EMCOR GROUP INC
Form 10-Q
July 26, 2018
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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, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-8267
EMCOR GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

(203) 849-7800
(Registrant's Telephone Number, Including Area Code)
N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x
Applicable Only To Corporate Issuers
Number of shares of Common Stock outstanding as of the close of business on July 23, 2018: 58,180,056 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, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$306,624	$467,430
Accounts receivable, less allowance for doubtful accounts of $16,099 and $17,230, respectively	1,635,289	1,607,922
Contract assets	156,134	122,621
Inventories	43,665	42,724
Prepaid expenses and other	48,511	43,812
Total current assets	2,190,223	2,284,509
Investments, notes and other long-term receivables	4,180	2,309
Property, plant and equipment, net	124,993	127,156
Goodwill	978,303	964,893
Identifiable intangible assets, net	481,577	495,036
Other assets	90,125	92,001
Total assets	$3,869,401	$3,965,904
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$15,625	$15,364
Accounts payable	505,379	567,840
Contract liabilities	551,614	524,156
Accrued payroll and benefits	282,159	322,865
Other accrued expenses and liabilities	150,153	220,727
Total current liabilities	1,504,930	1,650,952
Borrowings under revolving credit facility	25,000	25,000
Long-term debt and capital lease obligations	262,492	269,786
Other long-term obligations	341,846	346,049
Total liabilities	2,134,268	2,291,787
Equity:		
EMCOR Group, Inc. stockholders' equity:		
Preferred stock, $0.10 par value, 1,000,000 shares authorized, zero issued and outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 60,041,910 and 59,870,980 shares issued, respectively	600	599
Capital surplus	13,054	8,005
Accumulated other comprehensive loss	(93,600)	(94,200)
Retained earnings	1,912,430	1,796,556
Treasury stock, at cost 1,868,802 and 1,072,552 shares, respectively	(98,201)	(37,693)
Total EMCOR Group, Inc. stockholders' equity	1,734,283	1,673,267
Noncontrolling interests	850	850
Total equity	1,735,133	1,674,117
Total liabilities and equity	$3,869,401	$3,965,904

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenues	$1,953,886	$1,895,937	$3,854,274	$3,787,669
Cost of sales	1,663,042	1,621,436	3,294,311	3,246,828
Gross profit	290,844	274,501	559,963	540,841
Selling, general and administrative expenses	189,907	181,745	380,932	365,132
Restructuring expenses	374	343	464	908
Impairment loss on identifiable intangible assets	907	—	907	—
Operating income	99,656	92,413	177,660	174,801
Net periodic pension (cost) income	717	408	1,454	794
Interest expense	(3,457)	(3,069)	(6,453)	(6,140)
Interest income	634	73	1,178	330
Income from continuing operations before income taxes	97,550	89,825	173,839	169,785
Income tax provision	26,529	33,019	47,162	59,865
Income from continuing operations	71,021	56,806	126,677	109,920
Loss from discontinued operation, net of income taxes	(205)	(18)	(487)	(522)
Net income including noncontrolling interests	70,816	56,788	126,190	109,398
Less: Net income attributable to noncontrolling interests	—	(30)	—	—
Net income attributable to EMCOR Group, Inc.	$70,816	$56,758	$126,190	$109,398
Basic earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.22	$0.96	$2.16	$1.85
From discontinued operation	(0.00)	(0.00)	(0.01)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.22	$0.96	$2.15	$1.84
Diluted earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.21	$0.95	$2.15	$1.84
From discontinued operation	(0.00)	(0.00)	(0.01)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.21	$0.95	$2.14	$1.83
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 June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income including noncontrolling interests	$70,816	$56,788	$126,190	$109,398
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(875)	(577)	(380)	(691)
Post retirement plans, amortization of actuarial loss included in net income (1)	595	625	980	1,234
Other comprehensive (loss) income	(280)	48	600	543
Comprehensive income	70,536	56,836	126,790	109,941
Less: Comprehensive income attributable to noncontrolling interests	—	(30)	—	—
Comprehensive income attributable to EMCOR Group, Inc.	$70,536	$56,806	$126,790	$109,941

(1) Net of tax of $0.1 million and $0.2 million for the three months ended June 30, 2018 and 2017, respectively, and net of tax of $0.5 million and $0.3 million for the six months ended June 30, 2018 and 2017, respectively.

See Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30, 2018	2017
Cash flows - operating activities:		
Net income including noncontrolling interests	$126,190	$109,398
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	19,233	20,354
Amortization of identifiable intangible assets	21,352	24,257
Provision for doubtful accounts	7	2,543
Deferred income taxes	4,855	(6,410)
Excess tax benefits from share-based compensation	(1,065)	(1,554)
Equity income from unconsolidated entities	(290)	(758)
Non-cash expense for impairment of identifiable intangible assets	907	—
Distributions from unconsolidated entities	1,847	1,829
Other reconciling items	6,531	2,208
Changes in operating assets and liabilities, excluding the effect of businesses acquired	(212,217)	(49,204)
Net cash (used in) provided by operating activities	(32,650)	102,663
Cash flows - investing activities:		
Payments for acquisitions of businesses, net of cash acquired	(25,207)	(82,724)
Proceeds from sale of property, plant and equipment	605	1,629
Purchase of property, plant and equipment	(15,914)	(17,668)
Investments in and advances to unconsolidated entities	(3,484)	—
Distributions from unconsolidated entities	83	—
Net cash used in investing activities	(43,917)	(98,763)
Cash flows - financing activities:		
Repayments of long-term debt and debt issuance costs	(7,634)	(7,601)
Repayments of capital lease obligations	(696)	(716)
Dividends paid to stockholders	(9,381)	(9,531)
Repurchase of common stock	(60,508)	(65,775)
Taxes paid related to net share settlements of equity awards	(3,745)	(2,637)
Issuance of common stock under employee stock purchase plan	2,758	2,191
Payments for contingent consideration arrangements	(3,298)	(1,017)
Net cash used in financing activities	(82,504)	(85,086)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,121)	1,739
Decrease in cash, cash equivalents and restricted cash	(160,192)	(79,447)
Cash, cash equivalents and restricted cash at beginning of year (1)	469,388	466,660
Cash, cash equivalents and restricted cash at end of period (2)	$309,196	$387,213
Supplemental cash flow information:		
Cash paid for:		
Interest	$5,824	$5,600
Income taxes	$71,593	$67,652
Non-cash financing activities:		
Assets acquired under capital lease obligations	$903	$688

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

(2) Includes \$2.6 million and \$1.8 million of restricted cash classified as “Prepaid expenses and other” in the Condensed Consolidated Balance Sheet as of June 30, 2018 and 2017, respectively.

See Notes to Condensed Consolidated Financial Statements.

