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

FORM 10-Q

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

For the quarterly period ended March 31, 2023

OR

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

For the transition period from to

Commission file number 1-8267

EMCOR Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock	**EME**	**New York Stock Exchange**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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. ☐

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

Applicable Only To Corporate Issuers

Number of shares of Common Stock outstanding as of the close of business on April 21, 2023: 47,545,740 shares.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They generally contain words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “may,” “can,” “could,” “might,” variations of such wording and other words or phrases of similar meaning. Forward-looking statements in this report include discussions of our future operating or financial performance and other forward-looking commentary regarding aspects of our business, including market share growth, gross profit, remaining performance obligations, project mix, projects with varying profit margins and contractual terms, selling, general and administrative expenses, our ability to maintain a strong safety record, and trends in our business, and other characterizations of future events or circumstances, such as the effects of the COVID-19 pandemic and supply chain disruptions and delays. Each forward-looking statement included in this report is subject to risks and uncertainties, including those identified in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section, and other sections of this report, and in our Form 10-K for the year ended December 31, 2022, including, without limitation, the “Risk Factors” section of such Form 10-K. Applicable risks and uncertainties include, but are not limited to:

- adverse effects of general economic conditions;
- changes in interest rates;
- domestic and international political developments;
- changes in the specific markets for EMCOR’s services;
- adverse business conditions, including scarcity of skilled labor, productivity challenges, the nature and extent of supply chain disruptions impacting availability and pricing of materials, and inflationary trends more generally, including fluctuations in energy costs;
- the impact of legislation and/or government regulations;
- the availability of adequate levels of surety bonding;
- increased competition;
- unfavorable developments in the mix of our business;
- the continuing impact of the COVID-19 pandemic; and
- other factors discussed elsewhere in this report.

Such risks and uncertainties could cause actual results to differ materially from those that might be anticipated from, or projected or implied by, our forward-looking statements. Accordingly, these statements do not guarantee future performance or events. The forward-looking statements contained in this report speak only as of the filing date of this report. We undertake no obligation to update any forward-looking statements unless required by law. However, any further disclosures made on related subjects in our subsequent reports filed with the Securities and Exchange Commission (the “SEC”) should be consulted. We caution investors not to place undue reliance on forward-looking statements, due to their inherent uncertainty.

PART I. – FINANCIAL INFORMATION.

ITEM 1. FINANCIAL STATEMENTS.

EMCOR Group, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 420,075	$ 456,439
Accounts receivable, less allowance for credit losses of $21,828 and $22,382, respectively	2,669,356	2,567,371
Contract assets	302,750	273,176
Inventories	100,405	85,641
Prepaid expenses and other	69,834	79,346
Total current assets	3,562,420	3,461,973
Property, plant and equipment, net	160,417	157,819
Operating lease right-of-use assets	274,917	268,063
Goodwill	923,274	919,151
Identifiable intangible assets, net	584,598	593,975
Other assets	135,284	123,626
Total assets	$ 5,640,910	$ 5,524,607
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt and finance lease liabilities	$ 15,524	$ 15,567
Accounts payable	724,104	849,284
Contract liabilities	1,156,530	1,098,263
Accrued payroll and benefits	385,621	465,000
Other accrued expenses and liabilities	310,793	258,190
Operating lease liabilities, current	68,819	67,218
Total current liabilities	2,661,391	2,753,522
Borrowings under revolving credit facility	100,000	—
Long-term debt and finance lease liabilities	231,319	231,625
Operating lease liabilities, long-term	226,288	220,764
Other long-term obligations	355,587	344,405
Total liabilities	3,574,585	3,550,316
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, 61,020,023 and 60,947,947 shares issued, respectively	610	609
Capital surplus	75,850	74,795
Accumulated other comprehensive loss	(90,675)	(93,451)
Retained earnings	3,318,560	3,214,281
Treasury stock, at cost 13,384,440 and 13,281,222 shares, respectively	(1,238,722)	(1,222,645)
Total EMCOR Group, Inc. stockholders' equity	2,065,623	1,973,589
Noncontrolling interests	702	702
Total equity	2,066,325	1,974,291
Total liabilities and equity	$ 5,640,910	$ 5,524,607

See Notes to Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

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

	Three months ended March 31,	
	2023	**2022**
Revenues	$ 2,890,432	$ 2,592,549
Cost of sales	2,454,370	2,239,994
Gross profit	436,062	352,555
Selling, general and administrative expenses	281,152	252,598
Operating income	154,910	99,957
Net periodic pension (cost) income	(274)	1,169
Interest expense, net	(1,832)	(1,289)
Income before income taxes	152,804	99,837
Income tax provision	41,331	26,451
Net income	$ 111,473	$ 73,386
Basic earnings per common share	$ 2.33	$ 1.39
Diluted earnings per common share	$ 2.32	$ 1.39
Dividends declared per common share	$ 0.15	$ 0.13

See Notes to Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Net income	$ 111,473	$ 73,386
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	2,257	(2,842)
Post retirement plans, amortization of actuarial loss included in net income (1)	519	455
Other comprehensive income (loss)	2,776	(2,387)
Comprehensive income	$ 114,249	$ 70,999

(1) Net of tax of $0.2 million for each of the three months ended March 31, 2023 and 2022.

See Notes to Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Cash flows - operating activities:		
Net income	$ 111,473	$ 73,386
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,621	11,578
Amortization of identifiable intangible assets	15,877	15,551
Non-cash share-based compensation expense	4,087	3,438
Other reconciling items	162	(226)
Changes in operating assets and liabilities, excluding the effect of businesses acquired	(228,803)	(199,541)
Net cash used in operating activities	(84,583)	(95,814)
Cash flows - investing activities:		
Payments for acquisitions of businesses, net of cash acquired	(11,834)	(2,914)
Proceeds from sale or disposal of property, plant and equipment	9,583	462
Purchases of property, plant and equipment	(23,154)	(11,501)
Net cash used in investing activities	(25,405)	(13,953)
Cash flows - financing activities:		
Proceeds from revolving credit facility	100,000	—
Repayments of finance lease liabilities	(780)	(979)
Dividends paid to stockholders	(7,151)	(6,930)
Repurchases of common stock	(16,033)	(181,810)
Taxes paid related to net share settlements of equity awards	(5,242)	(4,944)
Issuances of common stock under employee stock purchase plan	2,168	1,955
Payments for contingent consideration arrangements	(1,456)	(805)
Net cash provided by (used in) financing activities	71,506	(193,513)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	2,239	(3,419)
Decrease in cash, cash equivalents, and restricted cash	(36,243)	(306,699)
Cash, cash equivalents, and restricted cash at beginning of year (1)	457,068	822,568
Cash, cash equivalents, and restricted cash at end of period (2)	$ 420,825	$ 515,869

(1) Includes $0.6 million and $1.2 million of restricted cash classified as “Prepaid expenses and other” in the Consolidated Balance Sheets as of December 31, 2022 and 2021, respectively.

(2) Includes $0.8 million and $1.4 million of restricted cash classified as “Prepaid expenses and other” in the Consolidated Balance Sheets as of March 31, 2023 and 2022, respectively.

See Notes to Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

For the three months ended March 31, 2022 and 2023
(In thousands)(Unaudited)

		EMCOR Group, Inc. Stockholders					
	Total	Common stock	Capital surplus	Accumulated other comprehensive loss (1)	Retained earnings	Treasury stock	Noncontrolling interests
Balance, December 31, 2021	$ 2,253,089	$ 607	$ 61,874	$ (83,562)	$ 2,835,504	$ (562,036)	$ 702
Net income	73,386	—	—	—	73,386	—	—
Other comprehensive loss	(2,387)	—	—	(2,387)	—	—	—
Common stock issued under share-based compensation plans	1	1	—	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(4,944)	—	(4,944)	—	—	—	—
Common stock issued under employee stock purchase plan	1,955	—	1,955	—	—	—	—
Common stock dividends	(6,930)	—	51	—	(6,981)	—	—
Repurchases of common stock	(181,810)	—	—	—	—	(181,810)	—
Share-based compensation expense	3,438	—	3,438	—	—	—	—
Balance, March 31, 2022	$ 2,135,798	$ 608	$ 62,374	$ (85,949)	$ 2,901,909	$ (743,846)	$ 702
Balance, December 31, 2022	$ 1,974,291	$ 609	$ 74,795	$ (93,451)	$ 3,214,281	$ (1,222,645)	$ 702
Net income	111,473	—	—	—	111,473	—	—
Other comprehensive income	2,776	—	—	2,776	—	—	—
Common stock issued under share-based compensation plans	—	1	(1)	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(5,242)	—	(5,242)	—	—	—	—
Common stock issued under employee stock purchase plan	2,168	—	2,168	—	—	—	—
Common stock dividends	(7,151)	—	43	—	(7,194)	—	—
Repurchases of common stock	(16,077)	—	—	—	—	(16,077)	—
Share-based compensation expense	4,087	—	4,087	—	—	—	—
Balance, March 31, 2023	$ 2,066,325	$ 610	$ 75,850	$ (90,675)	$ 3,318,560	$ (1,238,722)	$ 702

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

See Notes to Consolidated Financial Statements.

EMCOR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to 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 ("U.S. GAAP") 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 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.

Our reportable segments and related disclosures reflect certain reclassifications of prior year amounts from our United States mechanical construction and facilities services segment to our United States building services segment due to changes in our internal reporting structure aimed at realigning our service offerings.

Additionally, to align our legal structure with changes in our reporting structure that were made in prior periods, effective April 1, 2023, ownership of the subsidiaries of Bahnson, Inc. has been transferred from Bahnson, Inc. to EMCOR Construction Services, Inc. and EMCOR Mechanical Services, Inc.

The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023.

NOTE 2 - New Accounting Pronouncements

The Financial Accounting Standards Board (the "FASB") has issued an accounting standards update, which provides temporary optional expedients and exceptions to existing U.S. GAAP. This guidance is aimed at easing the financial reporting burdens related to reference rate reform, including the market transition from the London interbank offered rate ("LIBOR"), or other interbank offered rates, to alternative reference rates. Such accounting pronouncement, as amended, allows entities to account for and present certain contract modifications, which occur before December 31, 2024 and result from the transition to an alternative reference rate, as an event that does not require remeasurement at the modification date or reassessment of a previous accounting determination. Our credit agreement contains provisions that allow for an amendment to use alternative reference rates upon the discontinuation of LIBOR. In accordance with these provisions, we anticipate amending such agreement during the second quarter of 2023, to change the reference rate from LIBOR to an interest rate based on the secured overnight financing rate ("SOFR"). At that point, we will utilize the optional expedients provided for in this accounting pronouncement. We do not anticipate that the amendment of our credit agreement or the adoption of this accounting pronouncement will have a material impact on our financial position and/or results of operations.

