75,992)
Total United States operations	5,588,360	5,430,282
United Kingdom building services	312,963	244,078
Total worldwide operations	$5,901,323	$5,674,360

	For the three months ended September 30, 2018	2017
Operating income (loss):		
United States electrical construction and facilities services	$34,473	$46,583
United States mechanical construction and facilities services	58,689	57,503
United States building services	29,315	26,035
United States industrial services	8,184	(4,844)
Total United States operations	130,661	125,277
United Kingdom building services	4,457	3,445
Corporate administration	(23,113)	(22,632)
Restructuring expenses	(229)	(46)
Total worldwide operations	111,776	106,044
Other corporate items:		
Net periodic pension (cost) income	615	415
Interest expense	(3,588)	(3,324)
Interest income	852	277
Income from continuing operations before income taxes	$109,655	$103,412

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
NOTE 14 Segment Information - (Continued)

	For the nine months ended September 30, 2018	2017
Operating income (loss):		
United States electrical construction and facilities services	$106,309	$109,735
United States mechanical construction and facilities services	155,864	151,028
United States building services	68,822	60,537
United States industrial services	12,721	16,573
Total United States operations	343,716	337,873
United Kingdom building services	12,828	7,681
Corporate administration	(65,508)	(63,755)
Restructuring expenses	(693)	(954)
Impairment loss on identifiable intangible assets	(907)	—
Total worldwide operations	289,436	280,845
Other corporate items:		
Net periodic pension (cost) income	2,069	1,209
Interest expense	(10,041)	(9,464)
Interest income	2,030	607
Income from continuing operations before income taxes	$283,494	$273,197

	September 30, 2018	December 31, 2017
Total assets:		
United States electrical construction and facilities services	$650,693	$617,471
United States mechanical construction and facilities services	1,109,064	1,097,240
United States building services	830,019	764,085
United States industrial services	803,011	772,899
Total United States operations	3,392,787	3,251,695
United Kingdom building services	143,881	131,806
Corporate administration	459,225	582,403
Total worldwide operations	$3,995,893	$3,965,904

NOTE 15 Subsequent Event

In October 2018, we acquired a company for an immaterial amount. This company provides electrical construction and maintenance services for industrial and commercial buildings in North Texas, and its results will be included in our United States electrical construction and facilities services segment. The acquisition of this business will be accounted for by the acquisition method, and the price paid will be allocated to its respective assets and liabilities, based upon the estimated fair value of such assets and liabilities at the date of acquisition by us.

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

We are one of the largest electrical and mechanical construction and facilities services firms in the United States. In addition, we provide a number of building services and industrial services. Our services are provided to a broad range of commercial, industrial, utility and institutional customers through approximately 75 operating subsidiaries and joint venture entities. Our offices are located in the United States and the United Kingdom.

Operating Segments

We have the following reportable segments, which provide services associated with the design, integration, installation, start-up, operation and maintenance of various systems: (a) United States electrical construction and facilities services (involving systems for electrical power transmission and distribution; premises electrical and lighting systems; process instrumentation in the refining, chemical process, food process and mining industries; low-voltage systems, such as fire alarm, security and process control; voice and data communication; roadway and transit lighting; and fiber optic lines); (b) United States mechanical construction and facilities services (involving systems for heating, ventilation, air conditioning, refrigeration and clean-room process ventilation; fire protection; plumbing, process and high-purity piping; controls and filtration; water and wastewater treatment; central plant heating and cooling; cranes and rigging; millwrighting; and steel fabrication, erection and welding); (c) United States building services; (d) United States industrial services; and (e) United Kingdom building services. The "United States building services" and "United Kingdom building services" segments principally consist of those operations which provide a portfolio of services needed to support the operation and maintenance of customers' facilities, including commercial and government site-based operations and maintenance; facility maintenance and services, including reception, security and catering services; outage services to utilities and industrial plants; military base operations support services; mobile maintenance and services; floor care and janitorial services; landscaping, lot sweeping and snow removal; facilities management; vendor management; call center services; installation and support for building systems; program development, management and maintenance for energy systems; technical consulting and diagnostic services; infrastructure and building projects for federal, state and local governmental agencies and bodies; and small modification and retrofit projects, which services are not generally related to customers' construction programs. The "United States industrial services" segment principally consists of those operations which provide industrial maintenance and services, including those for refineries and petrochemical plants, including on-site repairs, maintenance and service of heat exchangers, towers, vessels and piping; design, manufacturing, repair and hydro blast cleaning of shell and tube heat exchangers and related equipment; refinery turnaround planning and engineering services; specialty welding services; overhaul and maintenance of critical process units in refineries and petrochemical plants; and specialty technical services for refineries and petrochemical plants.

Overview

The following table presents selected financial data for the three months ended September 30, 2018 and 2017 (in thousands, except percentages and per share data):

	For the three months ended September 30, 2018	2017
Revenues	$2,047,049	$1,886,691
Revenues increase (decrease) from prior year	8.5 %	(1.9)%
Operating income	$111,776	$106,044
Operating income as a percentage of revenues	5.5 %	5.6 %
Net income attributable to EMCOR Group, Inc.	$79,373	$64,597
Diluted earnings per common share from continuing operations	$1.36	$1.09

The results for the 2018 third quarter set new company records in terms of quarterly revenues, operating income, net income attributable to EMCOR Group, Inc. and diluted earnings per common share from continuing operations for any quarterly reporting period. The strong operating results were due to revenue growth within all of our reportable segments and an increase in operating income within the majority of our reportable segments, including improved operating performance from our United States industrial services segment, as this segment's results were negatively impacted by Hurricane Harvey during the third quarter of 2017.

The slight decrease in operating margin (operating income as a percentage of revenues) was attributable to a decrease in operating margin within our United States electrical construction and facilities services segment as a result of a loss incurred on a transportation construction project in the Western region of the United States, which negatively impacted our operating margin by 0.2%. This decrease was partially offset by an increase in operating margin within our United States building services segment, our United States industrial services segment and our United Kingdom building services segment. The increase in net income attributable to EMCOR Group, Inc. and diluted earnings per common share from continuing operations for the third quarter of 2018 was due to an increase in operating income and the reduction in the U.S federal corporate tax rate due to the enactment of the Tax Cuts and Jobs Act legislation (the "Tax Act").

Impact of Acquisitions

In order to provide a more meaningful period-over-period discussion of our operating results, we may discuss amounts generated or incurred (revenues, gross profit, selling, general and administrative expenses, and operating income) by companies we have recently acquired. The amounts discussed reflect the acquired companies' operating results in the current reported period only for the time period these entities were not owned by EMCOR in the comparable prior reported period.

We acquired two companies in 2018, each for an immaterial amount. One company is a full service provider of mechanical services within the Southern region of the United States, and its results of operations have been included in our United States building services segment. The results of operations for the other company that we acquired in 2018, which have also been included in our United States building services segment, were de minimis.

We acquired three companies during 2017. One company provides fire protection and alarm services primarily in the Southern region of the United States. The second company provides millwright services for manufacturing companies throughout the United States. Both of their results have been included in our United States mechanical construction and facilities services segment. The third company provides mobile mechanical services within the Western region of the United States, and its results have been included in our United States building services segment.

Companies acquired in 2018 and 2017 generated incremental revenues of $19.3 million and $55.3 million and incremental operating income of $1.7 million and $4.7 million, inclusive of $0.6 million and $1.6 million of amortization expense associated with identifiable intangible assets, for the three and nine months ended September 30, 2018, respectively.

Results of Operations

Revenues

The following tables present our operating segment revenues from unrelated entities and their respective percentages of total revenues (in thousands, except for percentages):

	For the three months ended September 30,			
	2018	% of Total	2017	% of Total
Revenues:				
United States electrical construction and facilities services	$485,974	24 %	$457,919	24 %
United States mechanical construction and facilities services	772,332	38 %	760,084	40 %
United States building services	473,701	23 %	437,107	23 %
United States industrial services	214,476	10 %	145,679	8 %
Total United States operations	1,946,483	95 %	1,800,789	95 %
United Kingdom building services	100,566	5 %	85,902	5 %
Total worldwide operations	$2,047,049	100%	$1,886,691	100%

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	For the nine months ended September 30,					
	2018	% of Total		2017	% of Total	
Revenues:						
United States electrical construction and facilities services	$1,420,268	24	%	$1,350,157	24	%
United States mechanical construction and facilities services	2,211,836	37	%	2,173,030	38	%
United States building services	1,389,486	24	%	1,315,401	23	%
United States industrial services	566,770	10	%	591,694	10	%
Total United States operations	5,588,360	95	%	5,430,282	96	%
United Kingdom building services	312,963	5	%	244,078	4	%
Total worldwide operations	$5,901,323	100	%	$5,674,360	100	%

As described below in more detail, our revenues for the three months ended September 30, 2018 increased to $2.05 billion compared to $1.89 billion for the three months ended September 30, 2017, and our revenues for the nine months ended September 30, 2018 increased to $5.90 billion compared to $5.67 billion for the nine months ended September 30, 2017. The increase in revenues for the three months ended September 30, 2018 was attributable to increased revenues from all of our reportable segments. The increase in revenues for the nine months ended September 30, 2018 was attributable to increased revenues from all of our reportable segments, except for our United States industrial services segment. Companies acquired in 2018 and 2017, which are reported in our United States mechanical construction and facilities services segment and our United States building services segment, generated incremental revenues of $19.3 million and $55.3 million for the three and nine months ended September 30, 2018, respectively.