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

		EMCOR Group, Inc. Stockholders					
	Total	Common stock	Capital surplus	Accumulated other comprehensive (loss) income (1)	Retained earnings	Treasury stock	Noncontrolling interests
Balance, December 31, 2016	$1,537,942	$606	$52,219	$(101,703)	$1,596,269	$(10,302)	$853
Net income including noncontrolling interests	109,398	—	—	—	109,398	—	—
Other comprehensive income	543	—	—	543	—	—	—
Common stock issued under share-based compensation plans	1	2	(1)	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(3,354)	—	(3,354)	—	—	—	—
Common stock issued under employee stock purchase plan	2,191	—	2,191	—	—	—	—
Common stock dividends	(9,531)	—	84	—	(9,615)	—	—
Repurchase of common stock	(63,430)	(10)	(55,646)	—	(7,774)	—	—
Share-based compensation expense	5,169	—	5,169	—	—	—	—
Balance, June 30, 2017	$1,578,929	$598	$662	$(101,160)	$1,688,278	$(10,302)	$853
Balance, December 31, 2017	$1,674,117	$599	$8,005	$(94,200)	$1,796,556	$(37,693)	$850
Net income including noncontrolling interests	126,190	—	—	—	126,190	—	—
Other comprehensive income	600	—	—	600	—	—	—
Cumulative-effect adjustment (2)	(854)	—	—	—	(854)	—	—
Common stock issued under share-based compensation plans	—	1	(1)	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(3,745)	—	(3,745)	—	—	—	—
Common stock issued under employee stock purchase plan	2,758	—	2,758	—	—	—	—
Common stock dividends	(9,381)	—	81	—	(9,462)	—	—
Repurchase of common stock (3)	(60,508)	—	—	—	—	(60,508)	—
Share-based compensation expense	5,956	—	5,956	—	—	—	—
Balance, June 30, 2018	$1,735,133	$600	$13,054	$(93,600)	$1,912,430	$(98,201)	$850

(1) Represents cumulative foreign currency translation adjustments and post retirement liability adjustments.
(2) Represents adjustment to retained earnings upon the adoption of Accounting Standards Codification Topic 606.
(3) Beginning June 1, 2017, shares of common stock repurchased are held as treasury stock by the Company.
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 those of a normal recurring nature) necessary to present fairly our financial position and the results of our operations. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.
NOTE 2 New Accounting Pronouncements
On January 1, 2018, we adopted the accounting pronouncement issued by the Financial Accounting Standards Board ("FASB") to clarify existing guidance on revenue recognition. This guidance includes the required steps to achieve the core principle that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We adopted this pronouncement on a modified retrospective basis, and its impact on our financial position and results of operations, as well as required additional disclosures, are included in Note 3 - Revenue from Contracts with Customers. As a result of the adoption of this standard, certain changes have been made to the Condensed Consolidated Balance Sheets. The accounts previously named "Costs and estimated earnings in excess of billings on uncompleted contracts" and "Billings in excess of costs and estimated earnings on uncompleted contracts" have been renamed "Contract assets" and "Contract liabilities", respectively. In addition, for periods beginning after December 31, 2017, amounts representing deferred revenues on services contracts, which were previously included in "Other accrued expenses and liabilities" within the Condensed Consolidated Balance Sheets, have been reclassified as "Contract liabilities."
On January 1, 2018, we adopted the accounting pronouncement issued by the FASB to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires entities to show changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. This guidance was adopted on a retrospective basis, and such adoption did not have a material impact on our financial position and/or results of operations.
In February 2016, an accounting pronouncement was issued by the FASB to replace existing lease accounting guidance. This pronouncement is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet for most leases. Expenses associated with leases will continue to be recognized in a manner similar to current accounting guidance. This pronouncement is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The adoption is required to be applied on a modified retrospective basis for each prior reporting period presented. Although we have not yet quantified the impact that the adoption of this pronouncement will have on our financial position and/or results of operations, we have begun a process to identify a complete population of our leases. Such process includes reviewing various contracts to identify whether such arrangements convey the right to control the use of an identified asset. We continue to evaluate the impact of the new accounting pronouncement, including enhanced disclosure requirements, on our business processes, controls and systems.
NOTE 3 Revenue from Contracts with Customers
The Company adopted Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC 606") on January 1, 2018. The adoption of ASC 606 represents a change in accounting principle that aligns revenue recognition with the timing of when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To achieve

this core principle, the Company applies the following five steps in accordance with ASC 606:
(1) Identify the contract with a customer
A contract with a customer exists when: (a) the parties have approved the contract and are committed to perform their respective obligations, (b) the rights of the parties can be identified, (c) payment terms can be identified, (d) the arrangement has commercial substance, and (e) collectibility of consideration is probable. Judgment is required when determining if the contractual

criteria are met, specifically in the earlier stages of a project when a formally executed contract may not yet exist. In these situations, the Company evaluates all relevant facts and circumstances, including the existence of other forms of documentation or historical experience with our customers that may indicate a contractual agreement is in place and revenue should be recognized. In determining if the collectibility of consideration is probable, the Company considers the customer's ability and intention to pay such consideration through an evaluation of several factors, including an assessment of the creditworthiness of the customer and our prior collection history with such customer.

(2) Identify the performance obligations in the contract

At contract inception, the Company assesses the goods or services promised in a contract and identifies, as a separate performance obligation, each distinct promise to transfer goods or services to the customer. The identified performance obligations represent the "unit of account" for purposes of determining revenue recognition. In order to properly identify separate performance obligations, the Company applies judgment in determining whether each good or service provided is: (a) capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and (b) distinct within the context of the contract, whereby the transfer of the good or service to the customer is separately identifiable from other promises in the contract.

In addition, when assessing performance obligations within a contract, the Company considers the warranty provisions included within such contract. To the extent the warranty terms provide the customer with an additional service, other than assurance that the promised good or service complies with agreed upon specifications, such warranty is accounted for as a separate performance obligation. In determining whether a warranty provides an additional service, the Company considers each warranty provision in comparison to warranty terms which are standard in the industry.

Our contracts are often modified through change orders to account for changes in the scope and price of the goods or services we are providing. Although the Company evaluates each change order to determine whether such modification creates a separate performance obligation, the majority of our change orders are for goods or services that are not distinct within the context of our original contract, and therefore, are not treated as separate performance obligations.

(3) Determine the transaction price

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to our customers. The consideration promised within a contract may include fixed amounts, variable amounts, or both. To the extent the performance obligation includes variable consideration, including contract bonuses and penalties that can either increase or decrease the transaction price, the Company estimates the amount of variable consideration to be included in the transaction price utilizing one of two prescribed methods, depending on which method better predicts the amount of consideration to which the entity will be entitled. Such methods include: (a) the expected value method, whereby the amount of variable consideration to be recognized represents the sum of probability weighted amounts in a range of possible consideration amounts, and (b) the most likely amount method, whereby the amount of variable consideration to be recognized represents the single most likely amount in a range of possible consideration amounts. When applying these methods, the Company considers all information that is reasonably available, including historical, current and estimates of future performance. The expected value method is typically utilized in situations where a contract contains a large number of possible outcomes while the most likely amount method is typically utilized in situations where a contract has only two possible outcomes.

Variable consideration is included in the transaction price only to the extent it is probable, in the Company's judgment, that a significant future reversal in the amount of cumulative revenue recognized under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This threshold is referred to as the variable consideration constraint. In assessing whether to apply the variable consideration constraint, the Company considers if factors exist that could increase the likelihood or the magnitude of a potential reversal of revenue, including, but not limited to, whether: (a) the amount of consideration is highly susceptible to factors outside of the Company’s influence, such as the actions of third parties, (b) the uncertainty surrounding the amount of consideration is not expected to be resolved for a long period of time, (c) the Company’s experience with similar types of contracts is limited or that experience has limited predictive value, (d) the Company has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances, and (e) the contract has a large number and broad range of possible consideration amounts.

