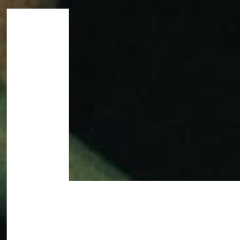




the evolution of service

1999
ANNUAL REPORT



FINANCIAL HIGHLIGHTS

(Amounts in thousands of Dollars, except per share data)

	1999	1998
Revenues	2,893,962	2,210,374
Gross profit	295,907	223,287
Operating income	58,091	37,224
Income before income taxes and extraordinary items	49,678	29,741
Net income	27,821	12,315
Basic earnings per share before extraordinary items	2.86	1.67
Diluted earnings per share before extraordinary items	2.21	1.46
Stockholders' equity	170,249	119,816
Backlog	1,769,792	1,329,144



EMCOR designs, builds
and manages facilities.



LETTER TO SHAREHOLDERS

Taking advantage of opportunities to achieve another record year.

In my letter to you a year ago, I reviewed EMCOR's accomplishments and resulting strength at the end of 1998, discussed the strong demand for our services in all of our markets, and remarked, "never before have we been presented with more opportunity."

In 1999, we took advantage of those opportunities, and our company performed at record levels for the fourth consecutive year. The table to the left

illustrates remarkable growth and success in all areas of our business:

- A 31% increase in revenues;
- A 56% increase in operating income; and
- A 51% increase in diluted earnings per share.

But the graphs do not tell the whole story by any means. For example, we entered the year 2000 with our contract backlog, conservatively calculated, at an all-time high of \$1.8 billion, a 33% increase

over a year ago. Our \$150 million revolving credit facility is available to finance additional growth and to enable us to take advantage of new opportunities. And our 1999 strategic purchases of BTE/BALCO and Poole & Kent not only contributed immediately to our financial performance, but solidified our position as a major national provider of facilities services and a major contractor in the water/wastewater treatment sector, two of our most promising areas of future growth.



The evolution of service means a willingness and flexibility to adapt to the needs of our clients.

Frank T. MacInnis



These excellent results are not a one time phenomenon, but are the standards by which EMCOR is judged and by which we judge ourselves. The graphs to the right illustrate the continuous development and improvement which characterizes our company: Over the period from 1995 to 1999, EMCOR grew at a compounded annual rate of 16% for revenue, 20% for gross margins, 77% for operating income, and more than 250% for earnings per share.

During 2000, we expect to continue our growth and improvement. We will supplement the profits from our continuing dominance of our specialty construction markets with new investments in facility services, new strategic alliances with property managers, property owners and developers, and increased participation in the exciting and fast-growing voice and data communications market.

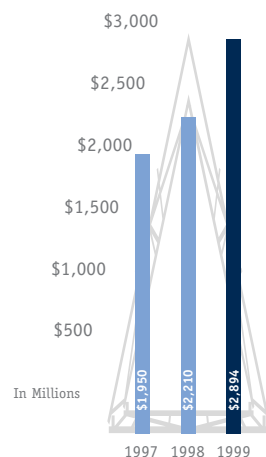
In April 2000, EMCOR established a new venture with

CB Richard Ellis, a premier real estate management company, to provide technical solutions and building operations and maintenance to 2,460 buildings in over 30 states managed by CB Richard Ellis. This added about 70 million square feet to the 400 million square feet for which EMCOR was already providing similar services.

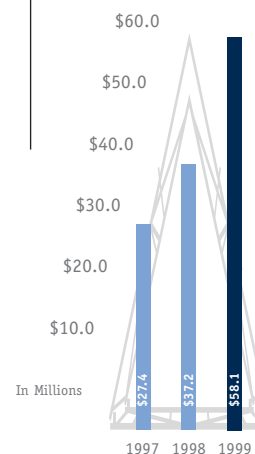
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Our 1999 strategic purchases solidified our position as major contractor in the water/wastewater treatment

REVENUES

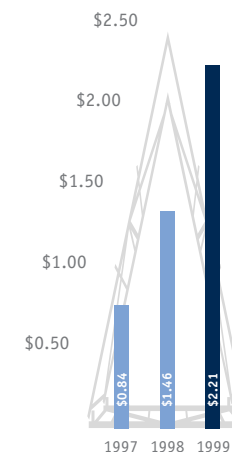


OPERATING INCOME



DILUTED EARNINGS PER SHARE

Before extraordinary items



All of these changes will reflect our sensitivity to the changing requirements of our customers, as we strive to respond to their needs and to maximize the functionality and efficiency of the facilities we design, build, and manage. Our willingness and flexibility to adapt to the needs and to fulfill the goals of our clients gave rise to the theme of this year's report — "The Evolution of Service."