Revenues of our United States electrical construction and facilities services segment were $486.0 million and $1,420.3 million for the three and nine months ended September 30, 2018, respectively, compared to revenues of $457.9 million and $1,350.2 million for the three and nine months ended September 30, 2017, respectively. The increase in revenues for the three and nine months ended September 30, 2018 was primarily attributable to an increase in revenues from commercial, hospitality and manufacturing construction projects, partially offset by a decrease in revenues from transportation construction projects. In addition, revenues for the nine months ended September 30, 2018 benefited from a significant increase in revenues from healthcare and institutional construction projects.

Our United States mechanical construction and facilities services segment revenues for the three months ended September 30, 2018 were $772.3 million, a $12.2 million increase compared to revenues of $760.1 million for the three months ended September 30, 2017. Revenues of this segment for the nine months ended September 30, 2018 were $2,211.8 million, a $38.8 million increase compared to revenues of $2,173.0 million for the nine months ended September 30, 2017. The increase in revenues for the three and nine months ended September 30, 2018 was primarily attributable to an increase in revenues from commercial construction projects, partially offset by a decrease in revenues from large food processing construction projects. In addition, revenues for the nine months ended September 30, 2018 benefited from an increase in revenues from institutional construction projects. The results for the three and nine months ended September 30, 2018 included $10.7 million and $31.2 million, respectively, of incremental revenues generated by a company acquired in 2017. This segment's results for the nine months ended September 30, 2017 included $18.1 million of revenues as a result of the recovery of certain contract costs previously disputed on a project that was completed in 2016.

Revenues of our United States building services segment for the three months ended September 30, 2018 increased by $36.6 million compared to the three months ended September 30, 2017, and revenues for the nine months ended September 30, 2018 increased by $74.1 million compared to the nine months ended September 30, 2017. The increase in revenues for both periods was due to: (a) greater project and repair service activities within our mobile mechanical services operations, (b) large project activity within our energy services operations, and (c) increased activity from government site-based operations, partially as a result of new project awards. In addition, revenues for the nine months ended September 30, 2018 benefited from an increase in snow removal activity within our commercial site-based services operations. These increases were partially offset by a decrease in revenues due to the loss of certain contracts not renewed pursuant to rebid within our commercial site-based services operations. The results for the three and nine months ended September 30, 2018 included $8.6 million and $24.1 million, respectively, of incremental revenues generated by companies acquired in 2018 and 2017.

Revenues of our United States industrial services segment for the three months ended September 30, 2018 increased by $68.8 million compared to the three months ended September 30, 2017, and revenues for the nine months ended September 30, 2018 decreased by $24.9 million compared to the nine months ended September 30, 2017. The increase in revenues for the three months ended September 30, 2018 was due to an increase in revenues from both our field and shop services operations. The increase in revenues from our field services operations was partially a result of the negative impact of Hurricane Harvey on our

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2017 third quarter results. The increase in revenues from our shop services operations was due to an increase in demand for new build heat exchangers. The decrease in revenues for the nine months ended September 30, 2018 was attributable to a reduction in large turnaround projects within our field services operations, partially due to the impact of Hurricane Harvey, which altered the timing of previously scheduled maintenance activities with our customers during the first half of 2018.

Our United Kingdom building services segment revenues were $100.6 million for the three months ended September 30, 2018 compared to revenues of $85.9 million for the three months ended September 30, 2017. For the nine months ended September 30, 2018, revenues for this segment were $313.0 million compared to revenues of $244.1 million for the nine months ended September 30, 2017. This segment's increase in revenues for both periods was the result of increased project activity with existing customers. In addition, revenues for the nine months ended September 30, 2018 benefited from new contract awards within the commercial, institutional and water and wastewater market sectors. This segment's revenues for the nine months ended September 30, 2018 were positively impacted by an increase of $18.5 million related to the effect of favorable exchange rates for the British pound versus the United States dollar.

Cost of sales and Gross profit

The following table presents our cost of sales, gross profit (revenues less cost of sales) and gross profit margin (gross profit as a percentage of revenues) (in thousands, except for percentages):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Cost of sales	$1,737,710	$1,591,621	$5,032,021	$4,838,449
Gross profit	$309,339	$295,070	$869,302	$835,911
Gross profit, as a percentage of revenues	15.1 %	15.6 %	14.7 %	14.7 %

Our gross profit increased by $14.3 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. Gross profit increased by $33.4 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. Our gross profit margin was 15.1% and 14.7% for the three and nine months ended September 30, 2018, respectively. Gross profit margin was 15.6% and 14.7% for the three and nine months ended September 30, 2017, respectively. The increase in gross profit for the three months ended September 30, 2018 was due to an increase in gross profit from all of our reportable segments, except for our United States electrical construction and facilities services segment. The increase in gross profit for the nine months ended September 30, 2018 was due to an increase in gross profit from all of our reportable segments, except for our United States electrical construction and facilities services segment and our United States industrial services segment. The decrease in gross profit margin for the three months ended September 30, 2018 was partially attributable to a $4.7 million loss incurred on a transportation construction project in the Western region of the United States within our United States electrical construction and facilities services segment, which resulted in a 0.3% negative impact on the Company's gross profit margin for the third quarter of 2018. Gross profit and gross profit margin within our United States mechanical construction and facilities services segment for the nine months ended September 30, 2017 was favorably impacted by the recovery of certain contract costs previously disputed on a project that was completed in 2016, resulting in $18.1 million of gross profit and a 0.2% favorable impact on the Company's gross profit margin for the nine months ended September 30, 2017.

Selling, general and administrative expenses

The following table presents our selling, general and administrative expenses and SG&A margin (selling, general and administrative expenses as a percentage of revenues) (in thousands, except for percentages):

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Selling, general and administrative expenses	$197,334	$188,980	$578,266	$554,112
Selling, general and administrative expenses, as a percentage of revenues	9.6 %	10.0 %	9.8 %	9.8 %

Our selling, general and administrative expenses for the three months ended September 30, 2018 increased by $8.4 million to $197.3 million compared to $189.0 million for the three months ended September 30, 2017. Selling, general and administrative expenses for the nine months ended September 30, 2018 increased by $24.2 million to $578.3 million compared to $554.1 million for the nine months ended September 30, 2017. The increase in selling, general and administrative expenses for the three and nine months ended September 30, 2018 included $2.8 million and $7.6 million, respectively, of incremental expenses directly related to companies acquired in 2018 and 2017, including amortization expense attributable to identifiable intangible assets of $0.3 million and $0.8 million, respectively. In addition to the impact of acquisitions, selling, general and administrative expenses increased due to: (a) an increase in incentive compensation expense, due to higher projected annual operating results than in the

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same prior year periods, (b) an increase in salaries, partially as a result of an increase in headcount due to higher revenues than in the same prior year periods, and (c) increases in other selling, general and administrative expenses, such as information technology, consulting and other professional fees. Selling, general and administrative expenses as a percentage of revenues were 9.6% and 9.8% for the three and nine months ended September 30, 2018, respectively, compared to 10.0% and 9.8% for the three and nine months ended September 30, 2017. The decrease in SG&A margin for the three months ended September 30, 2018 was partially due to a reduction in the provision for doubtful accounts, primarily within our United States building services segment, as well as an increase in revenues without commensurate increases in our overhead cost structure.

Restructuring expenses

Restructuring expenses, relating to employee severance obligations, were $0.2 million and $0.7 million for the three and nine months ended September 30, 2018, respectively, and less than $0.1 million and $1.0 million for the three and nine months ended September 30, 2017, respectively. As of September 30, 2018, the balance of these restructuring obligations yet to be paid was $0.2 million, and the majority of such amount is expected to be paid during the remainder of 2018. No material expenses in connection with restructuring from continuing operations are expected to be incurred during the remainder of 2018.