NOTE 3 Revenue from Contracts with Customers - (Continued)

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

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

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

Changes in the estimates of transaction prices are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. Such changes in estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in prior periods. Such changes in estimates may also result in the reversal of previously recognized revenue if the ultimate outcome differs from the Company’s previous estimate. For the three and six months ended June 30, 2018, there were no significant amounts of revenue recognized during the period related to performance obligations satisfied in prior periods. For the three and six months ended June 30, 2017, we recognized $11.6 million and $18.1 million of gross profit associated with the recovery of certain contract costs previously disputed on a project completed in 2016. In addition, for the three and six months ended June 30, 2018 and 2017, there were no significant reversals of revenue recognized associated with the revision to transaction prices.

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

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

to the performance obligation.
(5) Recognize revenue as performance obligations are satisfied
The Company recognizes revenue at the time the related performance obligation is satisfied by transferring a promised good or service to its customers. A good or service is considered to be transferred when the customer obtains control. The Company can transfer control of a good or service and satisfy its performance obligations either over time or at a point in time. The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if one of the following three criteria are met: (a) the customer simultaneously receives and consumes the benefits provided by the Company’s performance as we perform, (b) the Company’s performance creates or enhances an asset that the customer controls

as the asset is created or enhanced, or (c) the Company's performance does not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date.

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

For our construction contracts, revenue is generally recognized over time as our performance creates or enhances an asset that the customer controls. Our fixed price construction projects generally use a cost-to-cost input method to measure our progress towards complete satisfaction of the performance obligation as we believe it best depicts the transfer of control to the customer. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. For our unit price construction contracts, progress towards complete satisfaction is measured through an output method such as the amount of units produced or delivered, when our performance does not produce significant amounts of work in process or finished goods prior to complete satisfaction of such performance obligations.

For our services contracts, revenue is also generally recognized over time as the customer simultaneously receives and consumes the benefits of our performance as we perform the service. For our fixed price service contracts with specified service periods, revenue is generally recognized on a straight-line basis over such service period when our inputs are expended evenly, and the customer receives and consumes the benefits of our performance throughout the contract term.

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

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

Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation will be revised in the near-term. For those performance obligations for which revenue is recognized using a cost-to-cost input method, changes in total estimated costs, and related progress towards complete satisfaction of the performance obligation, are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. When the current estimate of total costs for a performance obligation indicate a loss, a provision for the entire estimated loss on the unsatisfied performance obligation is made in the period in which the loss becomes evident. For the three and six months ended June 30, 2018 and 2017, there were no changes in total estimated costs that had a significant impact to our operating results. In addition, for the three and six months ended June 30, 2018 and 2017, there were no significant losses recognized.

Disaggregation of Revenues

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

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

NOTE 3 Revenue from Contracts with Customers - (Continued)

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

	For the three months ended June 30, 2018	% of Total	For the six months ended June 30, 2018	% of Total
United States electrical construction and facilities services:				
Commercial market sector	$199,283	41 %	$383,665	41 %
Institutional market sector	31,060	6 %	59,068	6 %
Hospitality market sector	7,289	2 %	12,805	1 %
Manufacturing market sector	94,018	20 %	179,812	19 %
Healthcare market sector	36,679	8 %	75,186	8 %
Transportation market sector	72,511	15 %	143,775	16 %
Water and wastewater market sector	6,140	1 %	10,753	1 %
Short duration projects (1)	25,195	5 %	54,725	6 %
Service work	8,836	2 %	17,004	2 %
	481,011		936,793	
Less intersegment revenues	(1,469)		(2,499)	
Total segment revenues	$479,542		$934,294	
United States mechanical construction and facilities services:				
Commercial market sector	$263,660	35%	$495,511	34%
Institutional market sector	78,079	11%	143,706	10%
Hospitality market sector	21,191	3 %	47,718	3 %
Manufacturing market sector	99,047	13%	198,923	14%
Healthcare market sector	60,006	8 %	126,120	9 %
Transportation market sector	4,724	1 %	9,930	1 %
Water and wastewater market sector	42,519	6 %	79,270	5 %
Short duration projects (1)	76,114	10%	160,009	11%
Service work	98,301	13%	184,526	13%
	743,641		1,445,713	
Less intersegment revenues	(2,984)		(6,209)	
Total segment revenues	$740,657		$1,439,504	

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

United States building services:				
Commercial site-based services	$119,043	26%	$265,804	29%
Government site-based services	55,147	12%	110,556	12%
Mechanical services	260,249	56%	487,591	53%
Energy services	26,594	6 %	51,834	6 %
Total segment revenues	$461,033		$915,785	

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

NOTE 3 Revenue from Contracts with Customers - (Continued)

	For the three months ended June 30, 2018	% of Total	For the six months ended June 30, 2018	% of Total
United States industrial services:				
Field services	$125,527	75 %	$273,617	78 %
Shop services	41,620	25 %	78,677	22 %
Total segment revenues	$167,147		$352,294	
Total United States operations	$1,848,379		$3,641,877	
United Kingdom building services:				
Service work	$54,998	52%	$110,273	52%
Projects & extras	50,509	48%	102,124	48%
Total segment revenues	$105,507		$212,397	
Total worldwide operations	$1,953,886		$3,854,274	

Contract Assets and Contract Liabilities

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

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

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

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

NOTE 3 Revenue from Contracts with Customers - (Continued)

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

	June 30, 2018	December 31, 2017
Contract assets, current	$156,134	$122,621
Contract assets, non-current	—	—
Contract liabilities, current	(551,614)	(524,156)
Contract liabilities, non-current	(3,327)	—
Deferred revenue [(1)]	—	(47,328)
Net contract liabilities	$(398,807)	$(448,863)

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

The $50.1 million decrease in net contract liabilities for the six months ended June 30, 2018 was attributable to a decrease in the net contract liability balance on our uncompleted long-term construction contracts as a result of the completion or substantial completion of certain large projects which were previously billed ahead pursuant to contract terms. Contract assets and contract liabilities increased by approximately $0.3 million and $2.1 million, respectively, as a result of acquisitions made in 2018. There was no significant impairment of contract assets recognized during the period.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

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

	June 30, 2018	% of Total
Remaining performance obligations:		
United States electrical construction and facilities services	$1,037,796	28 %
United States mechanical construction and facilities services	1,970,393	54 %
United States building services	451,960	12 %
United States industrial services	82,640	2 %
Total United States operations	3,542,789	96 %
United Kingdom building services	130,342	4 %
Total worldwide operations	$3,673,131	100%

Our remaining performance obligations at June 30, 2018 were $3.67 billion. Remaining performance obligations increase with awards of new contracts and decrease as we perform work and recognize revenue on existing contracts. We include a project within our remaining performance obligations at such time the project is awarded and agreement on contract terms has been reached. Our remaining performance obligations include amounts related to contracts for which a fixed price contract value is not assigned when a reasonable estimate of total transaction price can be made. Remaining performance obligations include unrecognized revenues to be realized from uncompleted construction contracts. Although many of our construction contracts are subject to cancellation at the election of our customers, in accordance with industry practice, we do not limit the amount of unrecognized revenue included within remaining performance obligations due to the inherent substantial economic penalty that would be incurred by our customers upon cancellation. We believe our reported remaining performance obligations for our construction contracts are firm

and contract cancellations have not had a material adverse effect on us.
Remaining performance obligations also include unrecognized revenues expected to be realized over the remaining term of service contracts. However, to the extent a service contract includes a cancellation clause which allows for the termination of such

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NOTE 3 Revenue from Contracts with Customers - (Continued)

contract by either party without a substantive penalty, the remaining contract term, and therefore, the amount of unrecognized revenues included within remaining performance obligations, is limited to the notice period required for the termination.