NOTE 3 - Revenue from Contracts with Customers

The Company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services by applying the following five step model:

(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) collectability 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 collectability 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.

NOTE 3 - Revenue from Contracts with Customers (Continued)

(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.

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 of 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.

NOTE 3 - Revenue from Contracts with Customers (Continued)

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.

(4) Allocate the transaction price to the 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.

NOTE 3 - Revenue from Contracts with Customers (Continued)

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

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

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

Changes in Estimates

Due to uncertainties inherent in the estimation process, as well as the significant judgment involved in determining variable consideration, it is possible that estimates of costs to complete a performance obligation, and/or our estimates of transaction prices, 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, or changes in the estimate of transaction prices, 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 indicates 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.

Based on an evaluation of individual projects that had revisions to total estimated costs or anticipated contract value, which resulted in a reduction of profitability in excess of $1.0 million, our operating results were negatively impacted by approximately $6.4 million and $10.0 million during the three months ended March 31, 2023 and 2022, respectively. Of the amount recorded during the three months ended March 31, 2023, approximately $5.2 million was reported within our United States electrical construction and facilities services segment and approximately $1.2 million was reported within our United States mechanical construction and facilities services segment. Of the amount recorded during the three months ended March 31, 2022, approximately $4.6 million was reported within our United States electrical construction and facilities services segment and approximately $5.4 million was reported within our United States mechanical construction and facilities services segment. There were no significant amounts of revenue recognized during the three months ended March 31, 2023 or 2022 related to performance obligations satisfied in prior periods.

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.

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, for the three months ended March 31, 2023 and 2022 (in thousands). Refer to Note 14 - Segment Information of the notes to consolidated financial statements for additional information on how we disaggregate our revenues by reportable segment.

Due to continued growth in certain of our end markets, beginning with the first quarter of 2023, we have expanded the market sectors included in the disclosure for each of our United States construction segments, as shown below. All prior period disclosures have been adjusted to additionally reflect these changes.

	For the three months ended March 31,			
	2023	% of Total	2022	% of Total
United States electrical construction and facilities services:				
Network and communications market sector	$ 213,751	33 %	$ 145,374	28 %
Commercial market sector	97,098	15 %	101,841	19 %
Manufacturing and industrial market sector	85,241	13 %	66,465	13 %
Healthcare market sector	55,503	9 %	32,070	6 %
High-tech manufacturing market sector	30,554	5 %	19,869	4 %
Institutional market sector	37,411	6 %	31,766	6 %
Transportation market sector	33,902	5 %	45,082	9 %
Water and wastewater market sector	7,458	1 %	5,312	1 %
Hospitality and entertainment market sector	20,052	3 %	5,854	1 %
Short duration projects (1)	47,680	7 %	56,048	11 %
Service work	16,877	3 %	13,329	2 %
	645,527		523,010	
Less intersegment revenues	(781)		(980)	
Total segment revenues	$ 644,746		$ 522,030	

	For the three months ended March 31,			
	2023	% of Total	2022	% of Total
United States mechanical construction and facilities services:				
Network and communications market sector	$ 99,421	9 %	$ 55,634	6 %
Commercial market sector	255,846	24 %	261,500	26 %
Manufacturing and industrial market sector	141,635	13 %	149,571	15 %
Healthcare market sector	112,728	10 %	119,832	12 %
High-tech manufacturing market sector	116,796	11 %	57,573	6 %
Institutional market sector	64,048	6 %	65,922	7 %
Transportation market sector	12,218	1 %	16,053	2 %
Water and wastewater market sector	68,662	6 %	61,744	6 %
Hospitality and entertainment market sector	10,077	1 %	12,780	1 %
Short duration projects (1)	81,417	8 %	93,559	9 %
Service work	117,188	11 %	100,744	10 %
	1,080,036		994,912	
Less intersegment revenues	(1,478)		(2,268)	
Total segment revenues	$ 1,078,558		$ 992,644	

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

NOTE 3 - Revenue from Contracts with Customers (Continued)

	For the three months ended March 31,			
	2023	% of Total	2022	% of Total
United States building services:				
Mechanical services	$ 462,534	64 %	$ 381,397	60 %
Commercial site-based services	209,371	29 %	203,550	32 %
Government site-based services	53,470	7 %	50,680	8 %
Total segment revenues	$ 725,375		$ 635,627	

	For the three months ended March 31,			
	2023	% of Total	2022	% of Total
United States industrial services:				
Field services	$ 285,844	86 %	$ 271,418	87 %
Shop services	45,039	14 %	39,333	13 %
Total segment revenues	$ 330,883		$ 310,751	
Total United States operations	$ 2,779,562		$ 2,461,052	

	For the three months ended March 31,			
	2023	% of Total	2022	% of Total
United Kingdom building services:				
Service work	$ 51,663	47 %	$ 64,817	49 %
Project work	59,207	53 %	66,680	51 %
Total segment revenues	$ 110,870		$ 131,497	
Total operations	$ 2,890,432		$ 2,592,549	

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recognized in the period we deliver goods and services to our customers or when our right to consideration is unconditional. The Company maintains an allowance for credit losses to reduce outstanding receivables to their net realizable value. A considerable amount of judgment is required when determining expected credit losses. Estimates of such losses are recorded when we believe a customer, or group of customers, may not be able to meet their financial obligations due to deterioration in financial condition or credit rating. Factors relevant to our assessment include our prior collection history with our customers, the related aging of past due balances, projections of credit losses based on historical trends in credit quality indicators or past events, and forecasts of future economic conditions. In addition to monitoring delinquent accounts, management reviews the credit quality of its receivables by, among other things, obtaining credit ratings of significant customers, assessing economic and market conditions, and evaluating material changes to a customer’s business, cash flows, and financial condition.

At March 31, 2023 and December 31, 2022, our allowance for credit losses was $21.8 million and $22.4 million, respectively. We continue to adjust our allowance for credit losses to account for the impact of changing economic conditions, including rising interest rates. Allowances for credit losses are based on the best facts available and are reassessed and adjusted on a regular basis as additional information is received. Should anticipated collections fail to materialize, or if future economic conditions compare unfavorably to our forecasts, we could experience an increase in our credit losses.

NOTE 3 - Revenue from Contracts with Customers (Continued)

The change in the allowance for credit losses for the three months ended March 31, 2023 was as follows (in thousands):

Balance at December 31, 2022	$	22,382
Recovery of credit losses		(343)
Net amounts written off against the allowance		(211)
Balance at March 31, 2023	$	21,828

Contract Assets and Contract Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our construction projects when revenues recognized under the cost-to-cost measure of progress exceed the amounts invoiced to our customers, as the amounts are not yet billable 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 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 Consolidated Balance Sheets.

Contract liabilities from our construction contracts arise 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 Consolidated Balance Sheets.

Net contract liabilities in the accompanying Consolidated Balance Sheets consisted of the following as of March 31, 2023 and December 31, 2022 (in thousands):

		March 31, 2023		December 31, 2022
Contract assets, current	$	302,750	$	273,176
Contract assets, non-current		—		—
Contract liabilities, current		(1,156,530)		(1,098,263)
Contract liabilities, non-current		(2,221)		(2,273)
Net contract liabilities	$	(856,001)	$	(827,360)

The $28.6 million increase in net contract liabilities for the three months ended March 31, 2023 was primarily attributable to an increase in net contract liabilities on our uncompleted construction projects, partially as a result of the timing of invoicing to our customers, which included advanced billings on several large projects in the earlier stages of completion, resulting in amounts invoiced exceeding the revenue recognized for such projects. There was no significant impairment of contract assets recognized during the periods presented.

NOTE 3 - Revenue from Contracts with Customers (Continued)

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 as of March 31, 2023 (in thousands, except for percentages):

	March 31, 2023	% of Total
Remaining performance obligations:		
United States electrical construction and facilities services	$ 2,050,956	26 %
United States mechanical construction and facilities services	4,295,524	54 %
United States building services	1,254,787	16 %
United States industrial services	131,759	2 %
Total United States operations	7,733,026	98 %
United Kingdom building services	140,117	2 %
Total operations	$ 7,873,143	100 %

Our remaining performance obligations at March 31, 2023 were $7.87 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 the 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 for these contracts as the risk of cancellation is very low due to the inherent substantial economic penalty that our customers would incur upon cancellation or termination. We believe our reported remaining performance obligations for our construction contracts are firm and contract cancellations have not had a material adverse effect on us.

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

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

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

	Within one year	Greater than one year
Remaining performance obligations:		
United States electrical construction and facilities services	$ 1,626,520	$ 424,436
United States mechanical construction and facilities services	3,422,159	873,365
United States building services	1,115,438	139,349
United States industrial services	129,386	2,373
Total United States operations	6,293,503	1,439,523
United Kingdom building services	95,121	44,996
Total operations	$ 6,388,624	$ 1,484,519

NOTE 4 - Acquisitions of Businesses

Acquisitions are accounted for utilizing the acquisition method of accounting and the prices paid for them are allocated to their respective assets and liabilities based upon the estimated fair value of such assets and liabilities at the dates of their respective acquisition by us.

During the first quarter of 2023, we acquired two companies, each for an immaterial amount. One company has been included within our Unites States mechanical construction and facilities services segment and provides mechanical and pipe fabrication services in the Midwestern region of the United States. The other company has been included within our United States building services segment and provides mechanical services in the Western region of the United States. The results of operations for both such companies were de minimis.

During calendar year 2022, we acquired six companies for total consideration of $100.8 million. Such acquisitions include: (a) a company that provides electrical construction services in the Greater Boston area, the results of operations of which have been included in our United States electrical construction and facilities services segment, and (b) five companies that enhance our presence in geographies where we have existing operations, the results of operations of which were de minimis, consisting of: (i) two companies that provide fire protection services in the Northeastern and Southern regions of the United States, respectively, and that have been included within our United States mechanical construction and facilities services segment, (ii) two companies that specialize in either building automation and controls or mechanical services in the Southwestern and Southern regions of the United States, respectively, and that have been included within our United States building services segment, and (iii) a company that provides electrical construction services in the Midwestern region of the United States and that has been included within our United States electrical construction and facilities services segment. In connection with these acquisitions, we acquired working capital of $7.1 million and other net liabilities of $1.1 million, and have preliminarily ascribed $28.9 million to goodwill and $65.9 million to identifiable intangible assets.