Operating income

The following tables present our operating income (loss) and operating income (loss) as a percentage of segment revenues from unrelated entities (in thousands, except for percentages):

	For the three months ended September 30,			
	2018	**% of Segment Revenues**	**2017**	**% of Segment Revenues**
Operating income (loss):				
United States electrical construction and facilities services	$34,473	7.1 %	$46,583	10.2 %
United States mechanical construction and facilities services	58,689	7.6 %	57,503	7.6 %
United States building services	29,315	6.2 %	26,035	6.0 %
United States industrial services	8,184	3.8 %	(4,844)	(3.3)%
Total United States operations	130,661	6.7 %	125,277	7.0 %
United Kingdom building services	4,457	4.4 %	3,445	4.0 %
Corporate administration	(23,113)	—	(22,632)	—
Restructuring expenses	(229)	—	(46)	—
Total worldwide operations	111,776	5.5 %	106,044	5.6 %
Other corporate items:				
Net periodic pension (cost) income	615		415	
Interest expense	(3,588)		(3,324)	
Interest income	852		277	
Income from continuing operations before income taxes	$109,655		$103,412	

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	For the nine months ended September 30,			
	2018	% of Segment Revenues	2017	% of Segment Revenues
Operating income (loss):				
United States electrical construction and facilities services	$106,309	7.5 %	$109,735	8.1 %
United States mechanical construction and facilities services	155,864	7.0 %	151,028	7.0 %
United States building services	68,822	5.0 %	60,537	4.6 %
United States industrial services	12,721	2.2 %	16,573	2.8 %
Total United States operations	343,716	6.2 %	337,873	6.2 %
United Kingdom building services	12,828	4.1 %	7,681	3.1 %
Corporate administration	(65,508)	—	(63,755)	—
Restructuring expenses	(693)	—	(954)	—
Impairment on identifiable intangible assets	(907)	—	—	—
Total worldwide operations	289,436	4.9 %	280,845	4.9 %
Other corporate items:				
Net periodic pension (cost) income	2,069		1,209	
Interest expense	(10,041)		(9,464)	
Interest income	2,030		607	
Income from continuing operations before income taxes	$283,494		$273,197	

As described below in more detail, operating income was $111.8 million and $289.4 million for the three and nine months ended September 30, 2018, respectively, compared to $106.0 million and $280.8 million for the three and nine months ended September 30, 2017, respectively. Operating margin was 5.5% and 4.9% for the three and nine months ended September 30, 2018, respectively, compared to 5.6% and 4.9% for the three and nine months ended September 30, 2017, respectively. The increase in operating income for the three months ended September 30, 2018 was due to an increase in gross profit from all of our reportable segments, except for our United States electrical construction and facilities services segment. The increase in operating income for the nine months ended September 30, 2018 was due to an increase in gross profit from all of our reportable segments, except for our United States electrical construction and facilities services segment and our United States industrial services segment. The slight decrease in operating margin for the three months ended September 30, 2018 was attributable to a decrease in operating margin within our United States electrical construction and facilities services segment as a result of: (a) a loss incurred on a transportation construction project in the Western region of the United States, which negatively impacted the Company’s operating margin by 0.2%, and (b) a change in the mix of work as the third quarter of 2017 benefited from numerous telecommunication projects within the commercial market sector that generated higher gross profit margins. Operating income and operating margin for the nine months ended September 30, 2017 benefited from the recovery of certain contract costs previously disputed on a project completed in 2016 within our United States mechanical construction and facilities services segment, which resulted in a 0.3% favorable impact on the Company’s operating margin for the nine months ended September 30, 2017.

Operating income of our United States electrical construction and facilities services segment for the three and nine months ended September 30, 2018 was $34.5 million and $106.3 million, respectively, compared to operating income of $46.6 million and $109.7 million for the three and nine months ended September 30, 2017, respectively. The decrease in operating income for both periods was attributable to a decrease in gross profit from transportation, commercial, institutional and healthcare construction projects, partially offset by an increase in gross profit from manufacturing and hospitality construction projects. The decrease in operating income from the transportation market sector was partially due to a loss incurred on a construction project in the Western region of the United States, resulting in part from contract scope issues, which negatively impacted operating income by $4.7 million and $5.5 million for the three and nine months ended September 30, 2018, respectively. The decrease in operating income from the commercial market sector was attributable to the mix of work as both prior year periods benefited from numerous telecommunication projects that generated higher gross project margins. The decrease in operating margin for both periods was partially due to the loss discussed above, which negatively impacted operating margin by 1.1% and 0.5%

for the three and nine months ended September 30, 2018, respectively.

Our United States mechanical construction and facilities services segment operating income for the three months ended September 30, 2018 was $58.7 million, a $1.2 million increase compared to operating income of $57.5 million for the three months ended September 30, 2017. Operating income for the nine months ended September 30, 2018 was $155.9 million, a $4.8 million increase compared to operating income of $151.0 million for the nine months ended September 30, 2017. The increase in operating income for both periods was attributable to an increase in gross profit from manufacturing, commercial and hospitality construction projects, partially offset by a decrease in gross profit from water and wastewater and institutional construction projects. A company acquired in 2017 contributed incremental operating income of $1.2 million and $3.2 million, inclusive of $0.2 million and $0.7 million of amortization expense associated with identifiable intangible assets, for the three and nine months ended September 30, 2018, respectively. This segment's operating income for the nine months ended September 30, 2017 benefited from the recovery of certain contract costs previously disputed on a project completed in 2016, which resulted in $18.1 million of gross profit. The recovery of the disputed contract costs in 2017 discussed above favorably impacted this segment's operating margin by 0.7% for the nine months ended September 30, 2017.

Operating income of our United States building services segment for the three months ended September 30, 2018 increased by $3.3 million compared to operating income for the three months ended September 30, 2017, and its operating income for the nine months ended September 30, 2018 increased by $8.3 million compared to the nine months ended September 30, 2017. The increase in operating income for both periods was primarily attributable to increases in operating income from: (a) our government site-based services operations, partially as a result of new contract awards, and (b) our energy services operations, due to large project activity. Additionally, companies acquired in 2018 and 2017 within our mobile mechanical services operations, contributed incremental operating income of $0.5 million and $1.5 million, inclusive of $0.4 million and $0.9 million of amortization expense associated with identifiable intangible assets, for the three and nine months ended September 30, 2018, respectively. The increase in operating margin for the three and nine months ended September 30, 2018 was partially attributable to a decrease in the ratio of selling, general and administrative expenses to revenues, resulting in part from a decrease in the provision for doubtful accounts.

Our United States industrial services segment operating income for the three months ended September 30, 2018 was $8.2 million compared to an operating loss of $4.8 million for the three months ended September 30, 2017. Operating income for the nine months ended September 30, 2018 was $12.7 million compared to operating income of $16.6 million for the nine months ended September 30, 2017. The increase in operating income for the three months ended September 30, 2018 was due to an increase in demand and improved operating performance within both our field and shop services operations, as the third quarter of 2017 was negatively impacted by Hurricane Harvey. The decrease in operating income for the nine months ended September 30, 2018 was attributable to a reduction in large turnaround projects within our field services operations, partially due to the impact of Hurricane Harvey, which altered the timing of previously scheduled maintenance activities with our customers during the first half of 2018. In addition, gross profit was negatively impacted by the mix of work in our field services operations, which included a higher percentage of small capital projects that generate lower gross profit margins than our typical turnaround work. The decrease in operating income from our field services operations for the nine months ended September 30, 2018 was partially offset by an increase in operating income from our shop services operations, due to an increase in demand for new build heat exchangers. The increase in operating margin for the three months ended September 30, 2018 was attributable to an increase in gross profit margin and a decrease in the ratio of selling, general and administrative expenses to revenues. The decrease in operating margin for the nine months ended September 30, 2018 was attributable to a decrease in gross profit margin.

Our United Kingdom building services segment operating income was $4.5 million for the three months ended September 30, 2018 compared to operating income of $3.4 million for the three months ended September 30, 2017. Operating income was $12.8 million for the nine months ended September 30, 2018 compared to operating income of $7.7 million for the nine months ended September 30, 2017. Operating income for both periods increased primarily due to an increase in gross profit from project activity with existing customers. In addition, the results for the nine months ended September 30, 2018 benefited from an increase in gross profit from new contract awards within the commercial, institutional and water and wastewater market sectors. This segment's results included an increase in operating income of $0.7 million for the nine months ended September 30, 2018 relating to the effect of favorable exchange rates for the British pound versus the United States dollar. The increase in operating margin for the three and nine months ended September 30, 2018 was primarily attributable to a decrease in SG&A margin.

