EMCOR GROUP INC
Form 10-Q
July 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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, 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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 July 27, 2010: 66,344,989 shares.

EMCOR Group, Inc.
INDEX

PART I. - FINANCIAL INFORMATION.

ITEM 1. FINANCIAL STATEMENTS.

EMCOR Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 599,941	$ 726,975
Accounts receivable, net	1,050,509	1,057,171
Costs and estimated earnings in excess of billings on uncompleted contracts	108,356	90,049
Inventories	31,738	34,468
Prepaid expenses and other	68,818	68,702
Total current assets	1,859,362	1,977,365
Investments, notes and other long-term receivables	5,698	19,287
Property, plant and equipment, net	87,459	92,057
Goodwill	594,432	593,628
Identifiable intangible assets, net	246,487	264,522
Other assets	22,921	35,035
Total assets	$ 2,816,359	$ 2,981,894

See Notes to Condensed Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2010 (Unaudited)	December 31, 2009
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings under working capital credit line	$	$
Current maturities of long-term debt and capital lease obligations	348	45,100
Accounts payable	333,810	379,764
Billings in excess of costs and estimated earnings on uncompleted contracts	516,247	526,241
Accrued payroll and benefits	157,659	215,967
Other accrued expenses and liabilities	142,233	167,533
Total current liabilities	1,150,297	1,334,605
Borrowings under working capital credit line	150,000	
Long-term debt and capital lease obligations	96	150,251
Other long-term obligations	227,503	270,572
Total liabilities	1,527,896	1,755,428
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, 68,857,813 and 68,675,223 shares issued, respectively	689	687
Capital surplus	421,805	416,267
Accumulated other comprehensive loss	(45,740)	(52,699)
Retained earnings	918,225	869,267
Treasury stock, at cost 2,525,875 and 2,487,879 shares, respectively	(16,326)	(15,451)
Total EMCOR Group, Inc. stockholders equity	1,278,653	1,218,071
Noncontrolling interests	9,810	8,395
Total equity	1,288,463	1,226,466
Total liabilities and equity	$ 2,816,359	$ 2,981,894

See Notes to Condensed Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)(Unaudited)

Three months ended June 30,	2010	2009
Revenues	$ 1,275,649	$ 1,422,670
Cost of sales	1,099,250	1,207,786
Gross profit	176,399	214,884
Selling, general and administrative expenses	120,725	136,974
Restructuring expenses	797	3,050
Impairment loss on identifiable intangible assets	19,929	
Operating income	34,948	74,860
Interest expense	(3,053)	(1,900)
Interest income	680	1,086
Gain on sale of equity investment	7,900	
Income before income taxes	40,475	74,046
Income tax provision	11,919	28,818
Net income including noncontrolling interests	28,556	45,228
Less: Net income attributable to noncontrolling interests	(1,415)	(409)
Net income attributable to EMCOR Group, Inc.	$ 27,141	$ 44,819
Basic earnings per common share:		
Net income attributable to EMCOR Group, Inc. common stockholders	$ 0.41	$ 0.68
Diluted earnings per common share:		
Net income attributable to EMCOR Group, Inc. common stockholders	$ 0.40	$ 0.67

See Notes to Condensed Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)(Unaudited)

Six months ended June 30,	2010	2009
Revenues	$ 2,487,861	$ 2,817,306
Cost of sales	2,146,346	2,409,263
Gross profit	341,515	408,043
Selling, general and administrative expenses	243,522	264,769
Restructuring expenses	797	4,110
Impairment loss on identifiable intangible assets	19,929	
Operating income	77,267	139,164
Interest expense	(6,176)	(3,693)
Interest income	1,412	2,628
Gain on sale of equity investment	7,900	
Income before income taxes	80,403	138,099
Income tax provision	29,430	55,500
Net income including noncontrolling interests	50,973	82,599
Less: Net income attributable to noncontrolling interests	(2,015)	(1,012)
Net income attributable to EMCOR Group, Inc.	$ 48,958	$ 81,587
Basic earnings per common share:		
Net income attributable to EMCOR Group, Inc. common stockholders	$ 0.74	$ 1.24
Diluted earnings per common share:		
Net income attributable to EMCOR Group, Inc. common stockholders	$ 0.72	$ 1.22