We expect that all of the goodwill acquired in connection with these acquisitions will be deductible for tax purposes. The purchase price allocations for the businesses acquired in 2023 and for one of the businesses acquired in 2022 are preliminary and subject to change during their respective measurement periods. As we finalize such purchase price allocations, adjustments may be recorded relating to finalization of intangible asset valuations, tax matters, or other items. Although not expected to be significant, such adjustments may result in changes in the valuation of assets and liabilities acquired. The purchase price allocations for the other businesses acquired in 2022 have been finalized during their respective measurement periods with an insignificant impact.

NOTE 5 - Earnings Per Share

Calculation of Basic and Diluted Earnings per Common Share

The following table summarizes our calculation of Basic and Diluted Earnings per Common Share (“EPS”) for the three months ended March 31, 2023 and 2022 (in thousands, except share and per share data):

	For the three months ended March 31,	
	2023	2022
Numerator:		
Net income	$ 111,473	$ 73,386
Denominator:		
Weighted average shares outstanding used to compute basic earnings per common share	47,775,819	52,713,005
Effect of dilutive securities—Share-based awards	169,996	203,554
Shares used to compute diluted earnings per common share	47,945,815	52,916,559
Basic earnings per common share	$ 2.33	$ 1.39
Diluted earnings per common share	$ 2.32	$ 1.39

There were no anti-dilutive share-based awards for the three months ended March 31, 2023. However, the number of share-based awards excluded from the computation of diluted EPS for the three months ended March 31, 2022 because they would be anti-dilutive was 62,481.

NOTE 6 - Inventories

Inventories in the accompanying Consolidated Balance Sheets consisted of the following amounts as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023	December 31, 2022
Raw materials and construction materials	$ 85,987	$ 74,014
Work in process	14,418	11,627
Inventories	$ 100,405	$ 85,641

The increase in inventories as of March 31, 2023, compared to December 31, 2022, was a result of: (a) advanced purchases of materials and equipment for use on specific construction projects, in an effort to mitigate the impact of increased lead times, which have resulted from supply chain disruptions, and (b) an increase in raw materials on hand to support our fabrication facilities given the growth in demand for our fire protection services.

NOTE 7 - Debt

Debt in the accompanying Consolidated Balance Sheets consisted of the following amounts as of March 31, 2023 and December 31, 2022 (in thousands):

	March 31, 2023	December 31, 2022
Revolving credit facility	$ 100,000	$ —
Term loan	242,813	242,813
Unamortized debt issuance costs	(1,840)	(2,080)
Finance lease liabilities	5,870	6,459
Total debt	346,843	247,192
Less: current maturities	15,524	15,567
Total long-term debt	$ 331,319	$ 231,625

Credit Agreement

We have a credit agreement dated as of March 2, 2020, which provides for a $1.3 billion revolving credit facility (the "2020 Revolving Credit Facility") and a $300.0 million term loan (the "2020 Term Loan") (collectively referred to as the "2020 Credit Agreement") expiring March 2, 2025. We may increase the 2020 Revolving Credit Facility to $1.9 billion if additional lenders are identified and/or existing lenders are willing to increase their current commitments. We may allocate up to $400.0 million of available capacity under the 2020 Revolving Credit Facility to letters of credit for our account or for the account of any of our subsidiaries.

As of March 31, 2023 and December 31, 2022, the balance of the 2020 Term Loan was $242.8 million and as of March 31, 2023, we had $100.0 million in direct borrowings outstanding under the 2020 Revolving Credit Facility. There were no direct borrowings outstanding under the 2020 Revolving Credit Facility as of December 31, 2022. Outstanding letters of credit reduce the available capacity under such facility, and as of March 31, 2023 and December 31, 2022, we had $71.3 million of letters of credit outstanding.

At the Company's election, borrowings under the 2020 Credit Agreement bear interest at either: (1) a base rate plus a margin of 0.00% to 0.75%, based on certain financial tests, or (2) United States dollar LIBOR (5.16% at March 31, 2023) 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 (8.00% at March 31, 2023), (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%. Upon the discontinuation of LIBOR, our 2020 Credit Agreement contains provisions which allow for the use of alternate benchmark rates. In accordance with such provisions, we anticipate amending such agreement during the second quarter of 2023 to change the reference rate from LIBOR to SOFR.

The interest rates in effect at March 31, 2023 were 6.16% for the 2020 Term Loan and 5.81% for the 2020 Revolving Credit Facility. The interest rate in effect at December 31, 2022 for the 2020 Term Loan was 5.73%. A commitment fee is payable on the average daily unused amount of the 2020 Revolving Credit Facility, which ranges from 0.10% to 0.25%, based on certain financial tests. The fee was 0.10% of the unused amount as of March 31, 2023 and December 31, 2022. Fees for letters of credit issued under the 2020 Revolving Credit Facility range from 0.75% to 1.75% of the respective face amounts of outstanding letters of credit, depending on the nature of the letter of credit, and are computed based on certain financial tests.

NOTE 7 - Debt (Continued)

We capitalized an additional $3.1 million of debt issuance costs associated with the 2020 Credit Agreement. Debt issuance costs are amortized over the life of the agreement as part of interest expense.

Obligations under the 2020 Credit Agreement are guaranteed by most of our direct and indirect subsidiaries and are secured by substantially all of our assets. The 2020 Credit Agreement contains various covenants providing for, among other things, the maintenance of certain financial ratios and certain limitations on the payment of dividends, common stock repurchases, investments, acquisitions, indebtedness, and capital expenditures. We were in compliance with all such covenants as of March 31, 2023 and December 31, 2022.

We are required to make annual principal payments on the 2020 Term Loan. Any voluntary prepayments are applied against the outstanding balance of the loan and reduce our future scheduled payments on a ratable basis. Based on our outstanding balance, principal payments of $13.9 million are due on December 31 of each year until maturity, with any remaining unpaid principal and interest due on March 2, 2025.

NOTE 8 - Fair Value Measurements

For disclosure purposes, we utilize a fair value hierarchy to categorize qualifying assets and liabilities into three broad levels based on the priority of the inputs used to determine their fair values. The hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs, is comprised of the following three levels:

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

Level 2 – Observable inputs, other than Level 1 inputs, that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant unobservable inputs that reflect the reporting entity’s own assumptions.

Recurring Fair Value Measurements

The following tables summarize the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2023 and December 31, 2022 (in thousands):

	Assets at Fair Value as of March 31, 2023			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents [(1)]	$ 420,075	$ —	$ —	$ 420,075
Restricted cash [(2)]	750	—	—	750
Deferred compensation plan assets [(3)]	43,349	—	—	43,349
Total	$ 464,174	$ —	$ —	$ 464,174

	Assets at Fair Value as of December 31, 2022			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents [(1)]	$ 456,439	$ —	$ —	$ 456,439
Restricted cash [(2)]	629	—	—	629
Deferred compensation plan assets [(3)]	36,882	—	—	36,882
Total	$ 493,950	$ —	$ —	$ 493,950

(1) Cash and cash equivalents consist of deposit accounts and money market funds with original maturity dates of three months or less, which are Level 1 assets. At March 31, 2023 and December 31, 2022, we had $173.4 million and $209.4 million, respectively, in money market funds. From time to time, we have cash balances in certain of our domestic bank accounts that exceed federally insured limits.

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

NOTE 8 - Fair Value Measurements (Continued)

Nonrecurring Fair Value Measurements

We have recorded goodwill and identifiable intangible assets in connection with our business acquisitions. Such assets are measured at fair value at the time of acquisition based on valuation techniques that appropriately represent the methods which would be used by other market participants in determining fair value. In addition, goodwill and intangible assets are tested for impairment using similar valuation methodologies to determine the fair value of such assets. Periodically, we engage an independent third-party valuation specialist to assist with the valuation process, including the selection of appropriate methodologies and the development of market-based assumptions. The inputs used for these nonrecurring fair value measurements represent Level 3 inputs.

Fair Value of Financial Instruments

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 2020 Credit Agreement approximates its fair value due to the variable rate on such debt.

NOTE 9 - Income Taxes

The following table presents our income tax provision and our income tax rate for the three months ended March 31, 2023 and 2022 (in thousands, except percentages):

	For the three months ended March 31,	
	2023	2022
Income tax provision	$ 41,331	$ 26,451
Income tax rate	27.0 %	26.5 %

The difference between the U.S. statutory tax rate of 21% and our effective income tax rate for both the three months ended March 31, 2023 and 2022 was primarily a result of state and local income taxes and other permanent book-to-tax differences.

The increase in our income tax provision for the three months ended March 31, 2023, when compared to the three months ended March 31, 2022, was due to: (a) greater income before income taxes, and (b) an increase in our effective income tax rate. The change in our effective income tax rate was attributable to an increase in certain permanent book-to-tax differences, including the impact of the expiration of specific provisions within the Consolidated Appropriations Act, 2021, which allowed for a 100% tax deduction for business meals in 2022. For periods after December 31, 2022, the tax deduction for business meals has been reduced to 50%.

As of March 31, 2023 and December 31, 2022, we had no unrecognized income tax benefits.

We file a consolidated federal income tax return including all of our U.S. subsidiaries with the Internal Revenue Service. We additionally file income tax returns with various state, local, and foreign tax agencies. Our income tax returns are subject to audit by various taxing authorities and are currently under examination for the years 2017 through 2020.

NOTE 10 - Common Stock

As of March 31, 2023 and December 31, 2022, there were 47,635,583 and 47,666,725 shares of our common stock outstanding, respectively.

During the three months ended March 31, 2023 and 2022, we issued 72,076 and 95,331 shares of common stock, respectively. These shares were issued upon either the satisfaction of required conditions under our share-based compensation plans or the purchase of common stock pursuant to our employee stock purchase plan.

We have paid quarterly dividends since October 25, 2011. Commencing with the dividend to be paid on April 28, 2023, our dividend will increase from $0.15 per share to $0.18 per share.