Our corporate administration operating loss for the three months ended September 30, 2018 was $23.1 million compared to $22.6 million for the three months ended September 30, 2017. Our corporate administration operating loss for the nine months ended September 30, 2018 was $65.5 million compared to $63.8 million for the nine months ended September 30, 2017. The increase in corporate administration expenses for the three and nine months ended

September 30, 2018 was due to an increase in information technology costs.

Interest expense for the three months ended September 30, 2018 and 2017 was $3.6 million and $3.3 million, respectively. Interest expense for the nine months ended September 30, 2018 and 2017 was $10.0 million and $9.5 million, respectively. Interest income for the three months ended September 30, 2018 and 2017 was $0.9 million and $0.3 million, respectively. Interest income for the nine months ended September 30, 2018 and 2017 was $2.0 million and $0.6 million, respectively. The increases in interest expense and interest income for both periods resulted from higher interest rates. The increase in interest expense was partially offset by the impact of reduced average outstanding borrowings.

For the three months ended September 30, 2018 and 2017, our income tax provision from continuing operations was $29.7 million and $38.6 million, respectively, based on an effective income tax rate, before discrete items and less amounts attributable to noncontrolling interests, of 27.7% and 37.1%, respectively. The actual income tax rate on income from continuing operations, less amounts attributable to noncontrolling interests, for the three months ended September 30, 2018 and 2017, inclusive of discrete items, was 27.1% and 37.3%, respectively. For the nine months ended September 30, 2018 and 2017, our income tax provision from continuing operations was $76.9 million and $98.5 million, respectively, based on an effective income tax rate, before discrete items and less amounts attributable to noncontrolling interests, of 27.7% and 37.4%, respectively. The actual income tax rate on income from continuing operations, less amounts attributable to noncontrolling interests, for the nine months ended September 30, 2018 and 2017, inclusive of discrete items, was 27.1% and 36.0%, respectively. The decrease in the 2018 income tax provision and the 2018 actual income tax rate on income from continuing operations was primarily due to the enactment of the Tax Act.

Discontinued operations

Due to a historical pattern of losses in the construction operations of our United Kingdom segment and our negative assessment of construction market conditions in the United Kingdom for the foreseeable future, we ceased construction operations in the United Kingdom during the third quarter of 2014. The results of the construction operations of our United Kingdom segment for all periods are presented in the Condensed Consolidated Financial Statements as discontinued operations.

Remaining Unsatisfied Performance Obligations

The following table presents the transaction price allocated to remaining unsatisfied performance obligations ("remaining performance obligations") in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC 606") for each of our reportable segments and their respective percentage total of remaining performance obligations (in thousands, except for percentages):

	September 30, 2018	% of Total	June 30, 2018	% of Total
Remaining performance obligations:				
United States electrical construction and facilities services	$1,181,620	30 %	$1,037,796	28 %
United States mechanical construction and facilities services	2,152,271	54 %	1,970,393	54 %
United States building services	434,386	11 %	451,960	12 %
United States industrial services	74,659	2 %	82,640	2 %
Total United States operations	3,842,936	97 %	3,542,789	96 %
United Kingdom building services	126,732	3 %	130,342	4 %
Total worldwide operations	$3,969,668	100%	$3,673,131	100%

Our remaining performance obligations at September 30, 2018 were $3.97 billion. Remaining performance obligations increase with awards of new contracts and decrease as we perform work and recognize revenue on existing contracts. We include a project within our remaining performance obligations at such time as the project is awarded and agreement on contract terms has been reached. Our remaining performance obligations include amounts related to contracts for which a fixed price contract value is not assigned when a reasonable estimate of total transaction price can be made.

Remaining performance obligations include unrecognized revenues to be realized from uncompleted construction contracts. Although many of our construction contracts are subject to cancellation at the election of our customers, in accordance with industry practice, we do not limit the amount of unrecognized revenue included within remaining performance obligations due to the inherent substantial economic penalty that would be incurred by our customers upon cancellation. We believe our reported remaining performance obligations for our construction contracts are firm and contract cancellations have not had a material adverse effect on us.

Remaining performance obligations also include unrecognized revenues expected to be realized over the remaining term of service contracts. However, to the extent a service contract includes a cancellation clause which allows for the termination of such contract by either party without a substantive penalty, the remaining contract term, and therefore, the amount of unrecognized revenues included within remaining performance obligations, is limited to the notice period required for the termination.

Our remaining performance obligations are comprised of: (a) original contract amounts, (b) change orders for which we have received written confirmations from our customers, (c) pending change orders for which we expect to receive confirmations in the ordinary course of business, (d) claim amounts that we have made against customers for which we have determined we have a legal basis under existing contractual arrangements and as to which the variable consideration constraint does not apply, and (e) other forms of variable consideration to the extent that such variable consideration has been included within the transaction price of our contracts. Such claim and other variable consideration amounts were immaterial for all periods presented.

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Our remaining performance obligations at September 30, 2018 were $3.97 billion compared to $3.67 billion at June 30, 2018. The increase in remaining performance obligations at September 30, 2018 was attributable to an increase in remaining performance obligations from our domestic construction segments.

Liquidity and Capital Resources

The following table presents our net cash provided by (used in) operating activities, investing activities and financing activities (in thousands):

	For the nine months ended September 30, 2018			2017		
Net cash provided by operating activities	$	65,892		$	238,323	
Net cash used in investing activities	$	(56,871	)	$	(106,712	)
Net cash used in financing activities	$	(120,083	)	$	(118,624	)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	$	(1,985	)	$	2,931	

Our consolidated cash balance, including cash equivalents and restricted cash, decreased by approximately $113.0 million from $469.4 million at December 31, 2017 to $356.3 million at September 30, 2018. Net cash provided by operating activities for the nine months ended September 30, 2018 was $65.9 million compared to net cash provided by operating activities of $238.3 million for the nine months ended September 30, 2017. The reduction in cash flows from operating activities was primarily due to: (a) timing of cash receipts from our customers, including payments of advanced billings on our long-term construction contracts and (b) an increase in payments for incentive awards, partially offset by an increase in net income. Net cash used in investing activities was $56.9 million for the nine months ended September 30, 2018 compared to net cash used in investing activities of $106.7 million for the nine months ended September 30, 2017. The decrease in net cash used in investing activities was primarily due to a reduction in payments for acquisitions of businesses. Net cash flows from financing activities for the nine months ended September 30, 2018 increased by approximately $1.5 million compared to the nine months ended September 30, 2017. The increase in net cash used in financing activities was primarily due to payments for contingent consideration arrangements. Cash flows from discontinued operations were immaterial and are not expected to significantly affect future liquidity.

The following is a summary of material contractual obligations and other commercial commitments (in millions):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Revolving credit facility (including interest at 3.24%) (1)	$27.3	$0.8	$26.5	$—	$—
Term loan (including interest at 3.39%) (1)	298.2	24.4	273.8	—	—
Capital lease obligations	4.4	1.9	2.1	0.4	—
Operating leases	306.7	76.8	120.8	65.0	44.1
Open purchase obligations (2)	1,195.9	935.6	259.8	0.5	—
Other long-term obligations, including current portion (3)	380.2	64.9	305.8	9.5	—
Liabilities related to uncertain income tax positions (4)	0.9	—	—	—	0.9
Total Contractual Obligations	$2,213.6	$1,104.4	$988.8	$75.4	$45.0

		Amount of Commitment Expiration by Period			
Other Commercial Commitments	**Total Committed**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Letters of credit	$ 110.0	$110.0	$ —	$ —	$ —

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(1) On August 3, 2016, we entered into a $900.0 million revolving credit facility (the "2016 Revolving Credit Facility") and a $400.0 million term loan (the "2016 Term Loan") (collectively referred to as the "2016 Credit Agreement"). As of September 30, 2018, the amount outstanding under the 2016 Term Loan was $273.4 million. As of September 30, 2018, there were borrowings outstanding of $25.0 million under the 2016 Revolving Credit Facility.

(2) Represents open purchase orders for material and subcontracting costs related to construction and services contracts. These purchase orders are not reflected in EMCOR's Condensed Consolidated Balance Sheets and should not impact future cash flows, as amounts should be recovered through customer billings.