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

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

	Within one year	Greater than one year
Remaining performance obligations:		
United States electrical construction and facilities services	$910,676	$127,120
United States mechanical construction and facilities services	1,453,161	517,232
United States building services	436,102	15,858
United States industrial services	82,640	—
Total United States operations	2,882,579	660,210
United Kingdom building services	78,659	51,683
Total worldwide operations	$2,961,238	$711,893

Impact of the Adoption of ASC 606 on our Financial Statements

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

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

NOTE 3 Revenue from Contracts with Customers - (Continued)

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

	As reported	Pro forma
	June 30, 2018	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$306,624	$306,624
Accounts receivable	1,635,289	1,631,976
Contract assets	156,134	158,341
Inventories	43,665	49,060
Prepaid expenses and other	48,511	45,314
Total current assets	2,190,223	2,191,315
Investments, notes and other long-term receivables	4,180	4,180
Property, plant and equipment, net	124,993	124,993
Goodwill	978,303	978,303
Identifiable intangible assets, net	481,577	481,577
Other assets	90,125	90,125
Total assets	$3,869,401	$3,870,493
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$15,625	$15,625
Accounts payable	505,379	505,379
Contract liabilities	551,614	503,811
Accrued payroll and benefits	282,159	282,159
Other accrued expenses and liabilities	150,153	198,789
Total current liabilities	1,504,930	1,505,763
Borrowings under revolving credit facility	25,000	25,000
Long-term debt and capital lease obligations	262,492	262,492
Other long-term obligations	341,846	342,037
Total liabilities	2,134,268	2,135,292
Total equity	1,735,133	1,735,201
Total liabilities and equity	$3,869,401	$3,870,493

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

NOTE 3 Revenue from Contracts with Customers - (Continued)

	As reported	Pro forma	As reported	Pro forma
	For the three months ended June 30, 2018 (Unaudited)		For the six months ended June 30, 2018 (Unaudited)	
Revenues	$1,953,886	$1,955,456	$3,854,274	$3,854,946
Cost of sales	1,663,042	1,664,330	3,294,311	3,296,062
Gross profit	290,844	291,126	559,963	558,884
Selling, general and administrative expenses	189,907	189,907	380,932	380,932
Restructuring expenses	374	374	464	464
Impairment loss on identifiable intangible assets	907	907	907	907
Operating income	99,656	99,938	177,660	176,581
Net periodic pension (cost) income	717	717	1,454	1,454
Interest expense	(3,457)	(3,457)	(6,453)	(6,453)
Interest income	634	634	1,178	1,178
Income from continuing operations before income taxes	97,550	97,832	173,839	172,760
Income tax provision	26,529	26,604	47,162	46,869
Income from continuing operations	71,021	71,228	126,677	125,891
Loss from discontinued operation, net of income taxes	(205)	(205)	(487)	(487)
Net income including noncontrolling interests	70,816	71,023	126,190	125,404
Less: Net income attributable to noncontrolling interests	—	—	—	—
Net income attributable to EMCOR Group, Inc.	$70,816	$71,023	$126,190	$125,404
Basic earnings per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.22	$1.22	$2.16	$2.15
Diluted earnings per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.21	$1.21	$2.15	$2.14

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

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

NOTE 4 Acquisitions of Businesses
During the second quarter of 2018, we acquired two companies, each for an immaterial amount. One company provides mobile mechanical services within the Western region of the United States, and the other company provides mobile mechanical services and fire protection services within the Southern region of the United States. Both of their results have been included in our United States building services segment.
On January 4, 2017, March 1, 2017 and November 1, 2017, we acquired three companies for a total consideration of $109.3 million. One company provides fire protection and alarm services primarily in the Southern region of the United States. The second company provides millwright services for manufacturing companies throughout the United States. Both of their results have been included in our United States mechanical construction and facilities services segment. The third company provides mobile mechanical services within the Western region of the United States, and its results have been included in our United States building services segment. In connection with these acquisitions, we acquired working capital of $9.6 million and other net assets of $2.3 million and have preliminarily ascribed $40.8 million to goodwill and $56.6 million to identifiable intangible assets. We expect that all of the acquired goodwill will be deductible for tax purposes.
The purchase price allocation for the businesses acquired in 2018 and the business acquired in November of 2017 are still preliminary and subject to change during their respective measurement periods. The purchase price allocations for the businesses acquired in January and March of 2017 were finalized during the first quarter of 2018 with an insignificant impact. The acquisition of each business was accounted for by the acquisition method, and the prices paid for them have been allocated to their respective assets and liabilities, based upon the estimated fair value of their assets and liabilities at the dates of their respective acquisitions by us.
NOTE 5 Disposition of Assets
Due to a historical pattern of losses in the construction operations of our United Kingdom segment and our negative assessment of construction market conditions in the United Kingdom for the foreseeable future, we ceased construction operations in the United Kingdom during the third quarter of 2014. The results of the construction operations of our United Kingdom segment for all periods are presented in the Condensed Consolidated Financial Statements as discontinued operations.
The results of discontinued operations are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenues	$—	$944	$—	$944
Loss from discontinued operation, net of income taxes	$(205)	$(18)	$(487)	$(522)
Diluted loss per share from discontinued operation	$(0.00)	$(0.00)	$(0.01)	$(0.01)

The loss from discontinued operations in 2018 and 2017 was primarily due to legal costs related to the settlement of final contract balances on certain construction projects completed in prior years.
Included in the Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017 are the following major classes of assets and liabilities associated with the discontinued operation (in thousands):

	June 30, 2018	December 31, 2017
Assets of discontinued operation:		
Current assets	$ 110	$ 242
Liabilities of discontinued operation:		
Current liabilities	$ 2,038	$ 2,811

At June 30, 2018, 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, 2018, there remained less than $0.1 million of obligations related to employee severance, which are expected to be paid during the remainder of 2018. The settlement of the remaining assets and liabilities may result in additional income and/or expenses. Such income and/or expenses are expected to be immaterial and will be reflected as discontinued operations as incurred.