See Notes to Condensed Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)(Unaudited)

Six months ended June 30,	2010	2009
Cash flows from operating activities:		
Net income including noncontrolling interests	$ 50,973	$ 82,599
Depreciation and amortization	12,663	13,157
Amortization of identifiable intangible assets	7,705	9,817
Deferred income taxes	9,743	4,031
Gain on sale of equity investments	(12,370)	
Excess tax benefits from share-based compensation	(65)	(593)
Equity income from unconsolidated entities	(373)	(1,419)
Non-cash expense for impairment of identifiable intangible assets	19,929	
Other non-cash items	5,822	8,267
Supplemental defined benefit plan contribution	(25,916)	
Distributions from unconsolidated entities	865	1,482
Changes in operating assets and liabilities	(149,226)	21,008
Net cash (used in) provided by operating activities	(80,250)	138,349
Cash flows from investing activities:		
Payments for acquisitions of businesses, identifiable intangible assets and related earn-out agreements	(11,446)	(13,563)
Proceeds from sale of equity investments	25,570	
Proceeds from sale of property, plant and equipment	491	437
Purchase of property, plant and equipment	(7,869)	(13,223)
Investments in and advances to unconsolidated entities and joint ventures	(104)	(8,000)
Net cash provided by (used in) investing activities	6,642	(34,349)
Cash flows from financing activities:		
Proceeds from working capital credit line	150,000	
Repayments of long-term debt	(194,768)	(1,522)
Repayments of capital lease obligations	(196)	(812)
Proceeds from exercise of stock options	82	709
Issuance of common stock under employee stock purchase plan	1,164	1,001
Distributions to noncontrolling interests	(600)	(550)
Excess tax benefits from share-based compensation	65	593
Net cash used in financing activities	(44,253)	(581)
Effect of exchange rate changes on cash and cash equivalents	(9,173)	12,183
(Decrease) increase in cash and cash equivalents	(127,034)	115,602
Cash and cash equivalents at beginning of year	726,975	405,869
Cash and cash equivalents at end of period	$ 599,941	$ 521,471

Supplemental cash flow information:

Cash paid for:

Interest	$	4,187	$	2,909
Income taxes	$	42,974	$	54,622
Non-cash financing activities:				
Capital lease obligations terminated	$		$	674
Contingent purchase price accrued	$		$	1,639

See Notes to Condensed Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME
(In thousands)(Unaudited)

			EMCOR Group, Inc. Stockholders					
	Total	Comprehensive income	Common stock	Capital surplus	Accumulated other comprehensive (loss) income (1)	Retained earnings	Treasury stock	Noncontrolling interests
Balance, January 1, 2009	$ 1,050,769		$ 681	$ 397,895	$ (49,318)	$ 708,511	$ (14,424)	$ 7,424
Net income including noncontrolling interests	82,599	$ 82,599				81,587		1,012
Foreign currency translation adjustments	1,812	1,812			1,812			
Pension adjustment, net of tax benefit of $0.6 million	1,543	1,543			1,543			
Deferred loss on cash flow hedge, net of tax benefit of $0.4 million	(519)	(519)			(519)			
Comprehensive income		85,435						
Less: Net income attributable to noncontrolling interests		(1,012)						
Comprehensive income attributable to EMCOR		$ 84,423						
Treasury stock, at cost (2)	(1,589)						(1,589)	
Common stock issued under share-based compensation plans (3)	1,427		4	1,285			138	
Common stock issued under employee stock purchase plan	1,001			1,001				
Distributions to noncontrolling interests	(550)							(550)
Share-based compensation expense	3,548			3,548				
Balance, June 30, 2009	$ 1,140,041		$ 685	$ 403,729	$ (46,482)	$ 790,098	$ (15,875)	$ 7,886
Balance, January 1, 2010	$ 1,226,466		$ 687	$ 416,267	$ (52,699)	$ 869,267	$ (15,451)	$ 8,395
Net income including noncontrolling interests	50,973	$ 50,973				48,958		2,015
Foreign currency translation adjustments	(513)	(513)			(513)			
Pension adjustment, net of tax benefit of $2.8 million	7,144	7,144			7,144			
Deferred gain on cash flow hedge, net of tax benefit of $0.2 million	328	328			328			
Comprehensive income		57,932						
Less: Net income attributable to noncontrolling interests		(2,015)						
Comprehensive income attributable to EMCOR		$ 55,917						

