

EMCOR GROUP INC
Form 10-Q
July 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission file number 1-8267

EMCOR GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

11-2125338

(I.R.S. Employer

Identification Number)

301 Merritt Seven

Norwalk, Connecticut

(Address of Principal Executive Offices)

(203) 849-7800

(Registrant's Telephone Number, Including Area Code)

06851-1092

(Zip 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 No

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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Applicable Only To Corporate Issuers

Number of shares of Common Stock outstanding as of the close of business on July 27, 2015: 62,795,267 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)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$360,849	\$ 432,056
Accounts receivable, net	1,309,095	1,234,187
Costs and estimated earnings in excess of billings on uncompleted contracts	135,939	103,201
Inventories	65,123	46,854
Prepaid expenses and other	66,728	70,305
Total current assets	1,937,734	1,886,603
Investments, notes and other long-term receivables	6,570	9,122
Property, plant and equipment, net	118,529	122,178
Goodwill	834,628	834,102
Identifiable intangible assets, net	483,680	502,060
Other assets	36,645	34,902
Total assets	\$3,417,786	\$ 3,388,967
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings under revolving credit facility	\$—	\$ —
Current maturities of long-term debt and capital lease obligations	18,814	19,041
Accounts payable	428,424	460,478
Billings in excess of costs and estimated earnings on uncompleted contracts	384,989	368,555
Accrued payroll and benefits	229,900	245,854
Other accrued expenses and liabilities	211,838	189,489
Total current liabilities	1,273,965	1,283,417
Long-term debt and capital lease obligations	307,523	316,399
Other long-term obligations	362,011	359,764
Total liabilities	1,943,499	1,959,580
Equity:		
EMCOR Group, Inc. stockholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, zero issued and outstanding	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 63,444,290 and 63,641,070 shares issued, respectively	634	636
Capital surplus	212,252	227,885
Accumulated other comprehensive loss	(82,293)	(83,197)
Retained earnings	1,350,524	1,280,991
Treasury stock, at cost 659,841 and 659,841 shares, respectively	(10,302)	(10,302)
Total EMCOR Group, Inc. stockholders' equity	1,470,815	1,416,013
Noncontrolling interests	3,472	13,374
Total equity	1,474,287	1,429,387
Total liabilities and equity	\$3,417,786	\$ 3,388,967

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 June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues	\$1,652,585	\$1,552,918	\$3,241,772	\$3,143,457
Cost of sales	1,413,058	1,332,677	2,785,316	2,707,013
Gross profit	239,527	220,241	456,456	436,444
Selling, general and administrative expenses	161,391	150,406	322,982	294,260
Restructuring expenses	433	176	441	401
Operating income	77,703	69,659	133,033	141,783
Interest expense	(2,208)	) (2,242)	) (4,424)	) (4,490)
Interest income	182	221	358	455
Income from continuing operations before income taxes	75,677	67,638	128,967	137,748
Income tax provision	28,727	25,203	48,952	51,430
Income from continuing operations	46,950	42,435	80,015	86,318
Loss from discontinued operation, net of income taxes	(114)	) (1,435)	) (469)	) (3,476)
Net income including noncontrolling interests	46,836	41,000	79,546	82,842
Less: Net loss (income) attributable to noncontrolling interests	13	(1,087)	) 152	(1,668)
Net income attributable to EMCOR Group, Inc.	\$46,849	\$39,913	\$79,698	\$81,174
Basic earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	\$0.75	\$0.61	\$1.27	\$1.26
From discontinued operation	(0.00)	) (0.02)	) (0.01)	) (0.05)
Net income attributable to EMCOR Group, Inc. common stockholders	\$0.75	\$0.59	\$1.26	\$1.21
Diluted earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	\$0.74	\$0.61	\$1.26	\$1.24
From discontinued operation	(0.00)	) (0.02)	) (0.01)	) (0.05)
Net income attributable to EMCOR Group, Inc. common stockholders	\$0.74	\$0.59	\$1.25	\$1.19
Dividends declared per common share	\$0.08	\$0.08	\$0.16	\$0.16

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		Six months ended June		
	June 30,		30,		
	2015	2014	2015	2014	
Net income including noncontrolling interests	\$46,836	\$41,000	\$79,546	\$82,842	
Other comprehensive income, net of tax:					
Foreign currency translation adjustments	(369	) 64	(188	) 66
Post retirement plans, amortization of actuarial loss included in net income ⁽¹⁾	550	453	1,092	896	
Other comprehensive income	181	517	904	962	
Comprehensive income	47,017	41,517	80,450	83,804	
Less: Comprehensive loss (income) attributable to noncontrolling interests	13	(1,087) 152	(1,668)
Comprehensive income attributable to EMCOR Group, Inc.	\$47,030	\$40,430	\$80,602	\$82,136	

⁽¹⁾ Net of tax of \$0.2 million and \$0.1 million for the three months ended June 30, 2015 and 2014, respectively, and net of tax of \$0.3 million and \$0.3 million for the six months ended June 30, 2015 and 2014, 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)