EMCOR will continue to evolve with its markets, but certain things will always remain the same: our commitment to our customers, the integrity of our operations and services, and our appreciation of our shareholders, directors, and employees who make it possible. Thank you all.

Frank T. MacInnis
Chairman & Chief Executive Officer

a major, national provider of facilities services and a sector, two of our most promising areas of future growth.

BUILT ON A FOUNDATION OF

Decentralized control is an important part of our business. You have to be close to your customers.



EMCOR is not just about construction and structures. EMCOR is about the life cycle of facilities, from basic products and services to complex, technology-based solutions.



We help our customers manage the big picture by optimizing services and capabilities with shared resources and integrated solutions.

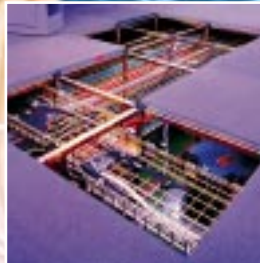
The growth of information and communications technology and the resulting changes in mechanical and electrical requirements in facilities continue to increase the demand for EMCOR's core competencies. This growth spurs our

growth: Our recent strategic acquisitions, in fact, are part of the logical response of a company which recognizes that the marketplace demands a continually broader and more sophisticated spectrum of services — from new construction and retrofit to consulting and Outcome Integrated ServicesSM where many of the services offered are bundled together.

P E R F O R M A N C E .



YOUR LIFE. DAY IN, DAY OUT.



L 6

As our industry has evolved, EMCOR continues to lead in integrating its offerings toward **total solutions for customers**. We are calling it The Evolution of Service and it describes the comprehensive portfolio of services that EMCOR uniquely provides throughout a facility's life cycle — from new construction, retrofit and mobile services to on-site technical services, integrated facilities services, consulting services and Outcome Integrated ServicesSM.

W E C A N F A C I L I T A T E I T .



We are calling it The Evolution of Service:



The Evolution of Service also reflects the changing needs of our customers. We are clear about what we do, and we continue to evolve to meet their needs —

from performing the very basics to adding technical services as well as technologically sophisticated, digital, networked solutions. Customers know

they can rely on EMCOR to grow and adapt to their changing environments. Our solid foundation is built on decades of realistic, practical experience gained

by all our companies and extends from basic service functions through high-tech and advanced technology solutions.

ALL OUR PROJECTS

EMCOR is a strong and successful international corporation: A network of companies with uniquely diverse service capabilities.

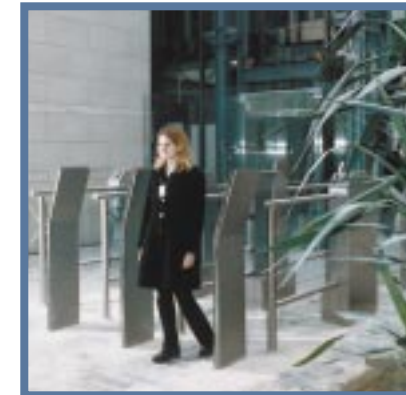
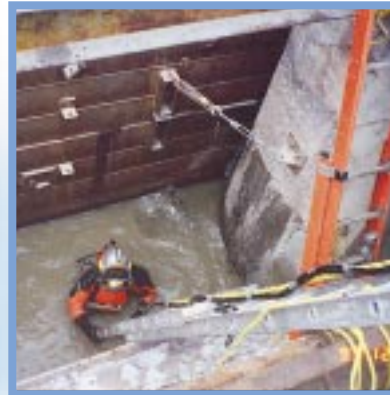
While each company within EMCOR has its own unique personality, culture and customer service offerings, each is firmly connected through EMCOR's solid business principles of integrity, quality, functionality and dependability.

Recent acquisitions reinforce our strategic focus to provide the full spectrum of facilities services.