NOTE 10 - Common Stock (Continued)

In September 2011, our Board of Directors (the “Board”) authorized a share repurchase program allowing us to begin repurchasing shares of our outstanding common stock. Subsequently, the Board has from time to time increased the amount authorized for repurchases under such program. Since the inception of the repurchase program, the Board has authorized us to repurchase up to $2.15 billion of our outstanding common stock. During the three months ended March 31, 2023, we repurchased approximately 0.1 million shares of our common stock for approximately $16.1 million. Since the inception of the repurchase program through March 31, 2023, we have repurchased approximately 25.1 million shares of our common stock for approximately $1.78 billion. As of March 31, 2023, there remained authorization for us to repurchase approximately $373.7 million of our shares. The repurchase program has no expiration date, does not obligate the Company to acquire any particular amount of common stock, and may be suspended, recommenced, or discontinued at any time or from time to time without prior notice. We may repurchase our shares from time to time to the extent permitted by securities laws and other legal requirements, including provisions in our 2020 Credit Agreement placing limitations on such repurchases.

The Inflation Reduction Act of 2022, which was enacted into law on August 16, 2022, imposes a nondeductible excise tax of 1% on the fair value of net stock repurchases in excess of share issuances made by publicly traded U.S. corporations, effective for repurchases after December 31, 2022. Starting with the first quarter of 2023, we have included the applicable excise tax as a component of treasury stock as it represents a direct cost associated with the repurchase of our common stock.

NOTE 11 - Retirement Plans

The funded status of our defined benefit plans, which represents the difference between the fair value of plan assets and the projected benefit obligations, is recognized in the Consolidated Balance Sheets with a corresponding adjustment to accumulated other comprehensive income (loss). Gains and losses for the differences between actuarial assumptions and actual results are recognized through accumulated other comprehensive income (loss). These amounts will be subsequently recognized as net periodic pension cost (income) within the Consolidated Statements of Operations.

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. Amounts related to these domestic retirement plans were immaterial for all periods presented.

Components of Net Periodic Pension Cost

The components of net periodic pension cost (income) of the UK Plan for the three months ended March 31, 2023 and 2022 were as follows (in thousands):

	For the three months ended March 31,	
	2023	2022
Interest cost	$ 2,376	$ 1,529
Expected return on plan assets	(2,791)	(3,244)
Amortization of unrecognized loss	639	556
Net periodic pension cost (income)	$ 224	$ (1,159)

NOTE 12 - Commitments and Contingencies

Severance Agreements

We have agreements with our executive officers and certain other key management personnel providing for severance benefits for such employees upon termination of their employment under certain circumstances.

Guarantees

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

Surety Bonds

The terms of our construction contracts frequently require that we obtain from surety companies, and provide to our customers, surety bonds as a condition to the award of such contracts. These surety bonds are issued in return for premiums, which vary depending on the size and type of the bond, and secure our payment and performance obligations under such contracts. We have agreed to indemnify the surety companies for amounts, if any, paid by them in respect of surety bonds issued on our behalf. As of March 31, 2023, based on the percentage-of-completion of our projects covered by surety bonds, our aggregate estimated exposure, assuming defaults on all our then existing contractual obligations, was approximately $1.5 billion, which represents approximately 19% of our total remaining performance obligations.

Surety bonds are sometimes provided to secure obligations for wages and benefits payable to or for certain of our employees, at the request of labor unions representing such employees. In addition, surety bonds may be issued as collateral for certain insurance obligations. As of March 31, 2023, we satisfied approximately $48.1 million of the collateral requirements of our insurance programs by utilizing surety bonds.

We are not aware of any losses in connection with surety bonds that have been posted on our behalf, and we do not expect to incur significant losses in the foreseeable future.

Hazardous Materials

We are subject to regulation with respect to the handling or disposal of certain materials used in the performance of our services, which are classified as hazardous or toxic by federal, state, and local agencies. Our practice is to avoid participation in projects principally involving the remediation or removal of such materials. However, when remediation is required as part of our contract performance, we believe we comply with all applicable regulations governing the discharge of hazardous materials into the environment or otherwise relating to the protection of the environment.

Government Contracts

As a government contractor, we are subject to U.S. government audits and investigations relating to our operations, which such audits may result in 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 Proceedings

We are involved in several legal 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. We do not believe that any such matters will have a material adverse effect on our financial position, results of operations, or liquidity. We record a loss contingency if the potential loss from a proceeding or claim is considered probable and the amount can be reasonably estimated or a range of loss can be determined. We provide disclosure when it is reasonably possible that a loss will be incurred in excess of any recorded provision. Significant judgment is required in these determinations. As additional information becomes available, we reassess prior determinations and may change our estimates. Additional claims may be asserted against us in the future. Litigation is subject to many uncertainties, and the outcome of litigation is not predictable with assurance. It is possible that a litigation matter for which liabilities have not been recorded could be decided unfavorably to us, and that any such unfavorable decision could have a material adverse effect on our financial position, results of operations, or liquidity.

NOTE 12 - Commitments and Contingencies (continued)

Insurance Liabilities

We have loss payment deductibles for certain workers’ compensation, automobile liability, general liability, and property claims, have self-insured retentions for certain other casualty claims, and are self-insured for employee-related healthcare claims. In addition, we maintain a wholly-owned captive insurance subsidiary to manage certain of our insurance liabilities. Losses are recorded based upon estimates of our liability for claims incurred and for claims incurred but not reported. The liabilities are derived from known facts, historical trends, and industry averages, utilizing the assistance of an independent third-party actuary to determine the best estimate for the majority of these obligations. As of March 31, 2023 and December 31, 2022, the estimated current portion of such undiscounted insurance liabilities, included in “Other accrued expenses and liabilities” in the accompanying Consolidated Balance Sheets, were $54.3 million and $54.8 million, respectively. The estimated non-current portion of such undiscounted insurance liabilities included in “Other long-term obligations” as of March 31, 2023 and December 31, 2022 were $231.4 million and $221.7 million, respectively. The current portion of anticipated insurance recoveries of $16.3 million and $16.0 million as of March 31, 2023 and December 31, 2022, respectively, were included in “Prepaid expenses and other” and the non-current portion of anticipated insurance recoveries of $62.3 million and $59.0 million as of March 31, 2023 and December 31, 2022, respectively, were included in “Other assets” in the accompanying Consolidated Balance Sheets.

NOTE 13 - Additional Cash Flow Information

The following table presents additional cash flow information for the three months ended March 31, 2023 and 2022 (in thousands):

	For the three months ended March 31,	
	2023	2022
Cash paid for:		
Interest	$ 4,498	$ 1,264
Income taxes	$ 5,131	$ 33,489
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 25,558	$ 21,286
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 29	$ 552

NOTE 14 - Segment Information

We are one of the largest specialty contractors in the United States and a leading provider of electrical and mechanical construction and facilities services, building services, and industrial services. Our services are provided to a broad range of commercial, industrial, healthcare, utility, and institutional customers through approximately 100 operating subsidiaries. Such operating subsidiaries are organized into the following reportable segments:

- United States electrical construction and facilities services;
- United States mechanical construction and facilities services;
- United States building services;
- United States industrial services; and
- United Kingdom building services.

We refer to our United States electrical construction and facilities services segment and our United States mechanical construction and facilities services segment together as our United States construction segments.

Our reportable segments and related disclosures reflect certain reclassifications of prior year amounts from our United States mechanical construction and facilities services segment to our United States building services segment due to changes in our internal reporting structure aimed at realigning our service offerings.

NOTE 14 - Segment Information (continued)

The following tables present financial information for each of our reportable segments for the three months ended March 31, 2023 and 2022 (in thousands):

	For the three months ended March 31, 2023	For the three months ended March 31, 2022
Revenues from unrelated entities:		
United States electrical construction and facilities services	$ 644,746	$ 522,030
United States mechanical construction and facilities services	1,078,558	992,644
United States building services	725,375	635,627
United States industrial services	330,883	310,751
Total United States operations	2,779,562	2,461,052
United Kingdom building services	110,870	131,497
Total operations	$ 2,890,432	$ 2,592,549
Total revenues:		
United States electrical construction and facilities services	$ 645,654	$ 523,414
United States mechanical construction and facilities services	1,099,484	997,030
United States building services	748,610	660,057
United States industrial services	338,507	324,501
Less intersegment revenues	(52,693)	(43,950)
Total United States operations	2,779,562	2,461,052
United Kingdom building services	110,870	131,497
Total operations	$ 2,890,432	$ 2,592,549

	For the three months ended March 31, 2023	For the three months ended March 31, 2022
Operating income (loss):		
United States electrical construction and facilities services	$ 40,516	$ 19,993
United States mechanical construction and facilities services	86,227	58,433
United States building services	37,650	24,163
United States industrial services	15,020	13,258
Total United States operations	179,413	115,847
United Kingdom building services	5,424	10,588
Corporate administration	(29,927)	(26,478)
Total operations	154,910	99,957
Other items:		
Net periodic pension (cost) income	(274)	1,169
Interest expense, net	(1,832)	(1,289)
Income before income taxes	$ 152,804	$ 99,837

NOTE 14 - Segment Information (continued)

	March 31, 2023	December 31, 2022
Total assets:		
United States electrical construction and facilities services	$ 1,087,933	$ 1,078,405
United States mechanical construction and facilities services	1,876,261	1,835,001
United States building services	1,257,424	1,206,518
United States industrial services	626,467	552,545
Total United States operations	4,848,085	4,672,469
United Kingdom building services	273,819	255,547
Corporate administration	519,006	596,591
Total operations	$ 5,640,910	$ 5,524,607

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

Business Description

We are one of the largest specialty contractors in the United States and a leading provider of electrical and mechanical construction and facilities services, building services, and industrial services. Our services are provided to a broad range of commercial, industrial, healthcare, utility, and institutional customers through approximately 100 operating subsidiaries. Such operating subsidiaries are organized into the following reportable segments:

- United States electrical construction and facilities services;
- United States mechanical construction and facilities services;
- United States building services;
- United States industrial services; and
- United Kingdom building services.

We refer to our United States electrical construction and facilities services segment and our United States mechanical construction and facilities services segment together as our United States construction segments.

For a more complete description of our operations, refer to Item 1. Business of our Form 10-K for the year ended December 31, 2022.