Treasury stock, at cost (2)	(875)					(875)	
Common stock issued under share-based compensation plans (3)	147	2	145				
Common stock issued under employee stock purchase plan	1,164		1,164				
Distributions to noncontrolling interests	(600)						(600)
Share-based compensation expense	4,229		4,229				
Balance, June 30, 2010	$ 1,288,463	$ 689	$ 421,805	$ (45,740)	$ 918,225	$ (16,326)	$ 9,810

(1) Represents cumulative foreign currency translation adjustments, pension liability adjustments and deferred gain (loss) on interest rate swap.

(2) Represents value of shares of common stock withheld by EMCOR for income tax withholding requirements upon the issuance of shares in respect of restricted stock units.

(3) Includes the tax benefit associated with share-based compensation of $0.1 million and $0.7 million for the six months June 30, 2010 and 2009, respectively.

See Notes to Condensed Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE A Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared without audit, pursuant to the interim period reporting requirements of Form 10-Q. 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 words of similar import refer to EMCOR Group, Inc. and its consolidated subsidiaries unless the context indicate 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 six month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

Our reportable segments reflect certain reclassifications of prior year amounts from our United States mechanical construction and facilities services segment to our United States facilities services segment due to changes in our internal reporting structure.

NOTE B New Accounting Pronouncements

On January 1, 2010, we adopted the accounting pronouncement regarding the consolidation of variable interest entities, which changes the consolidation guidance related to a variable interest entity (VIE). It also amends the guidance governing the determination of whether or not an enterprise is the primary beneficiary of a VIE and, if so, is therefore required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity s economic performance and who has the obligation to absorb the losses or the right to receive the benefits of the VIE that could potentially be significant to the VIE. This statement also requires periodic reassessments of whether an enterprise is the primary beneficiary of a VIE. We were previously required to reconsider whether an enterprise is the primary beneficiary of a VIE only when specific events had occurred. This pronouncement also requires enhanced disclosures about an enterprise s involvement with a VIE. The adoption of this pronouncement did not have any effect on our consolidated financial statements.

In October 2009, an accounting pronouncement was issued to update existing guidance on revenue recognition for arrangements with multiple deliverables. This guidance eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the consideration attributed to the delivered item. This may allow some companies to recognize revenue on transactions that involve multiple deliverables earlier than under current requirements. Additional disclosures discussing the nature of multiple element arrangements, the types of deliverables under the arrangements, the general timing of their delivery, and significant factors and estimates used to determine estimated selling prices are required. This pronouncement is effective prospectively for revenue arrangements entered into or modified after annual periods beginning on or after June 15, 2010, but early adoption is permitted. We have not determined the effect, if any, that the adoption of the pronouncement may have on our financial position and/or results of operations.

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE C Acquisitions of Businesses

On February 8, 2010 and March 2, 2009, we acquired two companies, each for an immaterial amount. These companies provide mobile mechanical services and have been included in our United States facilities services reporting segment. We believe these acquisitions further our goal of service and geographical diversification and/or expansion of our facilities services operations.