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

NOTE 6 Earnings Per Share
Calculation of Basic and Diluted Earnings (Loss) per Common Share
The following tables summarize our calculation of Basic and Diluted Earnings (Loss) per Common Share ("EPS") for the three and six months ended June 30, 2018 and 2017 (in thousands, except share and per share data):

	For the three months ended June 30,	
	2018	2017
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	$71,021	$56,776
Loss from discontinued operation, net of income taxes	(205)	(18)
Net income attributable to EMCOR Group, Inc. common stockholders	$70,816	$56,758
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	58,332,934	59,290,420
Effect of dilutive securities—Share-based awards	337,661	348,641
Shares used to compute diluted earnings (loss) per common share	58,670,595	59,639,061
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.22	$0.96
From discontinued operation	(0.00)	(0.00)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.22	$0.96
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.21	$0.95
From discontinued operation	(0.00)	(0.00)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.21	$0.95

	For the six months ended June 30,	
	2018	2017
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	$126,677	$109,920
Loss from discontinued operation, net of income taxes	(487)	(522)
Net income attributable to EMCOR Group, Inc. common stockholders	$126,190	$109,398
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	58,531,150	59,527,863
Effect of dilutive securities—Share-based awards	331,355	345,553
Shares used to compute diluted earnings (loss) per common share	58,862,505	59,873,416
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$2.16	$1.85
From discontinued operation	(0.01)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$2.15	$1.84
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$2.15	$1.84
From discontinued operation	(0.01)	(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$2.14	$1.83

The number of outstanding share-based awards that were excluded from the computation of diluted EPS for the three and six months ended June 30, 2018 because they would be anti-dilutive were 500 and 550, respectively. The number of outstanding share-based awards that were excluded from the computation of diluted EPS for the three and six months ended June 30, 2017 because they would be anti-dilutive were 47,200 and zero, respectively.

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EMCOR Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 7 Inventories

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

	June 30, 2018	December 31, 2017
Raw materials and construction materials	$27,188	$ 23,924
Work in process	16,477	18,800
Inventories	$43,665	$ 42,724

NOTE 8 Debt

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

	June 30, 2018	December 31, 2017
Revolving credit facility	$25,000	$ 25,000
Term loan	277,215	284,810
Unamortized debt issuance costs	(3,658)	(4,251)
Capitalized lease obligations	4,546	4,571
Other	14	20
Total debt	303,117	310,150
Less: current maturities	15,625	15,364
Total long-term debt	$287,492	$ 294,786

Credit Agreement

We have a credit agreement dated as of August 3, 2016, which provides for a $900.0 million revolving credit facility (the “2016 Revolving Credit Facility”) and a $400.0 million term loan (the “2016 Term Loan”) (collectively referred to as the “2016 Credit Agreement”) expiring August 3, 2021. We may increase the 2016 Revolving Credit Facility to $1.3 billion if additional lenders are identified and/or existing lenders are willing to increase their current commitments. We may allocate up to $300.0 million of available capacity under the 2016 Revolving Credit Facility to letters of credit for our account or for the account of any of our subsidiaries. Obligations under the 2016 Credit Agreement are guaranteed by most of our direct and indirect subsidiaries and are secured by substantially all of our assets. The 2016 Credit Agreement contains various covenants providing for, among other things, maintenance of certain financial ratios and certain limitations on payment of dividends, common stock repurchases, investments, acquisitions, indebtedness and capital expenditures. We were in compliance with all such covenants as of June 30, 2018 and December 31, 2017. A commitment fee is payable on the average daily unused amount of the 2016 Revolving Credit Facility, which ranges from 0.15% to 0.30%, based on certain financial tests. The fee was 0.15% of the unused amount as of June 30, 2018. Borrowings under the 2016 Credit Agreement bear interest at (1) a base rate plus a margin of 0.00% to 0.75%, based on certain financial tests, or (2) United States dollar LIBOR (2.09% and 2.33% at June 30, 2018 for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively) plus 1.00% to 1.75%, based on certain financial tests. The base rate is determined by the greater of (a) the prime commercial lending rate announced by Bank of Montreal from time to time (5.00% at June 30, 2018), (b) the federal funds effective rate, plus ½ of 1.00%, (c) the daily one month LIBOR rate, plus 1.00%, or (d) 0.00%. The interest rates in effect at June 30, 2018 were 3.09% and 3.33% for our 2016 Revolving Credit Facility and our 2016 Term Loan, respectively. Fees for letters of credit issued under the 2016 Revolving Credit Facility range from 1.00% to 1.75% of the respective face amounts of outstanding letters of credit and are computed based on certain financial tests. Debt issuance costs are amortized over the life of the agreement and are included as part of interest expense. The 2016 Term Loan previously required us to make principal payments of $5.0 million on the last day of March, June, September and December of each year, which commenced with the calendar quarter ended December 31, 2016. On December 30, 2016, we made a payment of $100.0 million, of which $5.0 million represented our required quarterly payment and $95.0 million represented a prepayment of outstanding principal. Such prepayment was applied against the remaining mandatory quarterly payments on a ratable basis. As a result, commencing with the calendar quarter ended March 31, 2017, our required quarterly payment has been reduced to $3.8 million. All unpaid principal and interest is due on August 3, 2021. As of June 30, 2018 and December 31, 2017, the balance of the 2016 Term Loan was $277.2 million and $284.8 million, respectively. As of June 30, 2018 and December 31, 2017, we had approximately $110.3 million and

NOTE 8 Debt - (Continued)

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

NOTE 9 Fair Value Measurements

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

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

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

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

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

	Assets at Fair Value as of June 30, 2018			
Asset Category	Level 1	Level 2	Level 3	Total
Cash and cash equivalents (1)	$306,624	$ —	$ —	$306,624
Restricted cash (2)	2,572	—	—	2,572
Deferred compensation plan assets (3)	24,159	—	—	24,159
Total	$333,355	$ —	$ —	$333,355

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

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(1) Cash and cash equivalents include money market funds with original maturity dates of three months or less, which are Level 1 assets. At June 30, 2018 and December 31, 2017, we had $167.2 million and $194.2 million, respectively, in money market funds.

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

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

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

NOTE 10 Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code, including, among other things, reducing the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018.

As a result of the reduction of the U.S. corporate tax rate to 21%, U.S. generally accepted accounting principles require companies to re-value their deferred tax assets and liabilities as of the date of enactment, with the resulting tax effects accounted for in the reporting period of enactment. Based on currently available information, the Company’s estimated value of its net deferred federal and state tax liability balances have been reduced by approximately $39.3 million, which was recorded as a reduction of income tax expense in the Company's Consolidated Statements of Operations for the year ended December 31, 2017. Such estimate will be finalized upon the completion of the 2017 federal and state income tax returns as the Company continues to evaluate any further guidance that may be issued related to the Tax Act.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 10 Income Taxes - (Continued)

The Tax Act provides for a change from a worldwide to a territorial tax system and requires a one-time transition tax on certain deferred foreign income of specified foreign corporations. Staff Accounting Bulletin 118 provides a measurement period for companies to evaluate the effects of the Tax Act, and the Company made a provisional estimate at December 31, 2017 that the impact of such transition tax was expected to be immaterial. The Company has concluded, after completion of its analysis during the first quarter of 2018 that it is not subject to such transition tax. Our income tax provision for the three and six months ended June 30, 2018 also included an estimate of the minimum tax on global intangible low-taxed income for certain earnings of our foreign subsidiaries, as required under the Tax Act. The Company continues to evaluate the effects of the Tax Act related to the repatriation of certain foreign earnings and believes that such effects are immaterial.