	Six months ended June	
	30,	
	2015	2014
Cash flows - operating activities:		
Net income including noncontrolling interests	\$79,546	\$82,842
Depreciation and amortization	17,942	17,956
Amortization of identifiable intangible assets	18,951	19,005
Deferred income taxes	1,406	4,648
Loss on sale of subsidiary	—	608
Excess tax benefits from share-based compensation	(1,038)	(5,627)
Equity income from unconsolidated entities	(1,034)	(836)
Other non-cash items	5,703	3,185
Distributions from unconsolidated entities	3,316	572
Changes in operating assets and liabilities	(130,858)	(82,713)
Net cash (used in) provided by operating activities	(6,066)	39,640
Cash flows - investing activities:		
Payments for acquisitions of businesses, net of cash acquired	(1,176)	—
Proceeds from sale of subsidiary	—	1,108
Proceeds from sale of property, plant and equipment	2,569	2,630
Purchase of property, plant and equipment	(15,793)	(16,579)
Investments in and advances to unconsolidated entities and joint ventures	—	(1,590)
Net cash used in investing activities	(14,400)	(14,431)
Cash flows - financing activities:		
Repayments of long-term debt	(8,758)	(8,756)
Repayments of capital lease obligations	(1,330)	(840)
Dividends paid to stockholders	(10,054)	(10,743)
Repurchase of common stock	(21,148)	(18,332)
Proceeds from exercise of stock options	1,368	4,533
Payments to satisfy minimum tax withholding	(3,790)	(1,481)
Issuance of common stock under employee stock purchase plan	2,051	1,753
Payments for contingent consideration arrangements	(403)	—
Distributions to noncontrolling interests	(9,750)	(1,400)
Excess tax benefits from share-based compensation	1,038	5,627
Net cash used in financing activities	(50,776)	(29,639)
Effect of exchange rate changes on cash and cash equivalents	35	1,736
Decrease in cash and cash equivalents	(71,207)	(2,694)
Cash and cash equivalents at beginning of year	432,056	439,813
Cash and cash equivalents at end of period	\$360,849	\$437,119
Supplemental cash flow information:		
Cash paid for:		
Interest	\$3,682	\$3,388
Income taxes	\$47,899	\$46,298
Non-cash financing activities:		
Assets acquired under capital lease obligations	\$950	\$93
See Notes to Condensed Consolidated Financial Statements.		

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

	Total	EMCOR Group, Inc. Common stock	Stockholders Capital surplus	Accumulated other comprehensive (loss) income (1)	Retained earnings	Treasury stock	Noncontrolling interests
Balance, December 31, 2013	\$1,479,626	\$676	\$408,083	\$(65,777)	\$1,133,873	\$(10,590)	\$ 13,361
Net income including noncontrolling interests	82,842	—	—	—	81,174	—	1,668
Other comprehensive income	962	—	—	962	—	—	—
Common stock issued under share-based compensation plans (2)	10,188	5	9,895	—	—	288	—
Tax withholding for common stock issued under share-based compensation plans	(1,481)	—	(1,481)	—	—	—	—
Common stock issued under employee stock purchase plan	1,753	—	1,753	—	—	—	—
Common stock dividends	(10,743)	—	149	—	(10,892)	—	—
Repurchase of common stock	(18,724)	(4)	(18,720)	—	—	—	—
Distributions to noncontrolling interests	(1,400)	—	—	—	—	—	(1,400)
Share-based compensation expense	4,468	—	4,468	—	—	—	—
Balance, June 30, 2014	\$1,547,491	\$677	\$404,147	\$(64,815)	\$1,204,155	\$(10,302)	\$ 13,629
Balance, December 31, 2014	\$1,429,387	\$636	\$227,885	\$(83,197)	\$1,280,991	\$(10,302)	\$ 13,374
Net income including noncontrolling interests	79,546	—	—	—	79,698	—	(152)
Other comprehensive income	904	—	—	904	—	—	—
Common stock issued under share-based compensation plans (2)	2,340	3	2,337	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(3,790)	—	(3,790)	—	—	—	—
Common stock issued under employee stock purchase plan	2,051	—	2,051	—	—	—	—

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Common stock dividends	(10,054)	—	111	—	(10,165)	—	—
Repurchase of common stock	(21,148)	(5)	(21,143)	—	—	—	—
Distributions to noncontrolling interests	(9,750)	—	—	—	—	—	(9,750)
Share-based compensation expense	4,801	—	4,801	—	—	—	—
Balance, June 30, 2015	\$1,474,287	\$634	\$212,252	\$(82,293)	\$1,350,524	\$(10,302)	\$ 3,472

(1) Represents cumulative foreign currency translation adjustments and post retirement liability adjustments.

(2) Includes the tax benefit associated with share-based compensation of \$1.0 million and \$5.7 million for the six months ended June 30, 2015 and 2014, respectively.

See Notes to Condensed Consolidated Financial Statements.

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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 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 six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

During the third quarter of 2014, we ceased construction operations in the United Kingdom. As a result, the segment formerly named the United Kingdom construction and building services segment has been renamed the United Kingdom building services segment. Our reportable segments have been restated in all periods presented to reflect this change.

NOTE 2 New Accounting Pronouncements

In April 2015, an accounting pronouncement was issued by the FASB to update the guidance related to the presentation of debt issuance costs. This guidance requires debt issuance costs, related to a recognized debt liability, be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than being presented as an asset. This pronouncement is effective retrospectively for fiscal years beginning after December 15, 2015, with early adoption permitted. We intend to adopt this pronouncement on January 1, 2016, and the adoption will not have a material impact on our financial position and/or results of operations.

On January 1, 2015, we adopted the accounting pronouncement issued by the Financial Accounting Standards Board ("FASB") updating existing guidance on discontinued operations. This guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This pronouncement is aimed at reducing the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or will have a major effect on an entity's operations and financial results. We will consider this guidance in conjunction with future disposals, if any.

In May 2014, an accounting pronouncement was issued by the 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. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted. The guidance permits the use of one of two retrospective transition methods. We have not yet selected a transition method nor have we determined the effect that the adoption of the pronouncement may have on our financial position and/or results of operations.