Poole & Kent, recognized by Engineering News Record as the fifth largest mechanical contractor in the U.S., provides engineering and mechanical services to water/wastewater treatment utilities, healthcare providers, government agencies, transportation authorities, and commercial and institutional clients.



H A V E T O W O R K .



EMCOR companies seamlessly leverage experience and skills with one another to bring customers superior facilities services on demand, anytime, anywhere.

These acquisitions are significant steps toward our goal of becoming a nationwide provider of facilities services.

BALCO is an energy and indoor environmental systems company that offers a full range of heating/ventilation and air conditioning (HVAC) design, construction service and maintenance capabilities. Today, BALCO is the single source for designing, financing, constructing, maintaining and servicing entire systems.

Building Technology Engineers (BTE) is an industry leader providing outsourced facility operation and maintenance services for commercial, industrial and institutional clients.

In April 2000, EMCOR established a new venture with CB Richard Ellis, a premier real estate management

company, to provide technical solutions and building operations and maintenance to 2,460 buildings in over 30 states managed by CB Richard Ellis. This added about 70 million square feet to the 400 million square feet for which EMCOR was already providing similar services.

THE EMCOR ADVANTAGE.

The basis for EMCOR's industry leadership in services, and technology is people.

EMCOR's commitment to people management and development enables us to meet our customers' needs.

There are more than 20,000 EMCOR employees in over 90 locations around the world. Our people are diverse in what they do, where they work and who they are. EMCOR people share common

characteristics: They know their jobs, they are highly experienced and they work together — all with a focus on the customer, and a commitment to superior service solutions.

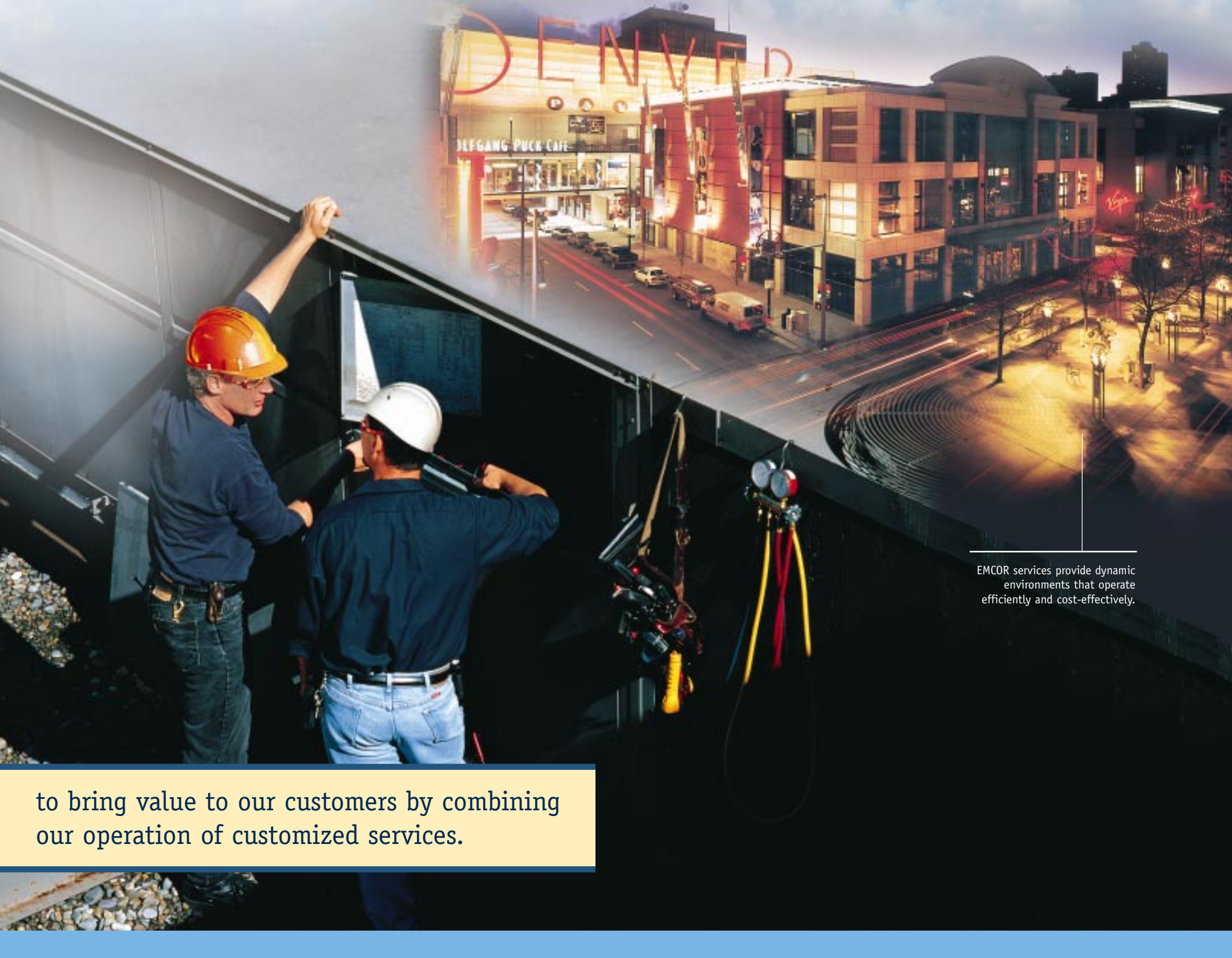
Our companies' long histories of partnering with customers allows us to develop and deliver these solutions.