For the three months ended June 30, 2018 and 2017, our income tax provision from continuing operations was $26.5 million and $33.0 million, respectively, based on an effective income tax rate, before discrete items and less amounts attributable to noncontrolling interests, of 27.8% and 37.5%, respectively. The actual income tax rate on income from continuing operations, less amounts attributable to noncontrolling interests, for the three months ended June 30, 2018 and 2017, inclusive of discrete items, was 27.2% and 36.8%, respectively. For the six months ended June 30, 2018 and 2017, our income tax provision from continuing operations was $47.2 million and $59.9 million, respectively, based on an effective income tax rate, before discrete items and less amounts attributable to noncontrolling interests, of 27.7% and 37.7%, respectively. The actual income tax rate on income from continuing operations, less amounts attributable to noncontrolling interests, for the six months ended June 30, 2018 and 2017, inclusive of discrete items, was 27.1% and 35.3%, respectively. The decrease in the 2018 income tax provision and the 2018 actual income tax rate on income from continuing operations was primarily due to the enactment of the Tax Act.

As of June 30, 2018 and December 31, 2017, the amount of unrecognized income tax benefits was $0.8 million.

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

We do not anticipate any significant changes to our reserves for uncertain tax positions in the next twelve months. We file income tax returns with the Internal Revenue Service and various state, local and foreign tax agencies. The Company is currently under examination by various taxing authorities for the years 2012 through 2015. During the first quarter of 2017, the Company settled an examination with a taxing authority which resulted in a $3.3 million reversal of reserves for previously uncertain tax positions.

NOTE 11 Common Stock

As of June 30, 2018 and December 31, 2017, there were 58,173,108 and 58,798,428 shares of our common stock outstanding, respectively.

During the three months ended June 30, 2018 and 2017, we issued 72,777 and 76,347 shares of common stock, respectively. During the six months ended June 30, 2018 and 2017, we issued 170,930 and 193,381 shares of common stock, respectively. These shares were issued primarily upon: (a) the satisfaction of required conditions under certain of our share-based compensation plans and (b) 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, October 23, 2014, October 28, 2015 and October 25, 2017, our Board of Directors authorized us to repurchase up to an additional $100.0 million, $250.0 million, $200.0 million and $100.0

million of our outstanding common stock, respectively. During 2018, we have repurchased 796,250 shares of our common stock for approximately $60.5 million. Since the inception of the repurchase programs through June 30, 2018, we have repurchased approximately 13.6 million shares of our common stock for approximately $635.8 million. As of June 30, 2018, there remained authorization for us to repurchase approximately $114.2 million of our shares. The repurchase programs have no expiration date and do not obligate the Company to acquire any particular amount of common stock and may be suspended, recommenced or discontinued at any time or from time to time without prior notice. We may repurchase our shares from time to time to the extent permitted by securities laws and other legal requirements, including provisions in our 2016 Credit Agreement placing limitations on such repurchases. The repurchase programs have been and will be funded from our operations.

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

NOTE 12 Retirement Plans
Our United Kingdom subsidiary has a defined benefit pension plan covering all eligible employees (the “UK Plan”); however, no individual joining the company after October 31, 2001 may participate in the UK Plan. On May 31, 2010, we curtailed the future accrual of benefits for active employees under such plan. We also sponsor three domestic retirement plans in which participation by new individuals is frozen.
Components of Net Periodic Pension Cost
The components of net periodic pension cost of the UK Plan for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Interest cost	$2,045	$2,124	$4,144	$4,169
Expected return on plan assets	(3,490)	(3,327)	(7,071)	(6,531)
Amortization of unrecognized loss	665	724	1,347	1,422
Net periodic pension cost (income)	$(780)	$(479)	$(1,580)	$(940)

The net periodic pension cost associated with the domestic plans was approximately $0.1 million for each of the three and six months ended June 30, 2018 and 2017.
Employer Contributions
For the six months ended June 30, 2018, our United Kingdom subsidiary contributed approximately $2.2 million to the UK Plan and anticipates contributing an additional $2.5 million during the remainder of 2018. Contributions to the domestic plans were approximately $0.1 million for the six months ended June 30, 2018.
NOTE 13 Commitments and Contingencies
Government Contracts
As a government contractor, we are subject to U.S. government audits and investigations relating to our operations, fines, penalties and compensatory and treble damages, and possible suspension or debarment from doing business with the government. Based on currently available information, we believe the outcome of ongoing government disputes and investigations will not have a material impact on our financial position, results of operations or liquidity.
Legal Matters
One of our subsidiaries was a subcontractor to a mechanical contractor (“Mechanical Contractor”) on a construction project where an explosion occurred in 2010. The Mechanical Contractor has asserted claims, in the context of an arbitration proceeding against our subsidiary, alleging that our subsidiary is responsible for a portion of the damages for which the Mechanical Contractor may be liable as a result of: (a) personal injury suffered by individuals as a result of the explosion and (b) the Mechanical Contractor’s legal fees and associated management costs in defending against any and all such claims. The Mechanical Contractor previously asserted claims under the Connecticut and Massachusetts Unfair and Deceptive Trade Practices Acts, but such claims have been withdrawn. The general contractor (as assignee of the Mechanical Contractor) on the construction project, and for whom the Mechanical Contractor worked, has alleged that our subsidiary is responsible for losses asserted by the owner of the project and/or the general contractor because of delays in completion of the project and for damages to the owner’s property. We believe, and have been advised by counsel, that we have a number of meritorious defenses to all such matters. We believe that the ultimate outcome of such matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity. Notwithstanding our assessment of the final impact of this matter, we are not able to estimate with any certainty the amount of loss, if any, which would be associated with an adverse resolution.
We are involved in several other proceedings in which damages and claims have been asserted against us. We believe that we have a number of valid defenses to such proceedings and claims and intend to vigorously defend ourselves. Other potential claims may exist that have not yet been asserted against us. We do not believe that any such matters

will have a material adverse effect on our financial position, results of operations or liquidity. Litigation is subject to many uncertainties and the outcome of litigation is not predictable with assurance. It is possible that some litigation matters for which liabilities have not been recorded could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on our financial position, results of operations or liquidity.

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

NOTE 13 Commitments and Contingencies - (Continued)

Restructuring expenses
Restructuring expenses, relating to employee severance obligations, were $0.4 million and $0.5 million for the three and six months ended June 30, 2018, respectively, and $0.3 million and $0.9 million for the three and six months ended June 30, 2017, respectively. As of June 30, 2018, the balance of these restructuring obligations yet to be paid was $0.4 million, and the majority of such amount is expected to be paid during the remainder of 2018. No material expenses in connection with restructuring from continuing operations are expected to be incurred during the remainder of 2018.
The changes in restructuring activity by reportable segments during the six months ended June 30, 2018 and 2017 were as follows (in thousands):

	United States electrical construction and facilities services segment	United States mechanical construction and facilities services segment	United States building services segment	Total
Balance at December 31, 2016	$ —	$ 188	$ 13	$ 201
Charges	—	218	690	908
Payments	—	(316)	(621)	(937)
Balance at June 30, 2017	$ —	$ 90	$ 82	$ 172
Balance at December 31, 2017	$ 452	$ —	$ 40	$ 492
Charges	—	—	464	464
Payments	(239)	—	(305)	(544)
Balance at June 30, 2018	$ 213	$ —	$ 199	$ 412