NOTE 3 Acquisitions of Businesses

On June 1, 2015, we acquired a company for an immaterial amount. This company primarily provides mechanical construction services and has been included in our United States mechanical construction and facilities services segment. The purchase price for this acquisition is subject to finalization based on certain contingencies provided for in the purchase agreement. The acquisition of this business was accounted for by the acquisition method, and the price paid for the acquired business has been allocated to its assets and liabilities, based upon the estimated fair value of its assets and liabilities at the date of the acquisition.

During the three months ended June 30, 2015 and 2014, respectively, we recorded a reversal of less than \$0.1 million and \$0.2 million of liabilities resulting in non-cash income attributable to contingent consideration arrangements

relating to prior acquisitions. During the six months ended June 30, 2015 and 2014, respectively, we recorded a net reversal of \$0.2 million and \$0.2 million of liabilities resulting in non-cash income attributable to contingent consideration arrangements relating to prior acquisitions.

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 4 Disposition of Assets

In January 2014, we sold a subsidiary reported in our United States building services segment. Proceeds from the sale totaled approximately \$1.1 million. Included in net income for the six months ended June 30, 2014 was a loss of \$0.6 million from this sale, which is classified as a component of "Selling, general and administrative expenses" in the Condensed Consolidated Statements of Operations.

Due to recurring losses over the last several years 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 announced during the quarter ended June 30, 2013 our decision to withdraw from the construction market in the United Kingdom. During the third quarter of 2014, we ceased construction operations in the United Kingdom. The results of the construction operations of our United Kingdom segment for all periods are presented in our Condensed Consolidated Financial Statements as discontinued operations.

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

	For the three months ended		For the six months ended	
	June 30,	2014	June 30,	2014
Revenues	\$84	\$5,137	\$360	\$13,983
Loss from discontinued operation, net of income taxes	\$(114)	\$(1,435)	\$(469)	\$(3,476)
Diluted loss per share from discontinued operation	\$(0.00)	\$(0.02)	\$(0.01)	\$(0.05)

Included in the Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014 are the following major classes of assets and liabilities associated with the discontinued operation (in thousands):

	June 30, 2015	December 31, 2014
Assets of discontinued operation:		
Current assets	\$4,318	\$6,265
Non-current assets	\$114	\$278
Liabilities of discontinued operation:		
Current liabilities	\$8,007	\$10,743
Non-current liabilities	\$35	\$94

At June 30, 2015, the assets and liabilities of the discontinued operation consisted of accounts receivable, contract retentions and contract warranty obligations that are expected to be collected or fulfilled in the ordinary course of business. Additionally at June 30, 2015, there remained \$1.1 million of obligations related to employee severance and the termination of leased facilities, the majority of which is expected to be paid in 2015. 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 an additional component of "Loss from discontinued operation" as incurred.

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 5 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 six months ended June 30, 2015 and 2014 (in thousands, except share and per share data):

	For the three months ended June 30,	
	2015	2014
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	\$46,963	\$41,348
Loss from discontinued operation, net of income taxes	(114	) (1,435
Net income attributable to EMCOR Group, Inc. common stockholders	\$46,849	\$39,913
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	62,809,699	67,294,498
Effect of dilutive securities—Share-based awards	520,554	705,863
Shares used to compute diluted earnings (loss) per common share	63,330,253	68,000,361
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	\$0.75	\$0.61
From discontinued operation	\$(0.00	) \$(0.02
Net income attributable to EMCOR Group, Inc. common stockholders	\$0.75	\$0.59
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	\$0.74	\$0.61
From discontinued operation	\$(0.00	) \$(0.02
Net income attributable to EMCOR Group, Inc. common stockholders	\$0.74	\$0.59
	For the six months ended June 30,	
	2015	2014
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	\$80,167	\$84,650
Loss from discontinued operation, net of income taxes	(469	) (3,476
Net income attributable to EMCOR Group, Inc. common stockholders	\$79,698	\$81,174
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	62,932,295	67,242,392
Effect of dilutive securities—Share-based awards	536,327	758,358
Shares used to compute diluted earnings (loss) per common share	63,468,622	68,000,750
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	\$1.27	\$1.26
From discontinued operation	\$(0.01	) \$(0.05
Net income attributable to EMCOR Group, Inc. common stockholders	\$1.26	\$1.21
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	\$1.26	\$1.24
From discontinued operation	\$(0.01	) \$(0.05
Net income attributable to EMCOR Group, Inc. common stockholders	\$1.25	\$1.19

The number of outstanding restricted stock units that were excluded from the computation of diluted EPS for the three and six months ended June 30, 2015 because they would be anti-dilutive were zero and 35,625, respectively. There were no anti-dilutive awards for the three and six months ended June 30, 2014.

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 6 Inventories

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

	June 30, 2015	December 31, 2014
Raw materials and construction materials	\$31,604	\$23,330
Work in process	33,519	23,524
	\$65,123	\$46,854

NOTE 7 Debt

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

	June 30, 2015	December 31, 2014
Term Loan	\$323,750	\$332,500
Capitalized lease obligations	2,538	2,883
Other	49	57
	326,337	335,440
Less: current maturities	18,814	19,041
	\$307,523	\$316,399