(3) Represents primarily insurance related liabilities and liabilities for deferred income taxes, incentive compensation and deferred compensation, classified as other long-term liabilities in the Condensed Consolidated Balance Sheets. Cash payments for insurance and deferred compensation related liabilities may be payable beyond three years, but it is not practical to estimate these payments; therefore, these liabilities are reflected in the 1-3 years payment period. We provide funding to our post retirement plans based on at least the minimum funding required by applicable regulations. In determining the minimum required funding, we utilize current actuarial assumptions and exchange rates to forecast estimates of amounts that may be payable for up to five years in the future. In our judgment, minimum funding estimates beyond a five year time horizon cannot be reliably estimated and, therefore, have not been included in the table.

(4) Includes $0.1 million of accrued interest.

We have a credit agreement dated as of August 3, 2016, which provides for a $900.0 million revolving credit facility (the "2016 Revolving Credit Facility") and a $400.0 million term loan (the "2016 Term Loan") (collectively referred to as the "2016 Credit Agreement") expiring August 3, 2021. We may increase the 2016 Revolving Credit Facility to $1.3 billion if additional lenders are identified and/or existing lenders are willing to increase their current commitments. We may allocate up to $300.0 million of available capacity under the 2016 Revolving Credit Facility to letters of credit for our account or for the account of any of our subsidiaries. Obligations under the 2016 Credit Agreement are guaranteed by most of our direct and indirect subsidiaries and are secured by substantially all of our assets. The 2016 Credit Agreement contains various covenants providing for, among other things, maintenance of certain financial ratios and certain limitations on payment of dividends, common stock repurchases, investments, acquisitions, indebtedness and capital expenditures. We were in compliance with all such covenants as of September 30, 2018 and December 31, 2017. A commitment fee is payable on the average daily unused amount of the 2016 Revolving Credit Facility, which ranges from 0.15% to 0.30%, based on certain financial tests. The fee was 0.15% of the unused amount as of September 30, 2018. Borrowings under the 2016 Credit Agreement bear interest at (1) a base rate plus a margin of 0.00% to 0.75%, based on certain financial tests, or (2) United States dollar LIBOR (2.24% and 2.39% at September 30, 2018 for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively) plus 1.00% to 1.75%, based on certain financial tests. The base rate is determined by the greater of (a) the prime commercial lending rate announced by Bank of Montreal from time to time (5.25% at September 30, 2018), (b) the federal funds effective rate, plus ½ of 1.00%, (c) the daily one month LIBOR rate, plus 1.00%, or (d) 0.00%. The interest rates in effect at September 30, 2018 were 3.24% and 3.39% for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively. Fees for letters of credit issued under the 2016 Revolving Credit Facility range from 1.00% to 1.75% of the respective face amounts of outstanding letters of credit and are computed based on certain financial tests. Debt issuance costs are amortized over the life of the agreement and are included as part of interest expense. The 2016 Term Loan previously required us to make principal payments of $5.0 million on the last day of March, June, September and December of each year, which commenced with the calendar quarter ended December 31, 2016. On December 30, 2016, we made a payment of $100.0 million, of which $5.0 million represented our required quarterly payment and $95.0 million represented a prepayment of outstanding principal. Such prepayment was applied against the remaining mandatory quarterly payments on a ratable basis. As a result, commencing with the calendar quarter ended March 31, 2017, our required quarterly payment has been reduced to $3.8 million. All unpaid principal and interest is due on August 3, 2021. As of September 30, 2018 and December 31, 2017, the balance of the 2016 Term Loan was $273.4 million and $284.8 million, respectively. As of September 30, 2018 and December 31, 2017, we had approximately $110.0 million and $110.1 million of letters of credit outstanding, respectively. There were $25.0 million in borrowings outstanding under the 2016 Revolving Credit Facility as of September 30, 2018 and December 31, 2017.

The terms of our construction contracts frequently require that we obtain from surety companies ("Surety Companies") and provide to our customers payment and performance bonds ("Surety Bonds") as a condition to the award of such contracts. The Surety Bonds secure our payment and performance obligations under such contracts, and we have agreed to indemnify the Surety Companies for amounts, if any, paid by them in respect of Surety Bonds issued on our behalf. In addition, at the request of labor unions representing certain of our employees, Surety Bonds are sometimes provided to secure obligations for wages and benefits payable to or for such employees. Public sector contracts require Surety Bonds more frequently than private sector contracts and, accordingly, our bonding requirements typically increase as the amount of public sector work increases. As of September 30, 2018, based on the percentage-of-completion of our projects covered by Surety Bonds, our aggregate estimated exposure, assuming defaults on all our then existing contractual obligations, was approximately $1.1 billion. Surety Bonds are issued by Surety Companies in return for premiums, which vary depending on the size and type of bond.

From time to time, we discuss with our current and other Surety Bond providers the amounts of Surety Bonds that may be available to us based on our financial strength and the absence of any default by us on any Surety Bond issued on our behalf and believe those amounts are currently adequate for our needs. However, if we experience changes in our bonding relationships or if there are adverse changes in the surety industry, we may (i) seek to satisfy certain customer requests for Surety Bonds by posting other forms of collateral in lieu of Surety Bonds, such as letters of credit, parent company guarantees or cash, in order to convince customers to forego the requirement for Surety Bonds, (ii) increase our activities in our business segments that rarely require Surety Bonds, such as our building and industrial services segments, and/or (iii) refrain from bidding for certain projects that require Surety Bonds. There can be no assurance that we would be able to effectuate alternatives to providing Surety Bonds to our customers or to obtain, on favorable terms, sufficient additional work that does not require Surety Bonds. Accordingly, if we were to experience a reduction in the availability of Surety Bonds, we could experience a material adverse effect on our financial position, results of operations and/or cash flows.

In the ordinary course of business, we, at times, guarantee obligations of our subsidiaries under certain contracts. Generally, we are liable under such an arrangement only if our subsidiary fails to perform its obligations under the contract. Historically, we have not incurred any substantial liabilities as a consequence of these guarantees.

We do not have any other material financial guarantees or off-balance sheet arrangements other than those disclosed herein.

We are a party to lawsuits and other proceedings in which other parties seek to recover from us amounts ranging from a few thousand dollars to over $10.0 million. We do not believe that any such matters will have a material adverse effect on our financial position, results of operations or liquidity.

On September 26, 2011, our Board of Directors authorized us to repurchase up to $100.0 million of our outstanding common stock. On December 5, 2013, October 23, 2014, October 28, 2015 and October 25, 2017, our Board of Directors authorized us to repurchase up to an additional $100.0 million, $250.0 million, $200.0 million and $100.0 million of our outstanding common stock, respectively. During 2018, we have repurchased 1,264,853 shares of our common stock for approximately $95.6 million. Since the inception of the repurchase programs through September 30, 2018, we have repurchased approximately 14.1 million shares of our common stock for approximately $670.9 million. As of September 30, 2018, there remained authorization for us to repurchase approximately $79.1 million of our shares. Subsequent to September 30, 2018, our Board of Directors authorized us to repurchase up to an additional $200.0 million of our outstanding common stock. The repurchase programs have no expiration date and do not obligate the Company to acquire any particular amount of common stock and may be suspended, recommenced or discontinued at any time or from time to time without prior notice. We may repurchase our shares from time to time to the extent permitted by securities laws and other legal requirements, including provisions in our 2016 Credit Agreement, placing limitations on such repurchases. The repurchase programs have been and will be funded from our operations.

We have paid quarterly dividends since October 25, 2011. We currently pay a regular quarterly dividend of $0.08 per share. Our 2016 Credit Agreement places limitations on the payment of dividends on our common stock. However, we do not believe that the terms of such agreement currently materially limit our ability to pay a quarterly dividend of $0.08 per share for the foreseeable future. The payment of dividends has been and will be funded from our operations.

Our primary source of liquidity has been, and is expected to continue to be, cash generated by operating activities. We also maintain our 2016 Revolving Credit Facility that may be utilized, among other things, to meet short-term liquidity needs in the event cash generated by operating activities is insufficient or to enable us to participate in joint ventures or to make acquisitions that may require access to cash on short notice or for any other reason. Negative macroeconomic trends may have an adverse effect on liquidity. During economic downturns, there have typically been fewer small discretionary projects from the private sector, and our competitors have aggressively bid larger long-term infrastructure and public sector contracts. Short-term liquidity is also impacted by the type and length of construction contracts in place and large turnaround activities in our United States industrial services segment that are billed in arrears pursuant to contractual terms that are standard within the industry. Performance of long duration contracts typically requires greater amounts of working capital. While we strive to negotiate favorable billing terms which allow us to invoice in advance of costs incurred on certain of our contracts, there can be no assurance that such terms will be agreed to by our customers.