The purchase price allocation for the 2010 acquired company is subject to the finalization of valuation of acquired identifiable intangible assets. These two acquired companies referred to in the immediately preceding paragraph were accounted for by the acquisition method, and the purchase prices for them have been allocated to their respective assets and liabilities, based upon the estimated fair values of the respective assets and liabilities at the dates of the respective acquisitions.

NOTE D Earnings Per Share

Calculation of Basic and Diluted Earnings per Common Share

The following table summarizes our calculation of Basic and Diluted Earnings per Common Share (EPS) for the three and six month periods ended June 30, 2010 and 2009 (in thousands, except share and per share data):

	For the three months ended June 30,	
	2010	**2009**
Numerator:		
Net income attributable to EMCOR Group, Inc. available to common stockholders	$ 27,141	$ 44,819
Denominator:		
Weighted average shares outstanding used to compute basic earnings per common share	66,314,596	65,835,298
Effect of diluted securities - Share-based awards	1,656,971	1,426,815
Shares used to compute diluted earnings per common share	67,971,567	67,262,113
Basic earnings per common share:		
Net income attributable to EMCOR Group, Inc. available to common stockholders	$ 0.41	$ 0.68
Diluted earnings per share:		
Net income attributable to EMCOR Group, Inc. available to common stockholders	$ 0.40	$ 0.67

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE D Earnings Per Share (continued)

	For the six months ended June 30,	
	2010	**2009**
Numerator:		
Net income attributable to EMCOR Group, Inc. common stockholders	$ 48,958	$ 81,587
Denominator:		
Weighted average shares outstanding used to compute basic earnings per common share	66,315,338	65,847,911
Effect of diluted securities - Share-based awards	1,619,545	1,294,417
Shares used to compute diluted earnings per common share	67,934,883	67,142,328
Basic earnings per common share:		
Net income attributable to EMCOR Group, Inc. common stockholders	$ 0.74	$ 1.24
Diluted earnings per common share:		
Net income attributable to EMCOR Group, Inc. common stockholders	$ 0.72	$ 1.22

There were 301,347 and 311,347 anti-dilutive stock options that were excluded from the calculation of diluted EPS for the three and six month periods ended June 30, 2010, respectively. There were 516,386 and 686,386 anti-dilutive stock options that were excluded from the calculation of diluted EPS for the three and six months ended June 30, 2009, respectively.

NOTE E Inventories

Inventories consist of the following amounts (in thousands):

	June 30, 2010	December 31, 2009
Raw materials and construction materials	$ 16,883	$ 16,735
Work in process	14,855	17,733
	$ 31,738	$ 34,468

NOTE F Investments, Notes and Other Long-Term Receivables

On January 8, 2010, a venture in which one of our subsidiaries had a 40% interest and which designs, constructs, owns, operates, leases and maintains facilities to produce chilled water for sale to customers for use in air conditioning commercial properties was sold to a third party. As a result of this sale, we received $17.7 million for our 40% interest and recognized a pretax gain of $4.5 million, which gain is included in our United States facilities services segment and classified as a component of Cost of sales on the Condensed Consolidated Statements of Operations.

On June 7, 2010, we sold our equity interest in our Middle East venture, which performed facilities services, to our partner in the venture. As a result of this sale, we received $7.9 million and recognized a pretax gain in this amount, which is classified as a Gain on sale of equity investment on the Condensed Consolidated Statements of Operations.

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE G Long-Lived Assets

As a result of the continued assessment of the fair value of certain of our trade names previously impaired, we recorded an additional $19.9 million non-cash impairment charge due to a change in the fair value of trade names associated with certain prior year acquisitions. These trade names are reported within our United States facilities services segment. The impairment primarily results from both lower forecasted revenues and margins of our industrial services business, which have been adversely affected by a lower demand for our services due to a reduced demand for domestic refined oil products. We 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, which involves estimating royalty rates for each trade name and applying these rates to a net revenue stream, which is discounted to determine fair value. For the six months ended June 30, 2010 and the year ended December 31, 2009, no impairment of goodwill was recognized.