Credit Facilities

Until November 25, 2013, we had a revolving credit agreement (the "2011 Credit Agreement"), as amended, which provided for a revolving credit facility of \$750.0 million. The 2011 Credit Agreement was effective November 21, 2011. Effective November 25, 2013, we amended and restated the 2011 Credit Agreement to provide for a \$750.0 million revolving credit facility (the "2013 Revolving Credit Facility") and a \$350.0 million term loan (the "Term Loan") (collectively referred to as the "2013 Credit Agreement") expiring November 25, 2018. The proceeds of the Term Loan were used to repay amounts drawn under the 2011 Credit Agreement. We may increase the 2013 Revolving Credit Facility to \$1.05 billion if additional lenders are identified and/or existing lenders are willing to increase their current commitments. We may allocate up to \$250.0 million of available borrowings under the 2013 Revolving Credit Facility to letters of credit for our account or for the account of any of our subsidiaries. Obligations under the 2013 Credit Agreement are guaranteed by most of our direct and indirect subsidiaries and are secured by substantially all of our assets and most of the assets of most of our subsidiaries. The 2013 Revolving Credit Facility and the Term Loan contain 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 June 30, 2015 and December 31, 2014. A commitment fee is payable on the average daily unused amount of the 2013 Revolving Credit Facility, which ranges from 0.20% to 0.30%, based on certain financial tests. The fee is 0.20% of the unused amount as of June 30, 2015. Borrowings under the 2013 Credit Agreement bear interest at (1) a rate which is the prime commercial lending rate announced by Bank of Montreal from time to time (3.25% at June 30, 2015) plus 0.25% to 0.75%, based on certain financial tests or (2) United States dollar LIBOR (0.19% at June 30, 2015) plus 1.25% to 1.75%, based on certain financial tests. The interest rate in effect at June 30, 2015 was 1.44%. Fees for letters of credit issued under the 2013 Revolving Credit Facility range from 1.25% to 1.75% of the respective face amounts of outstanding letters of credit and are computed based on certain financial tests. We capitalized approximately \$3.0 million of debt issuance costs associated with the 2013 Credit Agreement. This amount is being amortized over the life of the agreement and is included as part of interest expense. We are required to make principal payments on the

Term Loan in installments on the last day of March, June, September and December of each year, which commenced with the calendar quarter ended March 31, 2014, in the amount of \$4.4 million, with a payment of all unpaid principal and interest due on November 25, 2018. As of June 30, 2015 and December 31, 2014, the balance of the Term Loan was \$323.8 million and \$332.5 million, respectively. As of June 30, 2015 and December 31, 2014, we had approximately \$106.2 million and \$95.5 million of letters of credit outstanding, respectively. There were no borrowings outstanding under the 2013 Revolving Credit Facility as of June 30, 2015 and December 31, 2014.

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 8 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 June 30, 2015 and December 31, 2014 (in thousands):

Asset Category	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents ⁽¹⁾	\$360,849	—	—	\$360,849
Restricted cash ⁽²⁾	7,631	—	—	7,631
Deferred compensation plan assets ⁽³⁾	7,039	—	—	7,039
Total	\$375,519	—	—	\$375,519
Asset Category	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents ⁽¹⁾	\$432,056	—	—	\$432,056
Restricted cash ⁽²⁾	6,474	—	—	6,474
Deferred compensation plan assets ⁽³⁾	3,139	—	—	3,139
Total	\$441,669	—	—	\$441,669

Cash and cash equivalents include money market funds with original maturity dates of three months or less, which (1) are Level 1 assets. At June 30, 2015 and December 31, 2014, we had \$157.0 million and \$156.7 million, respectively, in money market funds.

(2) Restricted cash is classified as "Prepaid expenses and other" in the Condensed Consolidated Balance Sheets.

(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 2013 Credit Agreement approximates its fair value due to the variable rate on such debt.

NOTE 9 Income Taxes

For the three months ended June 30, 2015 and 2014, our income tax provision from continuing operations was \$28.7 million and \$25.2 million, respectively, based on effective income tax rates, before discrete items and less amounts attributable to noncontrolling interests, of 37.8% and 37.6%, respectively. The actual income tax rates on income from continuing operations, less amounts attributable to noncontrolling interests, for the three months ended June 30, 2015 and 2014, inclusive of discrete items, were 38.0% and 37.7%, respectively. For the six months ended June 30, 2015 and 2014, our income tax provision from continuing operations was \$49.0 million and \$51.4 million, respectively, based on effective income tax rates, before discrete items and less amounts attributable to noncontrolling interests, of 37.8% and 37.6%, respectively. The actual income tax rates on income from continuing operations, less amounts attributable to noncontrolling interests, for the six months ended June 30, 2015 and 2014, inclusive of discrete items, were 37.9% and 37.7%, respectively. The decrease in the 2015 income tax provision was primarily due to decreased income before income taxes. The increase in the actual income tax rates on income from continuing operations was primarily due to a change in the mix of earnings among various jurisdictions.

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As of June 30, 2015 and December 31, 2014, the amount of unrecognized income tax benefits for each period was \$5.2 million (of which \$3.0 million, if recognized, would favorably affect our effective income tax rate).

We report interest expense related to unrecognized income tax benefits in the income tax provision. As of June 30, 2015 and December 31, 2014, we had approximately \$0.4 million and \$0.3 million of accrued interest related to unrecognized income

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 9 Income Taxes - (Continued)

tax benefits included as a liability in the Condensed Consolidated Balance Sheets, respectively. For each of the three months ended June 30, 2015 and 2014, less than \$0.1 million of interest expense was recognized. For the six months ended June 30, 2015 and 2014, less than \$0.1 million of interest expense and less than \$0.1 million of interest income was recognized, respectively.

It is reasonably possible that approximately \$3.3 million of unrecognized income tax benefits at June 30, 2015, primarily relating to uncertain tax positions attributable to tax return filing positions, will significantly decrease in the next twelve months as a result of estimated settlements with taxing authorities and the expiration of applicable statutes of limitations.

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 2008 through 2014. During the first quarter of 2014, the Internal Revenue Service finalized its audit of our federal income tax returns for the years 2010 through 2011. We agreed to and paid an assessment, for an immaterial amount, proposed by the Internal Revenue Service pursuant to such audit.

NOTE 10 Common Stock

As of June 30, 2015 and December 31, 2014, 62,784,449 and 62,981,229 shares of our common stock were outstanding, respectively.