Our reportable segments and related disclosures reflect certain reclassifications of prior year amounts from our United States mechanical construction and facilities services segment to our United States building services segment due to changes in our internal reporting structure aimed at realigning our service offerings.

Market Update

Our business and end markets remain resilient despite the impact of uncertain global economic conditions, including supply chain, production, and other logistical issues, an inflationary cost environment, rising interest rates, and skilled labor shortages in certain regions. The continued strength in demand for our services is reflected in our results of operations for the first quarter of 2023, during which we experienced an increase in both revenue and operating income when compared to the first quarter of 2022. As evidenced by the growth in our remaining performance obligations, which increased to $7.87 billion at March 31, 2023, from $7.46 billion at December 31, 2022, we anticipate the demand for our services to continue throughout the year.

Although improved from the year ago period, we continue to experience pressures in our supply chain, which are resulting in material and equipment lead times significantly in excess of normal levels. Delays in critical material and equipment deliveries have additionally resulted in us funding purchases at earlier stages of project progression, or in advance of project commencement, which has and will continue to apply pressure on working capital requirements. Although we experienced a reduction in commodity prices when compared to the prior year period, and current economic indicators suggest that inflation is slowing, there continues to be volatility in the price of fuel, certain materials, and other commodities used in our operations. Further, in an effort to mitigate inflation, the Federal Reserve Board increased the federal funds rate throughout 2022 and into the first quarter of 2023. While there remains uncertainty around further increases, interest rates, even at their current levels, will likely result in an increase in our annual interest expense.

Our management teams continue to adapt to the challenges of the current operating environment in order to manage our business more effectively through diligent contract negotiations, enhanced labor planning and project scheduling, and increased supplier engagement. As contractually permitted, and in order to combat inflationary pressures, we have and will continue to seek increases in pricing to the extent we experience increases in our costs. While we believe the actions we have taken continue to be effective, as evidenced in part by our operating performance to date, the impact of these disruptions continues to evolve and there can be no assurance that our actions will serve to mitigate such impacts in future periods. Further, while we believe our remaining performance obligations are firm, and we have not experienced any material project cancellations to date, prolonged delays in the receipt of critical equipment could impact our ability to convert such remaining performance obligations to revenues in the near term or result in our customers seeking to delay or terminate existing or pending agreements. Lastly, the current interest rate environment may cause a decline in capital or maintenance spending of our customers or prospective customers, particularly as it pertains to short duration project work. Any of these events could result in reduced demand for our services and have a material adverse effect on our business, financial condition, and/or results of operations.

Overview

The following table presents selected financial data for the three months ended March 31, 2023 and 2022 (in thousands, except percentages and per share data):

	For the three months ended March 31,	
	2023	2022
Revenues	$ 2,890,432	$ 2,592,549
Revenues increase from prior year	11.5 %	12.5 %
Gross profit	$ 436,062	$ 352,555
Gross profit as a percentage of revenues	15.1 %	13.6 %
Operating income	$ 154,910	$ 99,957
Operating income as a percentage of revenues	5.4 %	3.9 %
Net income	$ 111,473	$ 73,386
Diluted earnings per common share	$ 2.32	$ 1.39

Revenues of $2.89 billion for the quarter ended March 31, 2023 set a new first quarter record for the Company and represent an increase of 11.5% from revenues of $2.59 billion for the quarter ended March 31, 2022. Demand for our services continues to be strong and, as described in further detail below, we experienced revenue growth within all of our reportable segments, except for our United Kingdom building services segment. Revenues for the first quarter of 2023 were positively impacted by incremental contribution from acquired companies of approximately $35.2 million.

Operating income for the quarter ended March 31, 2023 was $154.9 million, or 5.4% of revenues, establishing new first quarter records for the Company. This compares to operating income of $100.0 million, or 3.9% of revenues, for the quarter ended March 31, 2022. The $55.0 million increase in operating income, and corresponding 150 basis point improvement in operating margin, were a result of improved operating performance within each of our reportable segments, other than our United Kingdom building services segment. These improvements in profitability were a result of: (a) better project execution during 2023, (b) a more favorable mix of work when compared to the 2022 period, which included a number of projects with lower than average gross profit margins, and (c) the impact in the first quarter of 2022 of certain supply chain disruptions and delays, which were greater than those experienced during the first quarter of 2023.

Net income of $111.5 million, or $2.32 per diluted share, for the quarter ended March 31, 2023, compares favorably to net income of $73.4 million, or $1.39 per diluted share, for the quarter ended March 31, 2022. In addition to the increase in operating income referenced above, our diluted earnings per share for the first quarter of 2023 benefited from a reduced weighted average share count given the impact of common stock repurchases made by us throughout 2022.

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) from 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.

During the first quarter of 2023, we acquired two companies, each for an immaterial amount. One company has been included within our Unites States mechanical construction and facilities services segment and provides mechanical and pipe fabrication services in the Midwestern region of the United States. The other company has been included within our United States building services segment and provides mechanical services in the Western region of the United States. The results of operations for both such companies were de minimis.

We acquired six companies during calendar year 2022 for total consideration of $100.8 million. Such acquisitions include: (a) a company that provides electrical construction services in the Greater Boston area, the results of operations of which have been included in our United States electrical construction and facilities services segment, and (b) five companies that enhance our presence in geographies where we have existing operations, the results of operations of which were de minimis, consisting of: (i) two companies that provide fire protection services in the Northeastern and Southern regions of the United States, respectively, and that have been included within our United States mechanical construction and facilities services segment, (ii) two companies that specialize in either building automation and controls or mechanical services in the Southwestern and Southern regions of the United States, respectively, and that have been included within our United States building services segment, and (iii) a company that provides electrical construction services in the Midwestern region of the United States and that has been included within our United States electrical construction and facilities services segment.

Results of Operations

Revenues

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

	For the three months ended March 31,			
	2023	% of Total	2022	% of Total
Revenues:				
United States electrical construction and facilities services	$ 644,746	22 %	$ 522,030	20 %
United States mechanical construction and facilities services	1,078,558	38 %	992,644	38 %
United States building services	725,375	25 %	635,627	25 %
United States industrial services	330,883	11 %	310,751	12 %
Total United States operations	2,779,562	96 %	2,461,052	95 %
United Kingdom building services	110,870	4 %	131,497	5 %
Total operations	$ 2,890,432	100 %	$ 2,592,549	100 %

As described below in more detail, as a result of revenue growth within the majority of our reportable segments, our consolidated revenues for the first quarter of 2023 increased to $2.89 billion compared to $2.59 billion for the first quarter of 2022.

Revenues of our United States electrical construction and facilities services segment were $644.7 million for the three months ended March 31, 2023 compared to revenues of $522.0 million for the three months ended March 31, 2022. This segment's results for the 2023 period included $35.2 million of incremental acquisition revenues. Excluding the impact of acquisitions, revenues of this segment grew by $87.5 million, primarily as a result of an increase in revenues from: (a) the network and communications market sector, predominantly due to our data center projects, (b) the healthcare market sector, as a result of greater project activity throughout several of the regions in which we operate, (c) the manufacturing and industrial market sector, inclusive of revenues from contracts with certain of our energy sector customers, and (d) the hospitality and entertainment market sector, given an increase in projects within the Northeastern and Western regions of the United States. These revenue increases were partially offset by a reduction in revenues from the transportation and commercial market sectors given the completion or substantial completion of certain projects which were active in the year ago period.

Our United States mechanical construction and facilities services segment revenues for the three months ended March 31, 2023 were $1,078.6 million, an $85.9 million increase compared to revenues of $992.6 million for the three months ended March 31, 2022. The increase in this segment's revenues was primarily attributable to revenue growth within: (a) the high-tech manufacturing market sector, as a result of increased demand for our mechanical construction and/or fire protection services by certain customers engaged in either: (i) the design and manufacturing of semiconductors or (ii) the production and development of electric vehicles and/or lithium batteries, and (b) the network and communications market sector, due to increased data center project activity.

Revenues of our United States building services segment were $725.4 million for the three months ended March 31, 2023, compared to revenues of $635.6 million for the three months ended March 31, 2022. The $89.7 million increase in this segment's revenues period-over-period was primarily attributable to its mechanical services division, due to increased: (a) HVAC project and retrofit work, as a result of greater: (i) project execution stemming from increased availability of materials and equipment when compared to the prior year period, which experienced significant supply chain disruptions and delays, and (ii) demand for system upgrades and replacements, partially as our customers continue to seek ways to improve the energy efficiency or indoor air quality of their facilities, (b) service repair and maintenance volumes, given growth in our service contract base, and (c) building automation and controls projects, as we continue to expand our service offerings.

Revenues of our United States industrial services segment for the three months ended March 31, 2023 were $330.9 million, compared to revenues of $310.8 million for the three months ended March 31, 2022. While there remains significant disruption and uncertainty within the broader oil and gas industry, the results of operations of this segment continue to improve at a modest pace. A steady resumption in demand for our field services, including an increase in turnaround projects as well as maintenance and capital project activity, has resulted in increased revenues from this segment during the three months ended March 31, 2023 when compared to the three months ended March 31, 2022. In addition, revenues of this segment for the 2023 period were positively impacted by greater new build heat exchanger sales and services within its shop services division.

Our United Kingdom building services segment revenues were $110.9 million for the three months ended March 31, 2023 compared to revenues of $131.5 million for the three months ended March 31, 2022. Unfavorable exchange rate movements for the British pound versus the United States dollar negatively impacted this segment's revenues by $10.8 million for the quarter ended March 31, 2023. Excluding the impact of foreign exchange rate movements, this segment's revenue decreased by $9.8 million as a result of: (a) the loss of certain facilities maintenance contracts not renewed pursuant to rebid, and (b) a reduction in project activity, notably within the water and wastewater market sector.

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 March 31,	
	2023	2022
Cost of sales	$ 2,454,370	$ 2,239,994
Gross profit	$ 436,062	$ 352,555
Gross profit margin	15.1 %	13.6 %

Our gross profit for the three months ended March 31, 2023 was $436.1 million, or 15.1% of revenues, compared to gross profit of $352.6 million, or 13.6% of revenues, for the three months ended March 31, 2022. While the increase in gross profit can be partially attributed to the increased revenue contribution described above, such increase, as well as the increase in gross profit margin, were additionally a result of increased operating performance within each of our reportable segments, other than our United Kingdom building services segment. For the three months ended March 31, 2023, acquisitions contributed incremental gross profit of $4.9 million, inclusive of amortization expense attributable to identifiable intangible assets of $0.9 million. Refer to the operating income section below for further discussion regarding the operating performance of each of our reportable segments.