NOTE H Debt

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

	June 30, 2010	December 31, 2009
2010 Revolving Credit Facility	$ 150,000	$
Term Loan		194,750
Capitalized lease obligations	405	601
Other	39	
	150,444	195,351
Less: current maturities	348	45,100
	$ 150,096	$ 150,251

Until February 4, 2010, we had a revolving credit agreement (the Old Revolving Credit Facility) as amended, which provided for a credit facility of $375.0 million. Effective February 4, 2010, we replaced the Old Revolving Credit Facility that was due to expire October 17, 2010 with an amended and restated $550.0 million revolving credit facility (the 2010 Revolving Credit Facility). The 2010 Revolving Credit Facility expires in February 2013. It permits us to increase our borrowing to $650.0 million if additional lenders are identified and/or existing lenders are willing to increase their current commitments. We may allocate up to $175.0 million of the borrowing capacity under the 2010 Revolving Credit Facility to letters of credit, which amount compares to $125.0 million under the Old Revolving Credit Facility. The 2010 Revolving Credit Facility is guaranteed by certain of our direct and indirect subsidiaries and is secured by substantially all of our assets and most of the assets of most of our subsidiaries. The 2010 Revolving Credit Facility contains various covenants requiring, among other things, maintenance of certain financial ratios and certain restrictions with respect to payment of dividends, common stock repurchases, investments, acquisitions, indebtedness and capital expenditures. A commitment fee is payable on the average daily unused amount of the 2010 Revolving Credit Facility. The fee is 0.5% of the unused amount, based on certain financial tests. Borrowings under the 2010 Revolving Credit Facility 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, 2010) plus 1.75% to 2.25%, based on certain financial tests or (2) United States dollar LIBOR (0.35% at June 30, 2010) plus 2.75% to 3.25%, based on certain financial tests. The interest rate in effect at June 30, 2010 was 3.10%. Letter of credit fees issued under this facility range from 2.75% to 3.25% of the respective face amounts of the letters of credit issued and are charged based on certain financial tests. We capitalized approximately $6.0 million of debt issuance costs associated with the 2010 Revolving Credit Facility. This amount is being amortized over the life of the facility and is included as part of interest expense. In connection with the termination of the Old Revolving Credit Facility, less than $0.1 million attributable to the acceleration of expense for debt issuance costs were recorded as part of interest expense. As of June 30, 2010 and December 31, 2009, we had approximately $76.9 million and $68.9 million

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE H Debt (continued)

of letters of credit outstanding, respectively. There were no borrowings under the Old Revolving Credit Facility as of December 31, 2009. We have borrowings of $150.0 million outstanding under the 2010 Revolving Credit Facility at June 30, 2010, which may remain outstanding at our discretion until the 2010 Revolving Credit Facility expires. On September 19, 2007, we entered into an agreement providing for a $300.0 million term loan (Term Loan). The proceeds of the Term Loan were used to pay a portion of the consideration for an acquisition and costs and expenses incident thereto. In connection with the closing of the 2010 Revolving Credit Facility, we proceeded to draw $150.0 million under this facility and used the proceeds along with cash on hand to prepay on February 4, 2010 all indebtedness outstanding under the Term Loan. In connection with this prepayment, $0.6 million attributable to the acceleration of expense for debt issuance costs associated with the Term Loan were recorded as part of interest expense.

NOTE I Derivative Instrument and Hedging Activity

On January 27, 2009, we entered into an interest rate swap agreement (the Swap Agreement), which hedges the interest rate risk on our variable rate debt. The Swap Agreement, which has a notional amount of $193.3 million, is used to manage the variable interest rate of our borrowings and related overall cost of borrowing. We mitigate the risk of counterparty nonperformance by choosing as our counterparty a major reputable financial institution with an investment grade credit rating.