During the three months ended June 30, 2015 and 2014, 102,562 and 112,108 shares of common stock, respectively, 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. During the six months ended June 30, 2015 and 2014, 281,490 and 562,724 shares of common stock, respectively, were issued primarily upon: (a) the satisfaction of required conditions under certain of our share-based compensation plans, (b) the exercise of stock options and (c) the purchase of common stock pursuant to our employee stock purchase plan.

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 and October 23, 2014, our Board of Directors authorized us to repurchase up to an additional \$100.0 million and \$250.0 million of our outstanding common stock, respectively. During 2015, we repurchased approximately 0.5 million shares of our common stock for approximately \$21.1 million. Since the inception of the repurchase programs through June 30, 2015, we have repurchased 8.0 million shares of our common stock for approximately \$304.7 million. As of June 30, 2015, there remained authorization for us to repurchase approximately \$145.3 million of our shares. The current repurchase program does 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. Repurchases may be made 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. The repurchase programs have been and will be funded from our operations.

NOTE 11 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 plan. On May 31, 2010, we curtailed the future accrual of benefits for active employees under this plan.

Components of Net Periodic Pension Cost

The components of net periodic pension cost of the UK Plan for the three and six months ended June 30, 2015 and 2014 were as follows (in thousands):

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Interest cost	\$2,915	\$3,565	\$5,780	\$7,063

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Expected return on plan assets	(4,066)	(4,292)	(8,061)	(8,503)
Amortization of unrecognized loss	636		516		1,259		1,022	
Net periodic pension cost	\$(515)	\$(211)	\$(1,022)	\$(418)

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 11 Retirement Plans - (Continued)

Employer Contributions

For the six months ended June 30, 2015, our United Kingdom subsidiary contributed approximately \$2.8 million to its UK Plan. It anticipates contributing an additional \$3.0 million during the remainder of 2015.

NOTE 12 Commitments and Contingencies

Government Contracts

As a government contractor, we are subject to U.S. government audits and investigations relating to our operations, including claims for 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. An investigation of the matter could not determine who was responsible for the explosion. As a result of the explosion, lawsuits have been commenced against various parties, but, to date, no lawsuits have been commenced against our subsidiary with respect to personal injury or damage to property as a consequence of the explosion. However, 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. In the most recent filing with the Arbitrator, the Mechanical Contractor has stated claims against our subsidiary for alleged violations of the Connecticut and Massachusetts Unfair and Deceptive Trade Practices Acts in the ongoing arbitration proceeding. Further, 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.

One of our subsidiaries, USM, Inc. (“USM”), doing business in California provides, among other things, janitorial services to its customers by having those services performed by independent janitorial companies. USM and one of its customers, which owns retail stores (the “Customer”), are co-defendants in a federal class action lawsuit brought by five employees of USM’s California janitorial subcontractors. The action was commenced on September 5, 2013 in a Superior Court of California and was removed by USM on November 22, 2013 to the United States District Court for the Northern District of California. The employees allege in their complaint, among other things, that USM and the Customer, during a period that began before our acquisition of USM, violated a California statute that prohibits USM from entering into a contract with a janitorial subcontractor when it knows or should know that the contract does not include funds sufficient to allow the janitorial contractor to comply with all local, state and federal laws or regulations governing the labor or services to be provided. The employees have asserted that the amounts USM pays to its janitorial subcontractors are insufficient to allow those janitorial subcontractors to meet their obligations regarding, among other things, wages due for all hours their employees worked, minimum wages, overtime pay and meal and rest breaks. These employees seek to represent not only themselves, but also all other individuals who provided janitorial services at the Customer’s stores in California during the relevant four year time period. We do not believe USM or the Customer has violated the California statute or that the employees may bring the action as a class action on behalf of other employees of janitorial companies with whom USM subcontracted for the provision of janitorial

services to the Customer. However, if the pending lawsuit is certified as a class action and USM is found to have violated the California statute, USM might have to pay significant damages and might be subject to similar lawsuits regarding the provision of janitorial services to its other customers in California. The plaintiffs seek a declaratory judgment that USM has violated the California statute, monetary damages, including all unpaid wages and thereon, restitution for unpaid wages, and an award of attorneys' fees and costs.

On February 17, 2015, USM and its Customer entered into a consent decree which, subject to final approval of the consent decree by the federal judge in the United States District Court for the Northern District of California following a determination by the Court of the consent decree's fairness, adequacy and reasonableness, will resolve the claims and defenses asserted in the class action. Under the terms of the consent decree, USM is to (a) pay an aggregate of \$1.0 million (i) for monetary relief to the

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 12 Commitments and Contingencies - (Continued)

members of the class, (ii) for awards to the class representative plaintiffs, (iii) for California Labor Code Private Attorney General Act payments to the State of California for an immaterial amount, and (iv) for all costs of notice and administration of the claims process, (b) pay to counsel for the class an aggregate of \$1.3 million, of which \$0.25 million is to be allocated for their reimbursable costs and litigation expenses and \$1.05 million is to be allocated for attorneys' fees, and (c) establish procedures to monitor USM's California subcontractors providing janitorial services to its Customer designed principally to ensure janitorial employees of those subcontractors are paid no less than minimum wage. The settlement amount was accrued for as of December 31, 2014. As of June 30, 2015, a payment of \$1.0 million was made to a third party claims administrator who is holding the funds pending approval by the Court of the consent decree, and the remainder is expected to be paid before the end of 2015.