Long-term liquidity requirements can be expected to be met initially through cash generated from operating activities and our 2016 Revolving Credit Facility. Based upon our current credit ratings and financial position, we can reasonably expect to be able to incur long-term debt to fund acquisitions. Over the long term, our primary revenue risk factor continues to be the level of demand for non-residential construction services and for building and industrial services, which is influenced by macroeconomic trends including interest rates and governmental economic policy. In addition, our ability to perform work is critical to meeting long-term liquidity requirements.

We believe that our current cash balances and our borrowing capacity available under our 2016 Revolving Credit Facility or other forms of financing available to us through borrowings, combined with cash expected to be generated from operations, will be sufficient to provide short-term and foreseeable long-term liquidity and meet our expected capital expenditure requirements.

Certain Insurance Matters

As of September 30, 2018 and December 31, 2017, we utilized approximately $109.9 million and $109.7 million, respectively, of letters of credit obtained under our 2016 Revolving Credit Facility as collateral for our insurance obligations.

New Accounting Pronouncements

We review new accounting standards to determine the expected financial impact, if any, that the adoption of such standards will have. See Note 2 - New Accounting Pronouncements of the notes to condensed consolidated financial statements included in Item 1. Financial Statements for further information regarding new accounting standards, including the anticipated dates of adoption and the effects on our consolidated financial position, results of operations or liquidity.

Application of Critical Accounting Policies

Our condensed consolidated financial statements are based on the application of significant accounting policies, which require management to make significant estimates and assumptions. Our significant accounting policies are described in Note 2 – Summary of Significant Accounting Policies of the notes to consolidated financial statements included in Item 8 of our annual report on Form 10-K for the year ended December 31, 2017. We believe that some of the more critical judgment areas in the application of accounting policies that affect our financial condition and results of operations are the impact of changes in the estimates and judgments pertaining to: (a) revenue recognition from contracts with our customers; (b) collectibility or valuation of accounts receivable; (c) insurance liabilities; (d) income taxes; and (e) goodwill and identifiable intangible assets.

Revenue Recognition from Contracts with our Customers

We believe our most critical accounting policy is revenue recognition in accordance with ASC 606. ASC 606 aligns revenue recognition with the timing of when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This core principle is achieved through the application of the following five step model: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to performance obligations in the contract, and (5) recognize revenue as performance obligations are satisfied.

The Company recognizes revenue at the time the related performance obligation is satisfied by transferring a promised good or service to its customers. A good or service is considered to be transferred when the customer obtains control. The Company can transfer control of a good or service and satisfy its performance obligations either over time or at a point in time. The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if one of the following three criteria are met: (a) the customer simultaneously receives and consumes the benefits provided by the Company's performance as we perform, (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (c) the Company's performance does not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date.

For our performance obligations satisfied over time, we recognize revenue by measuring the progress toward complete satisfaction of that performance obligation. The selection of the method to measure progress towards completion can be either an input method or an output method and requires judgment based on the nature of the goods or services to be provided.

For our construction contracts, revenue is generally recognized over time as our performance creates or enhances an asset that the customer controls as it is created or enhanced. Our fixed price construction projects generally use a cost-to-cost input method to measure our progress towards complete satisfaction of the performance obligation as we believe it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. For our unit price construction contracts, progress towards complete satisfaction is measured through an output method, such as the amount of units produced or delivered, as this method most faithfully depicts the transfer of control to the customer. For our services contracts, revenue is also generally recognized over time as the customer simultaneously receives and consumes the benefits of our performance as we perform the service. For our fixed price service contracts with specified service periods, revenue is generally recognized on a straight-line basis over such service period when our inputs are expended evenly, and the customer receives and consumes the benefits of our performance throughout the contract term.

The timing of revenue recognition for the manufacturing of new build heat exchangers within our United States industrial services segment depends on the payment terms of the contract, as our performance does not create an asset with an alternative use to us. For those contracts for which we have a right to payment for performance completed to date at all times throughout our performance, inclusive of a cancellation, we recognize revenue over time. These performance obligations use a cost-to-cost input method to measure our progress towards complete satisfaction of the performance obligation as we believe it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. However, for those contracts for which we do not have a right, at all times, to payment for performance completed to date, we recognize revenue at the point in time when control is transferred to the customer. For bill-and-hold arrangements, revenue is recognized when the customer obtains control of the heat exchanger, which may be prior to shipping, if the criteria of ASC 606 are met.

For certain of our revenue streams, such as call-out repair and service work, outage services, refinery turnarounds and specialty welding services that are performed under time and materials contracts, our progress towards complete satisfaction of such performance obligations is measured using an output method as the customer receives and consumes the benefits of our performance completed to date.

Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation will be revised in the near-term. For those performance obligations for which revenue is recognized using a cost-to-cost input method, changes in total estimated costs, and related progress towards complete satisfaction of the performance obligation, are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. When the current estimate of total costs for a performance obligation indicate a loss, a provision for the entire estimated loss on the unsatisfied performance obligation is made in the period in which the loss becomes evident. During the three and nine months ended September 30, 2018, we recognized losses of $4.7 million and $5.5 million, respectively, related to a change in total estimated costs on a transportation project within our United States electrical construction and facilities services segment, resulting in part from contract scope issues. There were no other changes in total estimated costs that resulted in a significant impact to our operating results for the three and nine months ended September 30, 2018 and 2017.

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our long-term construction projects when revenues recognized under the cost-to-cost measure of progress exceed the amounts invoiced to our customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from our customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. In addition, many of our time and materials arrangements, as well as our contracts to perform turnaround services within the United States industrial services segment, are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings. Also included in contract assets are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders or modifications in dispute or unapproved as to both scope and/or price, or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Our contract assets do not include capitalized costs to obtain and fulfill a contract. Contract assets are generally classified as current within the Condensed Consolidated Balance Sheets.

Contract liabilities from our long-term construction contracts occur when amounts invoiced to our customers exceed revenues recognized under the cost-to-cost measure of progress. Contract liabilities additionally include advanced payments from our customers on certain contracts. Contract liabilities decrease as we recognize revenue from the satisfaction of the related performance obligation and are recorded as either current or long-term, depending upon when we expect to recognize such revenue. The long-term portion of contract liabilities is included in “Other long-term obligations” in the Condensed Consolidated Balance Sheets.

See Note 3 - Revenue from Contracts with Customers of the notes to condensed consolidated financial statements included in Item 1. Financial Statements for further disclosure regarding revenue recognition.

Accounts Receivable

Accounts receivable are recognized in the period we deliver goods or provide services to our customers or when our right to consideration is unconditional. We are required to estimate the collectibility of accounts receivable. A considerable amount of judgment is required in assessing the likelihood of realization of receivables. Relevant assessment factors include the creditworthiness of the customer, our prior collection history with the customer and related aging of the past due balances. At September 30, 2018 and December 31, 2017, our accounts receivable of $1,715.5 million and $1,607.9 million, respectively, included allowances for doubtful accounts of $15.9 million and $17.2 million, respectively. The decrease in our allowance for doubtful accounts was primarily due to the write-off of previously reserved accounts receivable. Specific accounts receivable are

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evaluated when we believe a customer may not be able to meet its financial obligations due to deterioration of its financial condition or its credit ratings. The allowance for doubtful accounts requirements are based on the best facts available and are re-evaluated and adjusted on a regular basis as additional information is received.

Insurance Liabilities

We have loss payment deductibles for certain workers' compensation, automobile liability, general liability and property claims, have self-insured retentions for certain other casualty claims and are self-insured for employee-related healthcare claims. Losses are recorded based upon estimates of our liability for claims incurred and for claims incurred but not reported. The liabilities are derived from known facts, historical trends and industry averages utilizing the assistance of an actuary to determine the best estimate for the majority of these obligations. We believe the liabilities recognized on our balance sheets for these obligations are adequate. However, such obligations are difficult to assess and estimate due to numerous factors, including severity of injury, determination of liability in proportion to other parties, timely reporting of occurrences and effectiveness of safety and risk management programs. Therefore, if our actual experience differs from the assumptions and estimates used for recording the liabilities, adjustments may be required and will be recorded in the period that the experience becomes known. Our estimated net insurance liabilities for workers' compensation, automobile liability, general liability and property claims increased by $5.8 million for the nine months ended September 30, 2018 compared to the year ended December 31, 2017, primarily due to a change in the actuarial assumptions for the most recent policy year. If our estimated insurance liabilities for workers' compensation, automobile liability, general liability and property claims had increased by 10%, it would have resulted in $16.3 million of additional expense for the nine months ended September 30, 2018.