The derivative is recognized as either an asset or liability on our Condensed Consolidated Balance Sheets with measurement at fair value, and changes in the fair value of the derivative instrument reported in either net income, included as part of interest expense, or other comprehensive income depending on the designated use of the derivative and whether or not it meets the criteria for hedge accounting. The fair value of this instrument reflects the net amount required to settle the position. The accounting for gains and losses associated with changes in fair value of the derivative and the related effects on the condensed consolidated financial statements is subject to their hedge designation and whether they meet effectiveness standards.

The Swap Agreement matures in October 2010. We pay a fixed rate of 2.225% and receive a floating rate of 30 day LIBOR on the notional amount. A portion of the interest rate swap has been designated as an effective cash flow hedge, whereby changes in the cash flows from the swap perfectly offset the changes in the cash flows associated with the floating rate of interest (see Note H, Debt). The fair value of the interest rate swap at June 30, 2010 was a net liability of $0.5 million. This liability reflects the interest rate swap s termination value as the credit value adjustment for counterparty nonperformance is immaterial. We have no obligation to post any collateral related to this derivative. The fair value of the interest rate swap is based upon the valuation technique known as the market standard methodology of netting the discounted future fixed cash flows and the discounted expected variable cash flows. The variable cash flows are based on an expectation of future interest rates (forward curves) derived from observable interest rate curves. In addition, we have incorporated a credit valuation adjustment into our calculation of fair value of the interest rate swap. This adjustment recognizes both our nonperformance risk and the respective counterparty s nonperformance risk. The net liability was included in Other accrued expenses and liabilities on our Condensed Consolidated Balance Sheet. Accumulated other comprehensive loss at June 30, 2010 included the accumulated loss, net of income taxes, on the cash flow hedge, of $0.3 million. For the three and six month periods ended June 30, 2010, we recognized $0.1 million and $0.2 million, respectively, of income associated with the ineffective portion of the interest rate swap as part of interest expense.

We have an agreement with our derivative counterparty that contains a provision that if we default on certain of our indebtedness, we could also be declared in default on our derivative obligation.

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE J 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.

We measure the fair value of our derivative instrument on a recurring basis. At June 30, 2010, the $0.5 million fair value of the interest rate swap was determined using Level 2 inputs.

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 borrowings under the 2010 Revolving Credit Facility approximates the fair value due to the variable rate on such debt.

At June 30, 2010 and December 31, 2009, we had certain assets, specifically $40.7 million and $60.6 million, respectively, of indefinite lived intangible assets, which were accounted for at fair market value on a non-recurring basis. We have determined that the fair value measurements of these non-financial assets are Level 3 in the fair value hierarchy.

NOTE K Income Taxes

For the three months ended June 30, 2010 and 2009, our income tax provisions were $11.9 million and $28.8 million, respectively, based on effective income tax rates, before discrete items, of 37.7% and 39.0%, respectively. The actual income tax rates for the three months ended June 30, 2010 and 2009, inclusive of discrete items, were 30.5% and 39.1%, respectively. For the six months ended June 30, 2010 and 2009, our income tax provisions were $29.4 million and $55.5 million, respectively, based on effective income tax rates, before discrete items, of 38.0% and 39.0%, respectively. The actual income tax rates for the six months ended June 30, 2010 and 2009, inclusive of discrete items, were 37.5% and 40.5%, respectively. The decrease in the 2010 income tax provision for both periods was primarily due to reduced income before income taxes, a change in the earnings derived from operations in various jurisdictions and the release of a valuation allowance related to the utilization of capital loss carryforwards.

As of June 30, 2010 and December 31, 2009, the amount of unrecognized income tax benefits for each period was $7.5 million (of which $5.4 million, if recognized, would favorably affect our effective income tax rate).