NOTE 14 Segment Information
We have the following reportable segments, which provide services associated with the design, integration, installation, start-up, operation and maintenance of various systems: (a) United States electrical construction and facilities services (involving systems for electrical power transmission and distribution; premises electrical and lighting systems; process instrumentation in the refining, chemical process, food process and mining industries; low-voltage systems, such as fire alarm, security and process control; voice and data communication; roadway and transit lighting; and fiber optic lines); (b) United States mechanical construction and facilities services (involving systems for heating, ventilation, air conditioning, refrigeration and clean-room process ventilation; fire protection; plumbing, process and high-purity piping; controls and filtration; water and wastewater treatment; central plant heating and cooling; cranes and rigging; millwrighting; and steel fabrication, erection and welding); (c) United States building services; (d) United States industrial services; and (e) United Kingdom building services. The “United States building services” and “United Kingdom building services” segments principally consist of those operations which provide a portfolio of services needed to support the operation and maintenance of customers’ facilities, including commercial and government site-based operations and maintenance; facility maintenance and services, including reception, security and catering services; outage services to utilities and industrial plants; military base operations support services; mobile maintenance and services; floor care and janitorial services; landscaping, lot sweeping and snow removal; facilities management; vendor management; call center services; installation and support for building systems; program development, management and maintenance for energy systems; technical consulting and diagnostic services; infrastructure and building projects for federal, state and local governmental agencies and bodies; and small modification and retrofit projects, which services are not generally related to customers’ construction programs. The “United States industrial services” segment principally consists of those operations which provide industrial maintenance and services, including those for refineries and petrochemical plants, including on-site repairs, maintenance and service of heat exchangers, towers, vessels and piping; design, manufacturing, repair and hydro blast

cleaning of shell and tube heat exchangers and related equipment; refinery turnaround planning and engineering services; specialty 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 14 Segment Information - (Continued)

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

	For the three months ended June 30,	
	2018	2017
Revenues from unrelated entities:		
United States electrical construction and facilities services	$479,542	$449,222
United States mechanical construction and facilities services	740,657	741,817
United States building services	461,033	438,264
United States industrial services	167,147	187,476
Total United States operations	1,848,379	1,816,779
United Kingdom building services	105,507	79,158
Total worldwide operations	$1,953,886	$1,895,937
Total revenues:		
United States electrical construction and facilities services	$481,379	$451,124
United States mechanical construction and facilities services	750,326	750,442
United States building services	476,775	453,849
United States industrial services	167,868	187,610
Less intersegment revenues	(27,969)	(26,246)
Total United States operations	1,848,379	1,816,779
United Kingdom building services	105,507	79,158
Total worldwide operations	$1,953,886	$1,895,937

	For the six months ended June 30,	
	2018	2017
Revenues from unrelated entities:		
United States electrical construction and facilities services	$934,294	$892,238
United States mechanical construction and facilities services	1,439,504	1,412,946
United States building services	915,785	878,294
United States industrial services	352,294	446,015
Total United States operations	3,641,877	3,629,493
United Kingdom building services	212,397	158,176
Total worldwide operations	$3,854,274	$3,787,669
Total revenues:		
United States electrical construction and facilities services	$938,548	$895,140
United States mechanical construction and facilities services	1,456,206	1,429,833
United States building services	946,874	908,793
United States industrial services	353,588	446,515
Less intersegment revenues	(53,339)	(50,788)
Total United States operations	3,641,877	3,629,493
United Kingdom building services	212,397	158,176
Total worldwide operations	$3,854,274	$3,787,669

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

	For the three months ended June 30,	
	2018	2017
Operating income (loss):		
United States electrical construction and facilities services	$35,985	$32,118
United States mechanical construction and facilities services	57,583	53,073
United States building services	22,430	20,237
United States industrial services	1,068	4,373
Total United States operations	117,066	109,801
United Kingdom building services	4,601	3,018
Corporate administration	(20,730)	(20,063)
Restructuring expenses	(374)	(343)
Impairment loss on identifiable intangible assets	(907)	—
Total worldwide operations	99,656	92,413
Other corporate items:		
Net periodic pension (cost) income	717	408
Interest expense	(3,457)	(3,069)
Interest income	634	73
Income from continuing operations before income taxes	$97,550	$89,825

	For the six months ended June 30,	
	2018	2017
Operating income (loss):		
United States electrical construction and facilities services	$71,836	$63,152
United States mechanical construction and facilities services	97,175	93,525
United States building services	39,507	34,502
United States industrial services	4,537	21,417
Total United States operations	213,055	212,596
United Kingdom building services	8,371	4,236
Corporate administration	(42,395)	(41,123)
Restructuring expenses	(464)	(908)
Impairment loss on identifiable intangible assets	(907)	—
Total worldwide operations	177,660	174,801
Other corporate items:		
Net periodic pension (cost) income	1,454	794
Interest expense	(6,453)	(6,140)
Interest income	1,178	330
Income from continuing operations before income taxes	$173,839	$169,785

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

	June 30, 2018	December 31, 2017
Total assets:		
United States electrical construction and facilities services	$622,290	$ 617,471
United States mechanical construction and facilities services	1,093,404	1,097,240
United States building services	804,025	764,085
United States industrial services	778,030	772,899
Total United States operations	3,297,749	3,251,695
United Kingdom building services	144,959	131,806
Corporate administration	426,693	582,403
Total worldwide operations	$3,869,401	$ 3,965,904

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

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

Operating Segments

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

Impact of Acquisitions

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

Overview

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

	For the three months ended June 30,	
	2018	2017
Revenues	$1,953,886	$1,895,937
Revenues increase (decrease) from prior year	3.1 %	(1.9)%
Operating income	$99,656	$92,413
Operating income as a percentage of revenues	5.1 %	4.9 %
Net income attributable to EMCOR Group, Inc.	$70,816	$56,758
Diluted earnings per common share from continuing operations	$1.21	$0.95

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The results for the 2018 second quarter represented strong operating performance from the majority of our reporting segments, which culminated in new company records in terms of quarterly revenues, operating income, net income attributable to EMCOR Group, Inc. and diluted earnings per common share from continuing operations.
The increase in revenues for the 2018 second quarter was primarily attributable to revenue growth within all of our reportable segments, except for our United States industrial services segment and our United States mechanical construction and facilities services segment. In addition, companies acquired in 2018 and 2017, which are reported in our United States mechanical construction and facilities services segment and our United States building services segment, generated incremental revenues of $16.5 million.
The overall increase in operating income and operating margin (operating income as a percentage of revenues) was attributable to the results of all of our reportable segments, except for our United States industrial services segment. Companies acquired in 2018 and 2017 contributed incremental operating income of $1.6 million, inclusive of $0.5 million of amortization expense associated with identifiable intangible assets. The results for the 2017 second quarter included the recovery of certain contract costs previously disputed on a project that was completed in 2016 within our United States mechanical construction and facilities services segment, which resulted in $11.6 million of gross profit and favorably impacted consolidated operating margin by 0.6%.
The increase in net income attributable to EMCOR Group, Inc. and diluted earnings per common share from continuing operations for the second quarter of 2018 was due to an increase in operating income and the reduction in the U.S federal corporate tax rate due to the enactment of the Tax Cuts and Jobs Act legislation (the “Tax Act”).
We acquired two companies in 2018, each for an immaterial amount. One company provides mobile mechanical services and fire protection services within the Southern region of the United States, and its results of operations have been included in our United States building services segment. The results of operations for the other company acquired, which have also been included in our United States building services segment, were de minimis.