Selling, general and administrative expenses

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

	For the three months ended March 31,	
	2023	2022
Selling, general and administrative expenses	$ 281,152	$ 252,598
SG&A margin	9.7 %	9.7 %

Our selling, general and administrative expenses for the three months ended March 31, 2023 were $281.2 million compared to selling, general and administrative expenses of $252.6 million for the three months ended March 31, 2022. Selling, general and administrative expenses for the three months ended March 31, 2023 included $5.2 million of incremental expenses directly related to companies acquired in 2023 and 2022, including amortization expense attributable to identifiable intangible assets of $1.2 million. Excluding incremental expenses from businesses acquired, our selling, general and administrative expenses increased by $23.3 million period-over-period. This organic increase in selling, general and administrative expenses was primarily attributable to an increase in: (a) salaries and related employment expenses, largely as a result of additional headcount to support our organic revenue growth as well as annual cost of living increases, and (b) incentive compensation expense across the majority of our reportable segments, due to higher projected annual operating results compared to those which were anticipated during the same prior year period.

Selling, general and administrative expenses as a percentage of revenues was 9.7% for the each of the three months ended March 31, 2023 and 2022.

Operating income (loss)

The following table presents our operating income (loss) and operating margin (operating income (loss) as a percentage of segment revenues) (in thousands, except for percentages):

	For the three months ended March 31,			
	2023	% of Segment Revenues	2022	% of Segment Revenues
Operating income (loss):				
United States electrical construction and facilities services	$ 40,516	6.3 %	$ 19,993	3.8 %
United States mechanical construction and facilities services	86,227	8.0 %	58,433	5.9 %
United States building services	37,650	5.2 %	24,163	3.8 %
United States industrial services	15,020	4.5 %	13,258	4.3 %
Total United States operations	179,413	6.5 %	115,847	4.7 %
United Kingdom building services	5,424	4.9 %	10,588	8.1 %
Corporate administration	(29,927)	—	(26,478)	—
Total operations	154,910	5.4 %	99,957	3.9 %
Other items:				
Net periodic pension (cost) income	(274)		1,169	
Interest expense, net	(1,832)		(1,289)	
Income before income taxes	$ 152,804		$ 99,837	

Operating income for the quarter ended March 31, 2023 was $154.9 million, or 5.4% of revenues, compared to operating income of $100.0 million, or 3.9% of revenues, for the quarter ended March 31, 2022. The $55.0 million increase in operating income, and corresponding 150 basis point improvement in operating margin, were a result of improved operating performance within each of our reportable segments, other than our United Kingdom building services segment. As described in more detail below, these improvements in profitability were a result of: (a) better project execution during 2023, (b) a more favorable mix of work when compared to the 2022 period, which included a number of projects with lower than average gross profit margins, and (c) the impact in the first quarter of 2022 of certain supply chain disruptions and delays, which were greater than those experienced during the first quarter of 2023, and that, in the prior year, led to: (i) reduced labor productivity and efficiency, (ii) the under-absorption of labor costs in instances where projects were delayed pending the receipt of materials, or (iii) material and commodity price escalations.

Operating income of our United States electrical construction and facilities services segment was $40.5 million, or 6.3% of revenues, for the three months ended March 31, 2023, compared to $20.0 million, or 3.8% of revenues, for the three months ended March 31, 2022. The period-over-period increase in both operating income and operating margin of this segment was largely a result of a more favorable mix of work, which resulted in increased gross profit, and gross profit margin, recognized from construction projects within the: (a) network and communications market sector, (b) commercial market sector, and (c) healthcare market sector. In addition to the aforementioned impact of project mix, operating income of this segment for the three months ended March 31, 2023 benefited from improved project execution when compared to the year ago period. Although we continue to experience supply chain disruptions and delays, which are impacting project delivery in various ways, market conditions surrounding equipment availability have steadily improved over the last twelve months and our management teams continue to adapt to this environment. Such developments have resulted in improved job-site and labor productivity as well as more normalized project sequencing.

Our United States mechanical construction and facilities services segment's operating income for the three months ended March 31, 2023 was $86.2 million, or 8.0% of revenues, compared to operating income of $58.4 million, or 5.9% of revenues, for the three months ended March 31, 2022. The increase in operating income, and operating margin, for the three months ended March 31, 2023, was primarily a result of increased gross profit, and gross profit margin, from projects within the commercial market sector, including several fire protection projects. In addition, operating income of this segment benefited from incremental gross profit contribution from the high-tech manufacturing market sector due to greater project activity, including certain construction projects for customers engaged in the manufacturing of semiconductors. Similar to our United States electrical construction and facilities services segment, the results for this segment in the prior year period were negatively impacted by external market conditions, which manifested themselves through price escalations, particularly for materials and commodities, such as copper and steel, that are used in our mechanical and fire protection operations. Although there remains volatility in the pricing of these commodities, more favorable pricing year-over-year has resulted in improved profitability of this segment during the first quarter of 2023, as evidenced in part by the increased gross profit margin within the commercial market sector referenced above.

Operating income of our United States building services segment was $37.7 million, or 5.2% of revenues, for the three months ended March 31, 2023 compared to $24.2 million, or 3.8% of revenues, for the three months ended March 31, 2022. The period-over-period increase in operating income and operating margin was largely due to greater gross profit and gross profit margin within this segment's mechanical services division resulting from improved profitability across the majority of its service lines, including projects, service repair and maintenance, and building automation and controls. These improvements were due to favorable project execution as well as negotiated price adjustments made to customer contracts in response to inflationary pressures, such as increased material and fuel prices. Operating margin of this segment additionally benefited from a reduction in the ratio of selling, general and administrative expenses to revenues given an increase in revenues without a commensurate increase in certain overhead costs.

Our United States industrial services segment reported operating income of $15.0 million, or 4.5% of revenues, for the three months ended March 31, 2023, compared to operating income of $13.3 million, or 4.3% of revenues, for the three months ended March 31, 2022. In addition to the growth in this segment's revenues referenced above, which resulted in greater gross profit contribution, the improved quarterly performance was attributable to better pricing within both this segment's field services and shop services divisions, resulting in improved gross profit margin period-over-period.

Operating income of our United Kingdom building services segment was $5.4 million, or 4.9% of revenues, for the three months ended March 31, 2023 compared to $10.6 million, or 8.1% of revenues, for the three months ended March 31, 2022. This segment's operating income for the first quarter of 2023 was negatively impacted by $0.5 million related to the effect of unfavorable exchange rate movements for the British pound versus the United States dollar. Excluding the impact of foreign exchange, the decrease in this segment's operating income and operating margin period-over-period was primarily a result of a reduction in gross profit and gross profit margin due to a shift in the mix and size of project work. In addition, operating income and operating margin of this segment were negatively impacted by growth in selling, general and administrative expenses, such as: (a) employment related costs, given an increase in office headcount to support the business, and (b) information technology expenses, resulting from certain initiatives currently in process.

Our corporate administration expenses for the three months ended March 31, 2023 were $29.9 million compared to $26.5 million for the three months ended March 31, 2022. This increase in corporate expenses was primarily due to greater incentive compensation expense as a result of higher projected annual and long-term operating results, when compared to those which were anticipated during the same prior year period.

Other items

Net interest expense for the three months ended March 31, 2023 and 2022 was $1.8 million and $1.3 million, respectively. The increase in net interest expense was a result of both an increase in interest rates and greater average outstanding borrowings.

For the three months ended March 31, 2023, our income tax provision was $41.3 million compared to an income tax provision of $26.5 million for the three months ended March 31, 2022. The increase in our income tax provision for the three months ended March 31, 2023 was due to: (a) greater income before income taxes, and (b) an increase in our effective income tax rate. Our effective income tax rate for the three months ended March 31, 2023 was 27.0% compared to an effective income tax rate for the three months ended March 31, 2022 of 26.5%. The change in our effective income tax rate period-over-period was attributable to an increase in certain permanent book-to-tax differences. Refer to Note 9 - Income Taxes of the notes to consolidated financial statements for further discussion regarding our income tax provision and effective income tax rate.

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 percentage of total remaining performance obligations (in thousands, except for percentages):

	March 31, 2023	% of Total	December 31, 2022	% of Total	March 31, 2022	% of Total
Remaining performance obligations:						
United States electrical construction and facilities services	$ 2,050,956	26 %	$ 2,014,079	27 %	$ 1,297,086	22 %
United States mechanical construction and facilities services	4,295,524	54 %	3,987,134	53 %	3,361,504	56 %
United States building services	1,254,787	16 %	1,172,816	16 %	1,017,588	17 %
United States industrial services	131,759	2 %	124,653	2 %	116,496	2 %
Total United States operations	7,733,026	98 %	7,298,682	98 %	5,792,674	97 %
United Kingdom building services	140,117	2 %	160,617	2 %	160,207	3 %
Total operations	$ 7,873,143	100 %	$ 7,459,299	100 %	$ 5,952,881	100 %

Our remaining performance obligations at March 31, 2023 were $7.87 billion compared to $7.46 billion at December 31, 2022 and $5.95 billion at March 31, 2022. The increase in remaining performance obligations at March 31, 2023, when compared to December 31, 2022, was attributable to an increase in remaining performance obligations within all of our reportable segments, except for our United Kingdom building services segment. Most notably, we experienced an increase in remaining performance obligations from: (a) our United States mechanical construction and facilities services segment, driven by the award of various construction projects within the majority of the market sectors in which we operate, and (b) our United States building services segment, given increased project opportunities within its mechanical services division. From a market sector perspective, we experienced the largest growth in remaining performance obligations within: (a) the high-tech manufacturing market sector, inclusive of projects for customers engaged in: (i) the design and manufacturing of semiconductors, and (ii) the production and development of electric vehicles and/or lithium batteries, (b) the network and communications market sector, largely driven by data center construction projects, (c) the healthcare market sector, given demand for mechanical construction services at existing and new customer facilities, and (d) the manufacturing and industrial market sector, partially due to the continued re-shoring of supply chain by certain of our customers.

While the continued growth in our remaining performance obligations is largely due to the strength in demand for our services, a portion of this increase can likely be attributed to external market factors such as material and labor inflation, which has increased the price of certain of our project work.