Income Taxes

We had net deferred income tax liabilities at September 30, 2018 and December 31, 2017 of $69.9 million and $64.7 million, respectively, primarily resulting from differences between the carrying value and income tax basis of certain identifiable intangible assets and depreciable fixed assets, which will impact our taxable income in future periods. Included within these net deferred income tax liabilities are $101.6 million and $105.6 million of deferred income tax assets as of September 30, 2018 and December 31, 2017, respectively. A valuation allowance is required when it is more likely than not that all or a portion of a deferred income tax asset will not be realized. As of September 30, 2018 and December 31, 2017, the total valuation allowance on deferred income tax assets, related to state net operating carryforwards, was approximately $4.0 million.

Goodwill and Identifiable Intangible Assets

As of September 30, 2018, we had $978.2 million and $471.4 million, respectively, of goodwill and net identifiable intangible assets (primarily consisting of our contract backlog, developed technology/vendor network, customer relationships, non-competition agreements and trade names), arising out of the acquisition of companies. As of December 31, 2017, goodwill and net identifiable intangible assets were $964.9 million and $495.0 million, respectively. As of September 30, 2018, approximately 33.4% of our goodwill related to our United States industrial services segment, approximately 26.2% related to our United States mechanical construction and facilities services segment, approximately 27.5% related to our United States building services segment, and approximately 12.9% related to our United States electrical construction and facilities services segment. The changes to goodwill since December 31, 2017 were related to two acquisitions in 2018 and a purchase price adjustment related to a prior acquisition. The determination of related estimated useful lives for identifiable intangible assets and whether those assets are impaired involves significant judgments based upon short and long-term projections of future performance. These forecasts reflect assumptions regarding the ability to successfully integrate acquired companies, as well as macroeconomic conditions. ASC Topic 350, "Intangibles – Goodwill and Other" ("ASC 350") requires that goodwill and other identifiable intangible assets with indefinite useful lives not be amortized, but instead tested at least annually for impairment (which we test each October 1, absent any impairment indicators), and be written down if impaired. ASC 350 requires that goodwill be allocated to its respective reporting unit and that identifiable intangible assets with finite lives be amortized over their useful lives.

We test for impairment of our goodwill at the reporting unit level. Our reporting units are consistent with the reportable segments identified in Note 14, "Segment Information", of the notes to condensed consolidated financial statements. In assessing whether our goodwill is impaired, we compare the fair value of the reporting unit to the carrying amount, including goodwill. If the fair value exceeds the carrying amount, no impairment loss is recognized. However, if the carrying amount of the reporting unit exceeds the fair value, the goodwill of the reporting unit is impaired and an impairment loss in the amount of the excess is recognized and charged to operations. The fair value of each of our reporting units is generally determined using discount estimated future cash flows; however, in certain circumstances, consideration is given to a market approach whereby fair value is measured based on a multiple of earnings.

As of the date of our latest impairment test (October 1, 2017), the carrying values of our United States building services segment, our United States mechanical construction and facilities services segment and our United States electrical construction and facilities services segment were approximately $471.8 million, $313.9 million and $214.1 million, respectively. The fair values of our United States building services segment, our United States mechanical construction and facilities services segment and our United States electrical construction and facilities services segment exceeded their carrying values by approximately $408.9 million, $1,013.3 million and $673.2 million, respectively.

During our annual impairment testing procedures as of October 1, 2017, and as a result of continued adverse market conditions, we tempered our expectations regarding the strength of a near-term recovery within our United States industrial services segment. As a result of our revised projections, the fair value of this segment fell short of its carrying value of $666.7 million and resulted in the recognition of a non-cash impairment charge of $57.5 million during the fourth quarter of 2017. No impairment of our goodwill was recognized during the three and nine months ended September 30, 2018 and 2017.

The weighted average cost of capital used in testing goodwill for impairment as of October 1, 2017 was 10.6%, 10.0% and 11.0% for our domestic construction segments, our United States building services segment and our United States industrial services segment, respectively. The perpetual growth rate used for our annual testing was 2.7% for all of our domestic segments. Unfavorable changes in these key assumptions may affect future testing results. For example, keeping all other assumptions constant, a 50 basis point increase in the weighted average costs of capital would cause the estimated fair values of our United States electrical construction and facilities services segment, our United States mechanical construction and facilities services segment, our United States building services segment and our United States industrial services segment to decrease by approximately $51.1 million, $74.9 million, $53.3 million, and $20.0 million, respectively. In addition, keeping all other assumptions constant, a 50 basis point reduction in the perpetual growth rate would cause the estimated fair values of our United States electrical construction and facilities services segment, our United States mechanical construction and facilities services segment, our United States building services segment, and our United States industrial services segment to decrease by approximately $25.1 million, $41.0 million, $28.1 million, and $10.0 million, respectively.

We also test for the impairment of trade names that are not subject to amortization by calculating the fair value using the “relief from royalty payments” methodology. This approach involves two steps: (a) estimating reasonable royalty rates for each trade name and (b) applying these royalty rates to a net revenue stream and discounting the resulting cash flows to determine fair value. This fair value is then compared with the carrying value of each trade name. If the carrying amount of the trade name is greater than the implied fair value of the trade name, an impairment in the amount of the excess is recognized and charged to operations. No impairment of our indefinite-lived trade names was recognized during the three and nine months ended September 30, 2018 and 2017.

In addition, we review for the impairment of other identifiable intangible assets that are being amortized whenever facts and circumstances indicate that their carrying values may not be fully recoverable. This test compares their carrying values to the undiscounted pre-tax cash flows expected to result from the use of the assets. If the assets are impaired, the assets are written down to their fair values, generally determined based on their future discounted cash flows. During the second quarter of 2018, we recorded a $0.9 million non-cash impairment charge associated with a finite-lived trade name within our United States industrial services segment. No additional impairment of our other identifiable intangible assets was recognized during the three and nine months ended September 30, 2018 and 2017.

As referenced above, we have certain businesses, particularly within our United States industrial services segment, whose results are highly impacted by the demand for some of our offerings within the industrial and oil and gas markets. Future performance of this segment, along with a continued evaluation of the conditions of its end user markets, will be important to ongoing impairment assessments. Should this segment’s actual results suffer a decline or expected future results be revised downward, the risk of goodwill impairment or impairment of other identifiable intangible assets would increase.

Our development of the present value of future cash flow projections used in impairment testing is based upon assumptions and estimates by management from a review of our operating results, business plans, anticipated growth rates and margins, and weighted average cost of capital, among others. Those assumptions and estimates can change in future periods, and other factors used in assessing fair value are outside the control of management, such as interest rates. There can be no assurance that estimates and assumptions made for purposes of our goodwill and identifiable asset impairment testing will prove to be accurate predictions of the future. If our assumptions regarding future business performance or anticipated growth rates and/or margins are not achieved, or there is a rise in interest rates,

we may be required to record goodwill and/or identifiable asset impairment charges in future periods.
It is not possible at this time to determine if any future impairment charge will result or, if it does, whether such a charge would be material.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We have not used any derivative financial instruments during the nine months ended September 30, 2018, including trading or speculating on changes in interest rates or commodity prices of materials used in our business.

We are exposed to market risk for changes in interest rates for borrowings under the 2016 Credit Agreement, which provides for a revolving credit facility and a term loan. Borrowings under the 2016 Credit Agreement bear interest at variable rates. As of September 30, 2018, there were borrowings of $25.0 million outstanding under the 2016 Revolving Credit Facility and the balance of the 2016 Term Loan was $273.4 million. This instrument bears interest at (1) a base rate plus a margin of 0.00% to 0.75%, based on certain financial tests, or (2) United States dollar LIBOR (2.24% and 2.39% at September 30, 2018 for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively) plus 1.00% to 1.75%, based on certain financial tests. The base rate is determined by the greater of (a) the prime commercial lending rate announced by Bank of Montreal from time to time (5.25% at September 30, 2018), (b) the federal funds effective rate, plus ½ of 1.00%, (c) the daily one month LIBOR rate, plus 1.00%, or (d) 0.00%. The interest rates in effect at September 30, 2018 were 3.24% and 3.39% for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively. Based on the $298.4 million borrowings outstanding under the 2016 Credit Agreement, if overall interest rates were to increase by 100 basis points, interest expense, net of income taxes, would increase by approximately $2.2 million in the next twelve months. Conversely, if overall interest rates were to decrease by 100 basis points, interest expense, net of income taxes, would decrease by approximately $2.2 million in the next twelve months. Fees for letters of credit issued under the 2016 Revolving Credit Facility range from 1.00% to 1.75% of the respective face amounts of outstanding letters of credit and are computed based on certain financial tests. The 2016 Credit Agreement expires on August 3, 2021. There is no guarantee that we will be able to renew the 2016 Credit Agreement at its expiration.