We recognized interest expense related to unrecognized income tax benefits in the income tax provision. As of June 30, 2010 and December 31, 2009, we had approximately $2.5 million and $2.2 million, respectively, of accrued interest related to unrecognized income tax benefits included as a liability on the Condensed Consolidated Balance Sheets. For the three months ended June 30, 2010 and 2009, $0.1 million of interest expense was recognized. For the six months ended June 30, 2010 and 2009, $0.3 million and $0.1 million of interest expense was recognized, respectively.

It is possible that approximately $3.7 million of unrecognized income tax benefits at June 30, 2010, primarily relating to uncertain tax positions attributable to certain intercompany transactions and compensation related accruals, will become recognized income tax benefits in the next twelve months due to the expiration of applicable statutes of limitations.

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE K Income Taxes (continued)

We file income tax returns with the Internal Revenue Service and various state, local and foreign jurisdictions. With few exceptions, we are no longer subject to tax audits by any tax authorities for years prior to 2006. The Internal Revenue Service has completed its audit of our federal income tax returns for the years 2005 through 2007. We agreed to and paid an assessment proposed by the Internal Revenue Service pursuant to such audit. We recorded a charge of approximately $2.0 million, inclusive of interest, as a result of this audit in the first quarter of 2009, which is reflected in the results for the six months ended June 30, 2009.

NOTE L Common Stock

As of June 30, 2010 and December 31, 2009, 66,331,938 and 66,187,344 shares of our common stock were outstanding, respectively.

For the three months ended June 30, 2010 and 2009, 12,000 and 23,734 shares of common stock, respectively, were issued upon the exercise of stock options. For the six months ended June 30, 2010 and 2009, 136,341 and 387,067 shares of common stock, respectively, were issued upon the exercise of stock options, upon the satisfaction of required conditions under certain of our share-based compensation plans and grants of shares of common stock.

NOTE M 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. As a result of this curtailment, we recognized a reduction of the projected benefit obligation and recorded a curtailment gain of $6.4 million, which will be amortized in the future through net periodic pension cost. This defined benefit pension plan will be replaced by a defined contribution plan. In addition, as a result of the curtailment and the significant one-time contribution made to the plan discussed below, we have recomputed our 2010 net periodic pension cost for the remainder of 2010.

The weighted-average assumptions used to determine benefit obligations as of May 31, 2010 and December 31, 2009 were as follows:

	May 31, 2010	**December 31, 2009**
Discount rate	5.6%	5.7%
Annual rate of return on plan assets	6.9%	7.1%

Components of Net Periodic Pension Benefit Cost

The components of net periodic pension benefit cost of the UK Plan for the three and six months ended June 30, 2010 and 2009 were as follows (in thousands):

	For the three months ended June 30,		**For the six months ended June 30,**	
	2010	**2009**	**2010**	**2009**
Service cost	$ 562	$ 782	$ 1,445	$ 1,506
Interest cost	3,274	2,969	6,754	5,721
Expected return on plan assets	(2,911)	(2,415)	(5,895)	(4,653)
Amortization of unrecognized loss	909	1,048	2,143	2,019
Net periodic pension benefit cost	$ 1,834	$ 2,384	$ 4,447	$ 4,593

13

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE M Retirement Plans (continued)

Employer Contributions

For the six months ended June 30, 2010, our United Kingdom subsidiary contributed $29.7 million to its defined benefit pension plan, which included a one-time contribution of $25.9 million. It anticipates contributing an additional $2.5 million during the remainder of 2010.

NOTE N Segment Information

Our reportable segments reflect certain reclassifications of prior year amounts from our United States mechanical construction and facilities services segment to our United States facilities services segment due to changes in our internal reporting structure.