We are involved in several other proceedings in which damages and claims have been asserted against us. Other potential claims may exist that have not yet 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. 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 reserves have not been established 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 were \$0.4 million for the three and six months ended June 30, 2015. Restructuring expenses for the three and six months ended June 30, 2015 included \$0.5 million of employee severance obligations and the reversal of \$0.1 million relating to the termination of leased facilities. Restructuring expenses were \$0.2 million and \$0.4 million for the three and six months ended June 30, 2014, respectively. Restructuring expenses for the three months ended June 30, 2014 included \$0.2 million of employee severance obligations. Restructuring expenses for the six months ended June 30, 2014 included \$0.2 million of employee severance obligations and \$0.2 million relating to the termination of leased facilities. As of June 30, 2015, the balance of these restructuring obligations yet to be paid was \$0.5 million, the majority of which is expected to be paid during 2015. No material expenses in connection with restructuring from continuing operations are expected to be incurred during the remainder of 2015.

The changes in restructuring activity by reportable segments during the six months ended June 30, 2015 and June 30, 2014 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	Corporate administration	Total
Balance at December 31, 2013	\$ 30	\$ 164	\$ —	\$ —	\$ 194
Charges	182	(81)	—	300	401
Payments	(57)	(83)	—	(300)	(440)
Balance at June 30, 2014	\$ 155	\$ —	\$ —	\$ —	\$ 155
Balance at December 31, 2014	\$ 255	\$ 26	\$ —	\$ —	\$ 281
Charges	(106)	6	541	—	441
Payments	(149)	(32)	—	—	(181)
Balance at June 30, 2015	\$ —	\$ —	\$ 541	\$ —	\$ 541

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 12 Commitments and Contingencies - (Continued)

A summary of restructuring expenses by reportable segments recognized for the six months ended June 30, 2015 was as follows (in thousands):

	United States electrical construction and facilities services segment	United States mechanical construction and facilities services segment	United States building services	Corporate administration	Total
Severance	\$ —	\$ 6	\$541	\$—	\$547
Leased facilities	(106)	—	—	—	(106)
Total charges	\$ (106)	\$ 6	\$541	\$—	\$441

NOTE 13 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; 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 consists 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 segment "United States industrial services" principally consists of those operations which provide industrial maintenance and services, mainly 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.

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 13 Segment Information - (Continued)

	For the three months ended	
	June 30,	
	2015	2014
Operating income (loss):		
United States electrical construction and facilities services	\$25,277	\$24,841
United States mechanical construction and facilities services	32,364	28,740
United States building services	17,939	13,920
United States industrial services	17,415	12,376
Total United States operations	92,995	79,877
United Kingdom building services	2,834	6,202
Corporate administration	(17,693)	(16,244)
Restructuring expenses	(433)	(176)
Total worldwide operations	77,703	69,659
Other corporate items:		
Interest expense	(2,208)	(2,242)
Interest income	182	221
Income from continuing operations before income taxes	\$75,677	\$67,638
	For the six months ended	
	June 30,	
	2015	2014
Operating income (loss):		
United States electrical construction and facilities services	\$41,951	\$46,496
United States mechanical construction and facilities services	53,265	47,846
United States building services	38,917	34,218
United States industrial services	30,248	35,770
Total United States operations	164,381	164,330
United Kingdom building services	5,212	9,565
Corporate administration	(36,119)	(31,711)
Restructuring expenses	(441)	(401)
Total worldwide operations	133,033	141,783
Other corporate items:		
Interest expense	(4,424)	(4,490)
Interest income	358	455
Income from continuing operations before income taxes	\$128,967	\$137,748

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 13 Segment Information - (Continued)

	June 30, 2015	December 31, 2014
Total assets:		
United States electrical construction and facilities services	\$365,085	\$332,150
United States mechanical construction and facilities services	825,617	793,056
United States building services	743,015	737,082
United States industrial services	939,924	954,018
Total United States operations	2,873,641	2,816,306
United Kingdom building services	142,826	130,340
Corporate administration	401,319	442,321
Total worldwide operations	\$3,417,786	\$3,388,967

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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 70 operating subsidiaries and joint venture entities. Our offices are located in the United States and the United Kingdom.

Due to recurring losses over the last several years 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 announced during the quarter ended June 30, 2013 our decision to withdraw from the construction market in the United Kingdom. During the third quarter of 2014, we ceased construction operations in the United Kingdom. The results of the construction operations of our United Kingdom segment for all periods are presented in our Condensed Consolidated Financial Statements as discontinued operations. The segment formerly named the United Kingdom construction and building services segment has been renamed the United Kingdom building services segment.

Overview

The following table presents selected financial data for the three months ended June 30, 2015 and 2014 (in thousands, except percentages and per share data):

	For the three months ended June 30,			
	2015	2014		
Revenues	\$1,652,585	\$1,552,918		
Revenues increase from prior year	6.4	% 1.3		%
Restructuring expenses	\$433	\$176		
Operating income	\$77,703	\$69,659		
Operating income as a percentage of revenues	4.7	% 4.5		%
Net income attributable to EMCOR Group, Inc.	\$46,849	\$39,913		
Diluted earnings per common share from continuing operations	\$0.74	\$0.61		

The results of our operations for the second quarter of 2015 set new Company records for a second quarter in terms of revenues and operating income. Overall revenues, operating income and operating margin (operating income as a percentage of revenues) increased in the 2015 second quarter compared to the 2014 second quarter. The increase in revenues was attributable to increased revenues from all of our reportable segments, and the increase in operating income was attributable to increased operating income from all of our reportable segments, other than our United Kingdom building services segment. Operating margin increased in our United States building services segment, our United States industrial services segment and our United States mechanical construction and facilities services segment, and decreased in our United Kingdom building services segment and our United States electrical construction and facilities services segment.

The favorable operating performance, compared to the 2014 second quarter, was attributable to increased gross profit within all of our reportable segments, other than our United Kingdom building services segment, and higher gross profit margins within our United States mechanical construction and facilities services segment and our United States building services segment. The results of our United Kingdom building services segment for the second quarter of 2014 were favorably impacted by \$4.8 million of income recognized as a result of a reduction in the estimate of certain accrued contract costs that were no longer expected to be incurred.