See Note 3 - Revenue from Contracts with Customers of the notes to consolidated financial statements for further disclosure regarding our remaining performance obligations.

Liquidity and Capital Resources

The following section discusses our principal liquidity and capital resources, as well as our primary liquidity requirements and sources and uses of cash.

We are focused on the efficient conversion of operating income into cash to provide for the Company's material cash requirements, including working capital needs, investment in our growth strategies through business acquisitions and capital expenditures, satisfaction of contractual commitments, including principal and interest payments on our outstanding indebtedness, and shareholder return through dividend payments and share repurchases. We strive to maintain a balanced approach to capital allocation in order to achieve growth, deliver value, and minimize risk.

Management monitors financial markets and overall economic conditions for factors that may affect our liquidity and capital resources and adjusts our capital allocation strategy as necessary. Negative macroeconomic trends could have an adverse effect on future liquidity if we experience delays in the payment of outstanding receivables beyond normal payment terms, an increase in credit losses, or significant increases in the price of commodities or the materials and equipment utilized for our project and service work, beyond those experienced to date. In addition, during economic downturns, there have typically been fewer small discretionary projects from the private sector and our competitors have aggressively bid larger long-term infrastructure and public sector contracts. Our liquidity is also impacted by: (a) the type and length of construction contracts in place, as performance of long duration contracts typically requires greater amounts of working capital, (b) the level of turnaround activities within our United States industrial services segment, as such projects are billed in arrears pursuant to contractual terms that are standard within the industry, and (c) the billing terms of our maintenance contracts, including those within our United States and United Kingdom building services segments. While we strive to negotiate favorable billing terms, which allow us to invoice in advance of costs incurred on certain of our contracts, there can be no assurance that such terms will be agreed to by our customers.

As of March 31, 2023, we had cash and cash equivalents, excluding restricted cash, of $420.1 million, which are maintained in depository accounts and highly liquid investments with original maturity dates of three months or less. Both our short-term and long-term liquidity requirements are expected to be met through our cash and cash equivalent balances, cash generated from our operations, and, as necessary, the borrowing capacity under our revolving credit facility. Our credit agreement provides for a $1.30 billion revolving credit facility, for which there is $1.13 billion of available capacity as of March 31, 2023.

Refer to Note 7 - Debt of the notes to consolidated financial statements for further information regarding our credit agreement. Based upon our current credit rating and financial position, we can also reasonably expect to be able to secure long-term debt financing if required to achieve our strategic objectives; however, no assurances can be made that such debt financing will be available on favorable terms. We believe that we have sufficient financial resources available to meet our short-term and foreseeable long-term liquidity requirements.

Cash Flows

The following table presents a summary of our operating, investing, and financing cash flows (in thousands):

	For the three months ended March 31,	
	2023	2022
Net cash used in operating activities	$ (84,583)	$ (95,814)
Net cash used in investing activities	$ (25,405)	$ (13,953)
Net cash provided by (used in) financing activities	$ 71,506	$ (193,513)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	$ 2,239	$ (3,419)
Decrease in cash, cash equivalents, and restricted cash	$ (36,243)	$ (306,699)

During the three months ended March 31, 2023, our cash balance, including cash equivalents and restricted cash, decreased by approximately $36.2 million from $457.1 million at December 31, 2022 to $420.8 million at March 31, 2023. Changes in our cash position from December 31, 2022 to March 31, 2023 are described in further detail below.

Operating Activities – Operating cash flows generally represent our net income as adjusted for certain non-cash items and changes in assets and liabilities. Net cash used in operating activities for the three months ended March 31, 2023 was approximately $84.6 million compared to approximately $95.8 million of net cash used in operating activities for the three months ended March 31, 2022. Historically, our working capital needs are greater in the first quarter of each year, resulting in a use of cash to fund our operations during such period, as evidenced by the fairly consistent use of cash during each of the three months ended March 31, 2023 and 2022. As the year progresses, we anticipate the generation of positive operating cash flow.

Investing Activities – Investing cash flows consist primarily of payments for the acquisition of businesses, capital expenditures, and proceeds from the sale or disposal of property, plant, and equipment. Net cash used in investing activities for the three months ended March 31, 2023 increased by approximately $11.5 million compared to the three months ended March 31, 2022 due to an increase in capital expenditures and payments for business acquisitions, partially offset by an increase in proceeds from the sale or disposal of property, plant and equipment.

Financing Activities – Financing cash flows consist primarily of the issuance and repayment of short-term and long-term debt, repurchases of common stock, payments of dividends to stockholders, and the issuance of common stock through certain equity plans. Net cash provided by financing activities for the three months ended March 31, 2023 was $71.5 million compared to net cash used in financing activities for the three months ended March 31, 2022 of $193.5 million. The $265.0 million change in financing cash flows was primarily due to borrowings of $100.0 million under our revolving credit facility and a decrease in funds used for the repurchase of our common stock during 2023. The timing of common stock repurchases is at management's discretion subject to securities laws and other legal requirements and depends upon several factors, including market and business conditions, current and anticipated future liquidity, share price, and share availability, among others. For additional detail regarding our share repurchase program, refer to Note 10 - Common Stock of the notes to consolidated financial statements.

We currently pay a regular quarterly dividend, which, commencing with the dividend to be paid on April 28, 2023, will increase from $0.15 per share to $0.18 per share. For the three months ended March 31, 2023 and 2022, cash payments related to dividends were $7.2 million and $6.9 million, respectively. Our credit agreement places limitations on the payment of dividends on our common stock. However, we do not believe that the terms of such agreement currently materially limit our ability to pay such quarterly dividends for the foreseeable future.

Effect of Exchange Rate Changes on Cash, Cash Equivalents, and Restricted Cash – We are exposed to fluctuations in foreign currency exchange rates, almost entirely with respect to the British pound. Therefore, the $5.7 million variance between the three months ended March 31, 2023 and 2022 was a direct result of favorable exchange rate movements for the British pound versus the United States dollar.

Material Cash Requirements from Contractual and Other Obligations

As of March 31, 2023, our short-term and long-term material cash requirements for known contractual and other obligations were as follows:

Outstanding Debt and Interest Payments – As of March 31, 2023, the amount outstanding under our term loan was $242.8 million, and we had $100.0 million in direct borrowings outstanding under our revolving credit facility. We are required to make annual principal payments on our term loan of $13.9 million on December 31 of each year until maturity. All remaining unpaid amounts are due on March 2, 2025, when the credit agreement governing our term loan and revolving credit facility expires. Until such time, we are required to make periodic interest payments on our outstanding indebtedness. Future interest payments will be determined based on prevailing interest rates during that time, which may increase in the near term. Refer to Note 7 - Debt of the notes to consolidated financial statements for further detail of our debt obligations, including our term loan and revolving credit facility.

Operating and Finance Leases – In the normal course of business, we lease real estate, vehicles, and equipment under various arrangements which are classified as either operating or finance leases. Future payments for such leases, excluding leases with initial terms of one year or less, were $344.0 million at March 31, 2023, with $80.7 million payable within the next 12 months.

Open Purchase Obligations – As of March 31, 2023, we had $2.43 billion of open purchase obligations, of which payments totaling approximately $2.11 billion are expected to become due within the next 12 months. These obligations represent open purchase orders to suppliers and subcontractors related to our construction and services contracts. These purchase orders are not reflected in the Consolidated Balance Sheets and are not expected to impact future liquidity as amounts should be recovered through customer billings.

Insurance Obligations – As described in further detail in Note 12 - Commitments and Contingencies of the notes to consolidated financial statements, we have loss payment deductibles and/or self-insured retentions for certain insurance matters. As of March 31, 2023, our insurance liabilities, net of estimated recoveries, were $207.1 million. Of this net amount, approximately $38.0 million is estimated to be payable within the next 12 months. Due to many uncertainties inherent in resolving these matters, it is not practical to estimate these payments beyond such period. To the extent that the amount required to settle claims covered by insurance continues to increase, the cost of our insurance coverage, including premiums and deductibles, is likely to increase.

Contingent Consideration Liabilities – We have incurred liabilities related to contingent consideration arrangements associated with certain acquisitions, payable in the event discrete performance objectives are achieved by the acquired businesses during designated post-acquisition periods. The aggregate amount of these liabilities can change due to additional business acquisitions, settlement of outstanding liabilities, changes in the fair value of amounts owed based on performance during such post-acquisition periods, and accretion in present value. As of March 31, 2023, the present value of expected future payments relating to these contingent consideration arrangements was $15.0 million. Of this amount, $8.8 million is estimated as being payable within the next 12 months, with the remainder due pursuant to the terms of our contractual agreements some of which extend through 2025.

In addition, material cash requirements for other potential obligations, for which we cannot reasonably estimate future payments, include the following:

Legal Proceedings – We are involved in several legal proceedings in which damages and claims have been asserted against us. While litigation is subject to many uncertainties and the outcome of litigation is not predictable with assurance, we do not believe that any such matters will have a material adverse effect on our financial position, results of operations, or liquidity. Refer to Note 12 - Commitments and Contingencies of the notes to consolidated financial statements for more information regarding legal proceedings.

Multiemployer Benefit Plans – In addition to our Company sponsored benefit plans, we participate in certain multiemployer pension and other post retirement plans. The cost of these plans is equal to the annual required contributions determined in accordance with the provisions of negotiated collective bargaining agreements. Our future contributions to the multiemployer plans are dependent upon a number of factors. Amounts of future contributions that we would be contractually obligated to make pursuant to these plans cannot be reasonably estimated.

Off-Balance Sheet Arrangements and Other Commercial Commitments

The terms of our construction contracts frequently require that we obtain from surety companies, and provide to our customers, surety bonds as a condition to the award of such contracts. These surety bonds are issued in return for premiums, which vary depending on the size and type of the bond, and secure our payment and performance obligations under such contracts. We have agreed to indemnify the surety companies for amounts, if any, paid by them in respect of surety bonds issued on our behalf. As of March 31, 2023, based on the percentage-of-completion of our projects covered by surety bonds, our aggregate estimated exposure, assuming defaults on all our then existing contractual obligations, was approximately $1.5 billion, which represents approximately 19% of our total remaining performance obligations.