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; water and wastewater treatment and central plant heating and cooling); (c) United States facilities services; (d) Canada construction; (e) United Kingdom construction and facilities services; and (f) Other international construction and facilities services. The segment United States facilities services principally consists of those operations which provide a portfolio of services needed to support the operation and maintenance of customers facilities (industrial maintenance and services; outage services to utilities and industrial plants; commercial and government site-based operations and maintenance; military base operations support services; mobile maintenance and services; facilities management; installation and support for building systems; technical consulting and diagnostic services; small modification and retrofit projects; retrofit projects to comply with clean air laws; and program development, management and maintenance for energy systems), which services are not generally related to customers construction programs, as well as industrial services operations, which primarily provide aftermarket maintenance and repair services, replacement parts and fabrication services for highly engineered shell and tube heat exchangers for refineries and the petrochemical industry. The Canada construction segment performs electrical construction and mechanical construction. The United Kingdom and Other international construction and facilities services segments perform electrical construction, mechanical construction and facilities services. Our Other international construction and facilities services segment, consisted of our equity interest in our Middle East venture, which interest we sold on June 7, 2010. The following tables present information about industry segments and geographic areas for the three and six months ended June 30, 2010 and 2009 (in thousands):

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE N Segment Information (continued)

	For the three months ended June 30,	
	2010	**2009**
Revenues from unrelated entities:		
United States electrical construction and facilities services	$ 286,633	$ 329,861
United States mechanical construction and facilities services	427,044	518,010
United States facilities services	375,452	382,036
Total United States operations	1,089,129	1,229,907
Canada construction	78,467	72,037
United Kingdom construction and facilities services	108,053	120,726
Other international construction and facilities services		
Total worldwide operations	$ 1,275,649	$ 1,422,670
Total revenues:		
United States electrical construction and facilities services	$ 288,564	$ 331,793
United States mechanical construction and facilities services	428,429	522,745
United States facilities services	380,442	386,764
Less intersegment revenues	(8,306)	(11,395)
Total United States operations	1,089,129	1,229,907
Canada construction	78,467	72,037
United Kingdom construction and facilities services	108,053	120,726
Other international construction and facilities services		
Total worldwide operations	$ 1,275,649	$ 1,422,670

	For the six months ended June 30,	
	2010	**2009**
Revenues from unrelated entities:		
United States electrical construction and facilities services	$ 546,953	$ 646,542
United States mechanical construction and facilities services	839,752	1,023,213
United States facilities services	722,292	760,838
Total United States operations	2,108,997	2,430,593
Canada construction	156,726	150,217
United Kingdom construction and facilities services	222,138	236,496
Other international construction and facilities services		
Total worldwide operations	$ 2,487,861	$ 2,817,306

For the six months ended June 30,

	2010	2009
Total revenues:		
United States electrical construction and facilities services	$ 550,482	$ 650,261
United States mechanical construction and facilities services	842,920	1,031,333
United States facilities services	731,692	768,359
Less intersegment revenues	(16,097)	(19,360)
Total United States operations	2,108,997	2,430,593
Canada construction	156,726	150,217
United Kingdom construction and facilities services	222,138	236,496
Other international construction and facilities services		
Total worldwide operations	$ 2,487,861	$ 2,817,306

EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE N Segment Information (continued)

	For the three months ended June 30, 2010	For the three months ended June 30, 2009
Operating income (loss):		
United States electrical construction and facilities services	$ 17,189	$ 31,721
United States mechanical construction and facilities services	24,133	28,804
United States facilities services	19,636	24,912
Total United States operations	60,958	85,437
Canada construction	3,684	4,104
United Kingdom construction and facilities services	6,133	3,550
Other international construction and facilities services	(98)	
Corporate administration	(15,003)	(15,181)
Restructuring expenses	(797)	(3,050)
Impairment loss on identifiable intangible assets	(19,929)	
Total worldwide operations	34,948	74,860
Other corporate items:		
Interest expense	(3,053)	(1,900)
Interest income	680	1,086
Gain on sale of equity investment	7,900	
Income before income taxes	$ 40,475	$ 74,046

	For the six months ended June 30, 2010	For the six months ended June 30, 2009