We are also exposed to construction market risk and its potential related impact on accounts receivable or contract assets on uncompleted contracts. The amounts recorded may be at risk if our customers' ability to pay these obligations is negatively impacted by economic conditions. We continually monitor the creditworthiness of our customers and maintain on-going discussions with customers regarding contract status with respect to change orders and billing terms. Therefore, we believe we take appropriate action to manage market and other risks, but there is no assurance that we will be able to reasonably identify all risks with respect to the collectibility of these assets. See also the previous discussions of Revenue Recognition from Contracts with our Customers and Accounts Receivable under the heading, "Application of Critical Accounting Policies" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Amounts invested in our foreign operations are translated into U.S. dollars at the exchange rates in effect at the end of the period. The resulting translation adjustments are recorded as accumulated other comprehensive (loss) income, a component of equity, in the Condensed Consolidated Balance Sheets. We believe the exposure to the effects that fluctuating foreign currencies may have on our consolidated results of operations is limited because our foreign operations primarily invoice customers and collect obligations in their respective local currencies. Additionally, expenses associated with these transactions are generally contracted and paid for in their same local currencies.

In addition, we are exposed to market risk of fluctuations in certain commodity prices of materials, such as copper and steel, which are used as components of supplies or materials utilized in our construction, building services and industrial services operations. We are also exposed to increases in energy prices, particularly as they relate to gasoline prices for our fleet of over 10,000 vehicles. While we believe we can increase our contract prices to adjust for some price increases in commodities, there can be no assurance that such price increases, if they were to occur, would be recoverable. Additionally, our fixed price contracts do not allow us to adjust our prices and, as a result, increases in material costs could reduce our profitability with respect to projects in progress.

ITEM 4. CONTROLS AND PROCEDURES.

Based on an evaluation of our disclosure controls and procedures (as required by Rule 13a-15(b) of the Securities Exchange Act of 1934), our Chairman, President and Chief Executive Officer, Anthony J. Guzzi, and our Executive Vice President and Chief Financial Officer, Mark A. Pompa, have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchanges Act of 1934) are effective as of the end of the period covered by this report.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. – OTHER INFORMATION.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table summarizes repurchases of our common stock made by us during the quarter ended September 30, 2018:

Period	Total Number of Shares Purchased (1) (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan or Programs
July 1, 2018 to July 31, 2018	800	$75.02	800	$114,183,438
August 1, 2018 to August 31, 2018	46,283	$75.97	46,283	$110,667,196
September 1, 2018 to September 30, 2018	421,520	$74.86	421,520	$79,111,924
Total	468,603	$74.97	468,603	

(1) On September 26, 2011, our Board of Directors authorized us to repurchase up to $100.0 million of our outstanding common stock. On December 5, 2013, October 23, 2014, October 28, 2015 and October 25, 2017, our Board of Directors authorized us to repurchase up to an additional $100.0 million, $250.0 million, $200.0 million and $100.0 million of our outstanding common stock, respectively. As of September 30, 2018, there remained authorization for us to repurchase approximately $79.1 million of our shares. Subsequent to September 30, 2018, our Board of Directors authorized us to repurchase up to an additional $200.0 million of our outstanding common stock. No shares have been repurchased by us since the programs have been announced other than pursuant to these publicly announced programs. The repurchase programs have no expiration date and do not obligate the Company to acquire any particular amount of common stock and may be suspended, recommenced or discontinued at any time or from time to time without prior notice. We may repurchase our shares from time to time to the extent permitted by securities laws and other legal requirements, including provisions in our credit agreement, placing limitations on such repurchases.

(2) Excludes 48,388 shares to satisfy minimum tax withholdings for common stock issued under share-based compensation plans.

ITEM 4. MINE SAFETY DISCLOSURES.

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this quarterly report.

ITEM 6. EXHIBITS.

For the list of exhibits, see the Exhibit Index immediately following the signature page hereof, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

Date: October 25, 2018

EMCOR GROUP, INC.
(Registrant)

BY: /s/ ANTHONY J. GUZZI
Anthony J. Guzzi
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

BY: /s/ MARK A. POMPA
Mark A. Pompa
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description	Incorporated By Reference to or Filed Herewith, as Indicated Below
2(a-1)	Purchase Agreement dated as of February 11, 2002 by and among Comfort Systems USA, Inc. and EMCOR-CSI Holding Co.	Exhibit 2.1 to EMCOR Group, Inc.'s ("EMCOR") Report on Form 8-K dated February 14, 2002
2(a-2)	Purchase and Sale Agreement dated as of August 20, 2007 between FR X Ohmstede Holdings LLC and EMCOR Group, Inc.	Exhibit 2.1 to EMCOR's Report on Form 8-K (Date of Report August 20, 2007)
2(a-3)	Purchase and Sale Agreement, dated as of June 17, 2013 by and among Texas Turnaround LLC, a Delaware limited liability company, Altair Strickland Group, Inc., a Texas corporation, Rep Holdings LLC, a Texas limited liability company, ASG Key Employee LLC, a Texas limited liability company, Repcon Key Employee LLC, a Texas limited liability company, Gulfstar MBII, Ltd., a Texas limited partnership, The Trustee of the James T. Robinson and Diana J. Robinson 2010 Irrevocable Trust, The Trustee of the Steven Rothbauer 2012 Descendant's Trust, The Co-Trustees of the Patia Strickland 2012 Descendant's Trust, The Co-Trustees of the Carter Strickland 2012 Descendant's Trust, and The Co-Trustees of the Walton 2012 Grandchildren's Trust (collectively, "Sellers") and EMCOR Group, Inc.	Exhibit 2.1 to EMCOR's Report on Form 8-K (Date of Report June 17, 2013)
3(a-1)	Restated Certificate of Incorporation of EMCOR filed December 15, 1994	Exhibit 3(a-5) to EMCOR's Registration Statement on Form 10 as originally filed March 17, 1995 ("Form 10")
3(a-2)	Amendment dated November 28, 1995 to the Restated Certificate of Incorporation of EMCOR	Exhibit 3(a-2) to EMCOR's Annual Report on Form 10-K for the year ended December 31, 1995 ("1995 Form10-K")
3(a-3)	Amendment dated February 12, 1998 to the Restated Certificate of Incorporation of EMCOR	Exhibit 3(a-3) to EMCOR's Annual Report on Form 10-K for the year ended December 31, 1997 ("1997 Form 10-K")
3(a-4)	Amendment dated January 27, 2006 to the Restated Certificate of Incorporation of EMCOR	Exhibit 3(a-4) to EMCOR's Annual Report on Form 10-K for the year ended December 31, 2005 ("2005 Form 10-K")
3(a-5)	Amendment dated September 18, 2007 to the Restated Certificate of Incorporation of EMCOR	Exhibit A to EMCOR's Proxy Statement dated August 17, 2007 for Special Meeting of Stockholders held

		September 18, 2007
3(b)	Amended and Restated By-Laws and Amendments thereto	Exhibit 3(b) to EMCOR's Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Form 10-K")
4(a)	Fifth Amended and Restated Credit Agreement dated as of August 3, 2016 by and among EMCOR Group, Inc. and a subsidiary and Bank of Montreal, as Agent and the lenders listed on the signature pages thereof (the "Credit Agreement")	Exhibit 4(a) to EMCOR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 ("September 2016 Form 10-Q")
4(b)	Fifth Amended and Restated Security Agreement dated as of August 3, 2016 among EMCOR, certain of its U.S. subsidiaries, and Bank of Montreal, as Agent	Exhibit 4(b) to the September 2016 Form 10-Q
4(c)	Fifth Amended and Restated Pledge Agreement dated as of August 3, 2016 among EMCOR, certain of its U.S. subsidiaries, and Bank of Montreal, as Agent	Exhibit 4(c) to the September 2016 Form 10-Q
4(d)	Fourth Amended and Restated Guaranty Agreement dated as of August 3, 2016 by certain of EMCOR's U.S. subsidiaries in favor of Bank of Montreal, as Agent	Exhibit 4(d) to the September 2016 Form 10-Q

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EXHIBIT INDEX

Exhibit No.	Description	Incorporated By Reference to or Filed Herewith, as Indicated Below
10(a)		