Surety bonds expire at various times ranging from final completion of a project to a period extending beyond contract completion in certain circumstances. Such amounts can also fluctuate from period to period based upon the mix and level of our bonded operating activity. For example, public sector contracts require surety bonds more frequently than private sector contracts and, accordingly, our bonding requirements typically increase as the amount of our public sector work increases. Our estimated maximum exposure as it relates to the value of the surety bonds outstanding is lowered on each bonded project as the cost to complete is reduced, and each commitment under a surety bond generally extinguishes concurrently with the expiration of its related contractual obligation.

Surety bonds are sometimes provided to secure obligations for wages and benefits payable to or for certain of our employees, at the request of labor unions representing such employees. In addition, surety bonds or letters of credit may be issued as collateral for certain insurance obligations. As of March 31, 2023, we satisfied approximately $48.1 million and $71.1 million of the collateral requirements of our insurance programs by utilizing surety bonds and letters of credit, respectively. All such letters of credit were issued under our revolving credit facility, therefore reducing the available capacity of such facility.

We are not aware of any losses in connection with surety bonds that have been posted on our behalf, and we do not expect to incur significant losses in the foreseeable future.

From time to time, we discuss with our current and other surety bond providers the amounts of surety bonds that may be available to us based on our financial strength and the absence of any default by us on any surety bond issued on our behalf and believe those amounts are currently adequate for our needs. However, if we experience changes in our bonding relationships or if there are adverse changes in the surety industry, we may: (a) seek to satisfy certain customer requests for surety bonds by posting other forms of collateral in lieu of surety bonds, such as letters of credit, parent company guarantees, or cash, in order to convince customers to forego the requirement for surety bonds, (b) increase our activities in our businesses that rarely require surety bonds, and/or (c) refrain from bidding for certain projects that require surety bonds.

There can be no assurance that we would be able to effectuate alternatives to providing surety bonds to our customers or to obtain, on favorable terms, sufficient additional work that does not require surety bonds. Accordingly, a reduction in the availability of surety bonds could have a material adverse effect on our financial position, results of operations, and/or cash flows.

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

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

New Accounting Pronouncements

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

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements is based on the application of significant accounting policies, which require management to make estimates and assumptions. Our significant accounting policies are described further in Note 2 - Summary of Significant Accounting Policies of the notes to consolidated financial statements included in Item 8 of our Form 10-K for the year ended December 31, 2022. We base our estimates on historical experience, known or expected trends, third-party valuations, and various other assumptions that we believe to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. There have been no significant changes to our critical accounting policies or methods for the three months ended March 31, 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We have not used any derivative financial instruments during the three months ended March 31, 2023, including trading or speculating on changes in interest rates or commodity prices of materials used in our business.

As noted previously, the Federal Reserve Board has been increasing interest rates, and rate increases may continue in the near term. We are exposed to market risk for changes in interest rates for borrowings under the 2020 Credit Agreement, which provides for a revolving credit facility and a term loan. Borrowings under the 2020 Credit Agreement bear interest at variable rates and, as a result of the actions referenced above, such rates have increased throughout 2022 and the first quarter of 2023. For further information on our outstanding debt and borrowing rates, refer to Note 7 - Debt of the notes to consolidated financial statements. As of March 31, 2023, there were borrowings of $100.0 million outstanding under the 2020 Revolving Credit Facility and the balance of the 2020 Term Loan was $242.8 million. Based on the $342.8 million of borrowings outstanding under the 2020 Credit Agreement, if overall interest rates were to increase by 100 basis points, interest expense, net of income taxes, would increase by approximately $2.5 million in the next twelve months. Conversely, if overall interest rates were to decrease by 100 basis points, interest expense, net of income taxes, would decrease by approximately $2.5 million in the next twelve months. The 2020 Credit Agreement expires on March 2, 2025.

At the end of 2021, one-week and two-month LIBOR were discontinued. It is expected that the remaining maturities of LIBOR will continue to be published through June 2023, after which they will be discontinued. We believe our exposure to market risk associated with the discontinuation of LIBOR is limited as: (a) our 2020 Credit Agreement contains provisions which allow for the use of alternate benchmark rates, (b) we have not historically utilized the maturities that were discontinued in 2021 for any transaction, including borrowings under our 2020 Credit Agreement, and (c) we are not exposed to any other material contracts that reference LIBOR. In accordance with the provisions contained in our 2020 Credit Agreement, we anticipate amending such agreement during the second quarter of 2023 to change the reference rate from LIBOR to SOFR. We do not anticipate that this amendment will have a material impact on our financial position and/or results of operations.

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

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

In addition, we are exposed to market risk of fluctuations in certain commodity prices of materials, such as copper and steel, which are used as components of supplies or materials utilized in our construction, building services, and industrial services operations. We are also exposed to increases in energy prices, particularly as they relate to gasoline prices for our fleet of approximately 13,400 vehicles. While we believe we can increase our contract prices to adjust for some price increases in commodities, there can be no assurance that such price increases, if they were to occur, would be recoverable. Additionally, our fixed price contracts generally do not allow us to adjust our prices and, as a result, increases in material costs could reduce our profitability with respect to projects in progress. Refer to Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion regarding the impact of fluctuations in commodity and material prices on our results of operations for the three months ended March 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES.

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

There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. – OTHER INFORMATION.

ITEM 1. LEGAL PROCEEDINGS.

We are involved in several legal 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. We do not believe that any such matters will have a material adverse effect on our financial position, results of operations, or liquidity. We record a loss contingency if the potential loss from a proceeding or claim is considered probable and the amount can be reasonably estimated or a range of loss can be determined. We provide disclosure when it is reasonably possible that a loss will be incurred in excess of any recorded provision. Significant judgment is required in these determinations. As additional information becomes available, we reassess prior determinations and may change our estimates. Additional claims may be asserted against us in the future. Litigation is subject to many uncertainties, and the outcome of litigation is not predictable with assurance. It is possible that a litigation matter for which liabilities have not been recorded could be decided unfavorably to us, and that any such unfavorable decision could have a material adverse effect on our financial position, results of operations, or liquidity.

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

The following table summarizes repurchases of our common stock made by us during the quarter ended March 31, 2023:

Period	Total Number of Shares Purchased (1) (2)	Average Price Paid Per Share (3)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
January 1, 2023 to January 31, 2023	—	—	—	$389,799,870
February 1, 2023 to February 28, 2023	—	—	—	$389,799,870
March 1, 2023 to March 31, 2023	103,218	155.76	103,218	$373,722,478
Total	103,218	155.76	103,218	

(1) In September 2011, our Board of Directors (the "Board") authorized a share repurchase program allowing us to begin repurchasing shares of our outstanding common stock. Subsequently, the Board has from time to time increased the amount authorized for repurchases under such program. Since the inception of the repurchase program, the Board has authorized us to repurchase up to $2.15 billion of our outstanding common stock. As of March 31, 2023, there remained authorization for us to repurchase approximately $373.7 million of our shares. No shares have been repurchased by us since the program was announced other than pursuant to such program. Refer to Note 10 - Common Stock of the notes to consolidated financial statements for further information regarding our share repurchase program.

(2) Excludes 32,383 shares surrendered to the Company by participants in our share-based compensation plans to satisfy minimum tax withholdings for common stock issued under such plans.

(3) Price paid per share includes any applicable broker commission as well as an estimate of the excise tax due resulting from our net share repurchases during the period. Estimates of excise tax may be subject to change in subsequent reporting periods, particularly if the amount of our share issuances exceed our share repurchases, thereby reducing the estimated excise tax due for the annual period.

ITEM 4. MINE SAFETY DISCLOSURES.

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this quarterly report.

ITEM 6. EXHIBITS.

EXHIBIT INDEX

Exhibit No.	Description	Incorporated By Reference to or Filed Herewith, as Indicated Below
3(a-1)	Restated Certificate of Incorporation of EMCOR filed December 15, 1994	Exhibit 3(a-5) to EMCOR's Registration Statement on Form 10 as originally filed March 17, 1995 ("Form 10")
3(a-2)	Amendment dated November 28, 1995 to the Restated Certificate of Incorporation of EMCOR	Exhibit 3(a-2) to EMCOR's Annual Report on Form 10-K for the year ended December 31, 1995 ("1995 Form 10-K")
3(a-3)	Amendment dated February 12, 1998 to the Restated Certificate of Incorporation of EMCOR	Exhibit 3(a-3) to EMCOR's Annual Report on Form 10-K for the year ended December 31, 1997 ("1997 Form 10-K")
3(a-4)	Amendment dated January 27, 2006 to the Restated Certificate of Incorporation of EMCOR	Exhibit 3(a-4) to EMCOR's Annual Report on Form 10-K for the year ended December 31, 2005 ("2005 Form 10-K")
3(a-5)	Amendment dated September 18, 2007 to the Restated Certificate of Incorporation of EMCOR	Exhibit A to EMCOR's Proxy Statement dated August 17, 2007 for Special Meeting of Stockholders held September 18, 2007
3(b)	Second Amended and Restated By-Laws of EMCOR	Exhibit 3.1 to EMCOR's Report on Form 8-K (Date of Report October 25, 2022)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Anthony J. Guzzi, the Chairman, President and Chief Executive Officer	Filed herewith
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Mark A. Pompa, the Executive Vice President and Chief Financial Officer	Filed herewith
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chairman, President and Chief Executive Officer	Furnished
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Executive Vice President and Chief Financial Officer	Furnished
95.1	Information concerning mine safety violations or other regulatory matters	Filed herewith
101	The following materials from EMCOR Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Equity and (vi) the Notes to Consolidated Financial Statements.	Filed
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	Filed

SIGNATURES

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

Date: April 27, 2023

EMCOR GROUP, INC.
(Registrant)

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

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

BY: /s/ JASON R. NALBANDIAN
Jason R. Nalbandian
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

I, Anthony J. Guzzi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EMCOR Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2023

/s/ ANTHONY J. GUZZI

Anthony J. Guzzi
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Mark A. Pompa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of EMCOR Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2023

/s/ MARK A. POMPA

Mark A. Pompa
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of EMCOR Group, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony J. Guzzi, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	April 27, 2023	/s/ ANTHONY J. GUZZI
		Anthony J. Guzzi Chairman, President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of EMCOR Group, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark A. Pompa, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2023

/s/ MARK A. POMPA

Mark A. Pompa
Executive Vice President and Chief Financial Officer

EXHIBIT 95.1

MINE SAFETY DISCLOSURES

The Company has no disclosures to report under section 1503 for the period covered by this report.