We completed an acquisition during the 2015 second quarter for an immaterial amount. The results of the acquired company, which primarily provides mechanical construction services, have been included in our United States mechanical construction and facilities services segment; the acquired company expands our service capabilities into new technical areas.

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; 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

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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 segment "United States industrial services" principally consists of those operations which provide industrial maintenance and services, mainly 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.

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 June 30,			
	2015	% of Total	2014	% of Total
Revenues:				
United States electrical construction and facilities services	\$346,202	21 %	\$335,492	22 %
United States mechanical construction and facilities services	554,003	34 %	538,556	35 %
United States building services	435,627	26 %	418,142	27 %
United States industrial services	225,168	14 %	177,232	11 %
Total United States operations	1,561,000	94 %	1,469,422	95 %
United Kingdom building services	91,585	6 %	83,496	5 %
Total worldwide operations	\$1,652,585	100 %	\$1,552,918	100 %
	For the six months ended June 30,			
	2015	% of Total	2014	% of Total
Revenues:				
United States electrical construction and facilities services	\$665,196	21 %	\$643,628	20 %
United States mechanical construction and facilities services	1,065,029	33 %	1,051,567	33 %
United States building services	875,119	27 %	866,186	28 %
United States industrial services	457,893	14 %	409,190	13 %
Total United States operations	3,063,237	94 %	2,970,571	95 %
United Kingdom building services	178,535	6 %	172,886	5 %
Total worldwide operations	\$3,241,772	100 %	\$3,143,457	100 %

As described below in more detail, our revenues for the three months ended June 30, 2015 increased to \$1.65 billion compared to \$1.55 billion for the three months ended June 30, 2014, and our revenues for the six months ended June 30, 2015 increased to \$3.24 billion compared to \$3.14 billion for the six months ended June 30, 2014. The increase in revenues for both periods was primarily attributable to: (a) increased demand for our industrial field services within our United States industrial services segment, (b) increased revenues from our mobile mechanical services operations within our United States building services segment and (c) increased revenues from both of our domestic construction

segments. Revenues increased for the six months ended June 30, 2015 within our United States industrial services segment despite the negative impact of a nationwide strike by union employees of certain major oil refineries.

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Revenues of our United States electrical construction and facilities services segment were \$346.2 million and \$665.2 million for the three and six months ended June 30, 2015, respectively, compared to revenues of \$335.5 million and \$643.6 million for the three and six months ended June 30, 2014, respectively. The increase in revenues for both periods was primarily attributable to an increase in revenues from higher levels of work from transportation, healthcare and commercial construction projects, in part due to significant activity within the New York and Midwestern regions, partially offset by a decrease in revenues from institutional construction projects.

Our United States mechanical construction and facilities services segment revenues for the three months ended June 30, 2015 were \$554.0 million, a \$15.4 million increase compared to revenues of \$538.6 million for the three months ended June 30, 2014. Revenues of this segment for the six months ended June 30, 2015 were \$1,065.0 million, a \$13.5 million increase compared to revenues of \$1,051.6 million for the six months ended June 30, 2014. The increase in revenues for both periods was primarily attributable to an increase in revenues from commercial and institutional construction projects, partially offset by a decline in revenues from manufacturing, transportation and water and wastewater construction projects. The results for the three and six months ended June 30, 2015 included \$0.3 million of revenues generated by the company acquired in 2015.

Revenues of our United States building services segment for the three months ended June 30, 2015 increased by \$17.5 million compared to the three months ended June 30, 2014, and revenues for the six months ended June 30, 2015 increased by \$8.9 million compared to the six months ended June 30, 2014. The increase in revenues for both periods was primarily attributable to increased revenues from our mobile mechanical services operations, in part due to significant activity in the northern California region, partially offset by decreased revenues from our government site-based services operations as a result of the completion of two large long-term site-based joint venture projects not renewed pursuant to rebid. In addition, the increase in revenues of this segment for the six months ended June 30, 2015 was partially offset by a decrease in revenues of its commercial site-based services operations as a result of a decline in revenues from: (a) supplier management contracts and (b) snow removal activities, as a result of less snowfall in geographical areas in which many of our contracts are based on a per snow event basis.

Revenues of our United States industrial services segment for the three months ended June 30, 2015 increased by \$47.9 million compared to the three months ended June 30, 2014, and revenues for the six months ended June 30, 2015 increased by \$48.7 million compared to the six months ended June 30, 2014. The increase in revenues for both periods was primarily due to large capital and maintenance project activity resulting from increased demand for our industrial field services operations. Revenues increased for the six months ended June 30, 2015 within this segment despite the negative impact of a nationwide strike by union employees of certain major oil refineries.

Our United Kingdom building services segment revenues were \$91.6 million for the three months ended June 30, 2015 compared to revenues of \$83.5 million for the three months ended June 30, 2014, and revenues were \$178.5 million for the six months ended June 30, 2015 compared to revenues of \$172.9 million for the six months ended June 30, 2014. The increase in revenues for the three and six months ended June 30, 2015 was due to an increase in activity in the commercial market, in part due to several new contract awards as well as growth within our existing contract portfolio, partially offset by a decrease of \$9.0 million and \$17.2 million, respectively, relating to the effect of unfavorable exchange rates for the British pound versus the United States dollar and decreased small project activity in the institutional market.