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,			
	2018	% of Total	2017	% of Total
Revenues:				
United States electrical construction and facilities services	$479,542	25 %	$449,222	24 %
United States mechanical construction and facilities services	740,657	38 %	741,817	39 %
United States building services	461,033	24 %	438,264	23 %
United States industrial services	167,147	9 %	187,476	10 %
Total United States operations	1,848,379	95 %	1,816,779	96 %
United Kingdom building services	105,507	5 %	79,158	4 %
Total worldwide operations	$1,953,886	100%	$1,895,937	100%

	For the six months ended June 30,			
	2018	% of Total	2017	% of Total
Revenues:				
United States electrical construction and facilities services	$934,294	24 %	$892,238	24 %
United States mechanical construction and facilities services	1,439,504	37 %	1,412,946	37 %
United States building services	915,785	24 %	878,294	23 %
United States industrial services	352,294	9 %	446,015	12 %
Total United States operations	3,641,877	94 %	3,629,493	96 %
United Kingdom building services	212,397	6 %	158,176	4 %
Total worldwide operations	$3,854,274	100%	$3,787,669	100%

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As described below in more detail, our revenues for the three months ended June 30, 2018 increased to $1.95 billion compared to $1.90 billion for the three months ended June 30, 2017, and our revenues for the six months ended June 30, 2018 increased to $3.85 billion compared to $3.79 billion for the six months ended June 30, 2017. The increase in revenues for the three months ended June 30, 2018 was primarily attributable to increased revenues from all of our reportable segments, except for our United States industrial services segment and our United States mechanical construction and facilities services segment. The increase in revenues for the six months ended June 30, 2018 was primarily attributable to increased revenues from all of our reportable segments, except for our United States industrial services segment. Companies acquired in 2018 and 2017, which are reported in our United States mechanical construction and facilities services segment and our United States building services segment, generated incremental revenues of $16.5 million and $36.0 million for the three and six months ended June 30, 2018, respectively.

Revenues of our United States electrical construction and facilities services segment were $479.5 million and $934.3 million for the three and six months ended June 30, 2018, respectively, compared to revenues of $449.2 million and $892.2 million for the three and six months ended June 30, 2017, respectively. The increase in revenues for the three and six months ended June 30, 2018 was primarily attributable to an increase in revenues from institutional, commercial and water and wastewater construction projects, partially offset by a decrease in revenues from transportation construction projects. In addition, revenues for the six months ended June 30, 2018 benefited from a significant increase in revenues from healthcare construction projects.

Our United States mechanical construction and facilities services segment revenues for the three months ended June 30, 2018 were $740.7 million, a $1.2 million decrease compared to revenues of $741.8 million for the three months ended June 30, 2017. Revenues of this segment for the six months ended June 30, 2018 were $1,439.5 million, a $26.6 million increase compared to revenues of $1,412.9 million for the six months ended June 30, 2017. The decrease in revenues for the three months ended June 30, 2018 was primarily attributable to a decrease in revenues from large food processing construction projects that were substantially complete at the end of 2017, partially offset by an increase in revenues from commercial construction projects. The increase in revenues for the six months ended June 30, 2018 was primarily attributable to an increase in revenues from commercial, institutional and healthcare construction projects, partially offset by a decrease in revenues from large food processing construction projects. The results for the three and six months ended June 30, 2018 included $10.3 million and $20.5 million, respectively, of incremental revenues generated by a company acquired in 2017. This segment's results for the three and six months ended June 30, 2017 included $11.6 million and $18.1 million of revenues as a result of the recovery of certain contract costs previously disputed on a project that was completed in 2016.

Revenues of our United States building services segment for the three months ended June 30, 2018 increased by $22.8 million compared to the three months ended June 30, 2017, and revenues for the six months ended June 30, 2018 increased by $37.5 million compared to the six months ended June 30, 2017. The increase in revenues for both periods was due to: (a) greater project and repair service activities within our mobile mechanical services operations, (b) large project activity within our energy services operations, (c) increased activity from government site-based operations, partially as a result of new project awards, and (d) an increase in snow removal activity within our commercial site-based services operations. These increases were partially offset by a decrease in revenues due to the loss of certain contracts not renewed pursuant to rebid within our commercial site-based services operations. The results for the three and six months ended June 30, 2018 included $6.2 million and $15.5 million, respectively, of incremental revenues generated by companies acquired in 2018 and 2017.

Revenues of our United States industrial services segment for the three months ended June 30, 2018 decreased by $20.3 million compared to the three months ended June 30, 2017, and revenues for the six months ended June 30, 2018 decreased by $93.7 million compared to the six months ended June 30, 2017. The decrease in revenues for the three and six months ended June 30, 2018 was attributable to a decrease in revenues from our field services operations, as the results of 2017 included large turnaround project activity that did not repeat in 2018. In addition, revenues for the six months ended June 30, 2018 from our field services operations were impacted by the effects of Hurricane Harvey in 2017, which altered the timing of previously scheduled maintenance activities with our customers in 2018. The decrease in turnaround activities from our field services operations for both periods was partially offset by an increase in revenues from our shop services operations due to an increase in demand for our

cleaning and repair services.
Our United Kingdom building services segment revenues were $105.5 million for the three months ended June 30, 2018 compared to revenues of $79.2 million for the three months ended June 30, 2017. For the six months ended June 30, 2018, revenues for this segment were $212.4 million compared to revenues of $158.2 million for the six months ended June 30, 2017. This segment’s increase in revenues for both periods was the result of increased project activity with existing customers, as well as new contract awards within the commercial, institutional and water and wastewater market sectors. In addition, this segment’s revenues for the three and six months ended June 30, 2018 were positively impacted by an increase of $6.4 million and $18.9 million, respectively, related to the effect of favorable exchange rates for the British pound versus the United States dollar.

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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 June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Cost of sales	$1,663,042	$1,621,436	$3,294,311	$3,246,828
Gross profit	$290,844	$274,501	$559,963	$540,841
Gross profit, as a percentage of revenues	14.9 %	14.5 %	14.5 %	14.3 %

Our gross profit increased by $16.3 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017. Gross profit increased by $19.1 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Our gross profit margin was 14.9% and 14.5% for the three months ended June 30, 2018 and 2017, respectively. Gross profit margin was 14.5% and 14.3% for the six months ended June 30, 2018 and 2017, respectively. The increase in gross profit for both periods was primarily attributable to improved operating performance within all of our reportable segments, except for our United States industrial services segment. The increase in gross profit margin for the three months ended June 30, 2018 was primarily attributable to improved operating performance within all of our reportable segments, except for our United States industrial services segment and our United States electrical construction and facilities services segment. The increase in gross profit margin for the six months ended June 30, 2018 was primarily attributable to improved operating performance within all of our reportable segments, except for our United States industrial services segment. In addition, the increase in gross profit margin for both periods was partially due to the favorable resolution of uncertainties on certain construction projects at or nearing completion. Gross profit and gross profit margin within our United States mechanical construction and facilities services segment for the 2017 periods were favorably impacted by the recovery of certain contract costs previously disputed on a project that was completed in 2016, resulting in $11.6 million and $18.1 million of gross profit and a 0.5% and a 0.4% favorable impact on the Company's gross profit margin for the three and six months ended June 30, 2017, respectively.

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 June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Selling, general and administrative expenses	$189,907	$181,745	$380,932	$ 36