Backlog

The following table presents our operating segment backlog from unrelated entities and their respective percentages of total backlog (in thousands, except for percentages):

	June 30, 2015	% of Total	December 31, 2014	% of Total	June 30, 2014	% of Total
Backlog:						
United States electrical construction and facilities services	\$1,130,634	31 %	\$1,176,372	32 %	\$1,100,734	30 %
United States mechanical construction and facilities services	1,522,587	42 %	1,473,018	41 %	1,508,336	42 %
United States building services	723,790	20 %	732,960	20 %	750,025	21 %

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United States industrial services	84,930	2	%	101,154	3	%	100,878	3	%
Total United States operations	3,461,941	96	%	3,483,504	96	%	3,459,973	95	%
United Kingdom building services	162,527	4	%	150,084	4	%	172,389	5	%
Total worldwide operations	\$3,624,468	100	%	\$3,633,588	100	%	\$3,632,362	100	%

Our backlog at June 30, 2015 was \$3.62 billion compared to \$3.63 billion at December 31, 2014 and \$3.63 billion at June 30, 2014. The slight decrease in backlog at June 30, 2015 compared to backlog at December 31, 2014 was primarily attributable

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to lower backlog within most of our reportable segments, partially offset by an increase in backlog from our United States mechanical construction and facilities services segment and our United Kingdom building services segment. Backlog increases with awards of new contracts and decreases as we perform work on existing contracts. Backlog is not a term recognized under United States generally accepted accounting principles; however, it is a common measurement used in our industry. We include a project within our backlog at such time as a contract is awarded. Backlog includes unrecognized revenues to be realized from uncompleted construction contracts plus unrecognized revenues expected to be realized over the remaining term of services contracts. However, we do not include in backlog contracts for which we are paid on a time and material basis and a fixed amount cannot be determined, and if the remaining term of a services contract exceeds 12 months, the unrecognized revenues attributable to such contract included in backlog are limited to only the next 12 months of revenues provided for in the contract award. Our backlog also includes amounts related to services contracts for which a fixed price contract value is not assigned when a reasonable estimate of total revenues can be made from budgeted amounts agreed to with our customer. Our backlog is 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 and (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 we consider recovery to be probable. Such claim amounts were immaterial for all periods presented. Our backlog does not include anticipated revenues from unconsolidated joint ventures or variable interest entities and anticipated revenues from pass-through costs on contracts for which we are acting in the capacity of an agent and which are reported on the net basis. We believe our backlog is firm, although many contracts are subject to cancellation at the election of our customers. Historically, cancellations have not had a material adverse effect on us.

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		For the six months ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Cost of sales	\$1,413,058	\$1,332,677	\$2,785,316	\$2,707,013	
Gross profit	\$239,527	\$220,241	\$456,456	\$436,444	
Gross profit, as a percentage of revenues	14.5	% 14.2	% 14.1	% 13.9	%

Our gross profit increased by \$19.3 million for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Gross profit increased by \$20.0 million for the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase in gross profit for the three months ended June 30, 2015 was attributable to improved profitability within all of our reportable segments, other than our United Kingdom building services segment. Our gross profit margin was 14.5% and 14.2% for the three months ended June 30, 2015 and 2014, respectively. Gross profit margin was 14.1% and 13.9% for the six months ended June 30, 2015 and 2014, respectively. The increase in gross profit margin for the three months ended June 30, 2015 was attributable to our United States mechanical construction and facilities services segment and our United States building services segment, which were partially offset by reduced profit margins within all of our other reportable segments.

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		For the six months ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
Selling, general and administrative expenses	\$161,391	\$150,406	\$322,982	\$294,260	
Selling, general and administrative expenses, as a percentage of revenues	9.8	% 9.7	% 10.0	% 9.4	%

Our selling, general and administrative expenses for the three months ended June 30, 2015 increased by \$11.0 million to \$161.4 million compared to \$150.4 million for the three months ended June 30, 2014. Selling, general and administrative expenses for the six months ended June 30, 2015 increased by \$28.7 million to \$323.0 million compared to \$294.3 million for the six months ended June 30, 2014. Selling, general and administrative expenses as a percentage of revenues were 9.8% and 10.0% for the three and six months ended June 30, 2015, respectively, compared to 9.7% and 9.4% for the three and six months ended June 30, 2014, respectively. The increase in selling, general and administrative expenses for both periods was due to higher employee related costs such as incentive compensation and salaries, as well as certain other costs including computer hardware and software expenses. Increased incentive compensation was principally due to higher projected annual operating results than in the same prior year

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periods, which resulted in increased accruals for certain of our incentive compensation plans. The increase in salaries was attributable to an increase in headcount due to higher anticipated revenues than in the same prior year periods, as well as cost of living adjustments and merit pay increases. In addition, the increase in selling, general and administrative expenses for the six months ended June 30, 2015 was partially attributable to higher medical insurance costs as we benefited from favorable claims experience in the same prior year period. The increase in SG&A margins for both periods was partially attributable to an increase in revenues from our United States industrial services segment which generates relatively higher SG&A margins than our other reportable segments.

Restructuring expenses

Restructuring expenses were \$0.4 million for the three and six months ended June 30, 2015. Restructuring expenses for the three and six months ended June 30, 2015 included \$0.5 million of employee severance obligations and the reversal of \$0.1 million relating to the termination of leased facilities. Restructuring expenses were \$0.2 million and \$0.4 million for the three and six months ended June 30, 2014, respectively. Restructuring expenses for the three months ended June 30, 2014 included \$0.2 million of employee severance obligations. Restructuring expenses for the six months ended June 30, 2014 included \$0.2 million of employee severance obligations and \$0.2 million relating to the termination of leased facilities. As of June 30, 2015, the balance of these restructuring obligations yet to be paid was \$0.5 million, the majority of which is expected to be paid during 2015. No material expenses in connection with restructuring from continuing operations are expected to be incurred during the remainder of 2015.

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):