EMCOR is a global company with local relationships. Each new acquisition provides additional capabilities throughout EMCOR. This strength permits us to combine and leverage new combinations resulting in a matrix of effective, comprehensive customer solutions.

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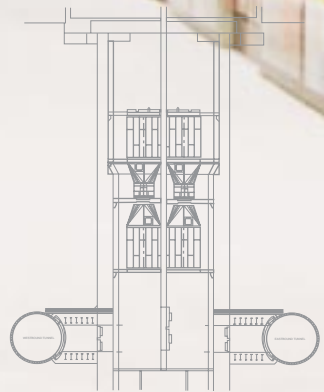
We continue to shape EMCOR for the future. We see substantial opportunity and maintenance, and construction capabilities to deliver the optimum mix



EMCOR services provide dynamic environments that operate efficiently and cost-effectively.

to bring value to our customers by combining our operation of customized services.

The Jubilee Line Extension is the largest construction project currently in progress in Europe. It covers over 16 route kilometers and services 11 stations.



EMCOR designed, supplied and installed ventilation systems, which will clear smoke from stations and tunnels in 3 minutes.



B U S I N E S S O V E R V I E W

General EMCOR Group, Inc. ("EMCOR") is the largest mechanical and electrical construction and facilities services firm in the United States and Canada and one of the largest in the United Kingdom and the world. In 1999 EMCOR had revenues of more than \$2.89 billion. EMCOR provides services to a broad range of commercial, industrial, utility, and institutional customers through approximately 40 principal operating subsidiaries. Its subsidiaries have offices in 21 states and the District of Columbia in the United States, seven provinces in Canada and ten primary locations in the United Kingdom. In the United Arab Emirates, Saudi Arabia, Hong Kong and South Africa, EMCOR carries on business through subsidiaries and joint ventures. EMCOR's executive offices are located at 101 Merritt Seven Corporate Park, Norwalk, Connecticut 06851-1060, and its telephone number at those offices is (203) 849-7800.

EMCOR specializes in the design, installation, integration, start-up, operation and maintenance of:

- Distribution systems for electrical power;
- Lighting systems;
- Low-voltage systems, such as fire alarm, security, communications and process control systems;
- Voice and data communications systems;
- Heating, ventilation, air conditioning, refrigeration and clean-room process ventilation systems; and
- Plumbing, process and high-purity piping systems.

EMCOR also provides services needed to support the operation of customers' facilities, which services are not related to customers' construction programs. These services, frequently referred to as facilities services, include site-based operations and maintenance, mobile

maintenance and service, small modification and retrofit projects, consulting, program development and management for energy systems, and maintenance of facilities. Facilities services are provided to a wide range of commercial, industrial, utility and institutional facilities, including those at which EMCOR provided construction services and others at which construction services were provided by other contractors. EMCOR's varied facilities services are frequently combined to provide integrated service packages which include mechanical and electrical services.

EMCOR provides mechanical and electrical construction services and facilities services directly to corporations, municipalities and other governmental entities, owners/developers and tenants of buildings. It also provides these services indirectly by acting as a subcontractor to construction managers, general contractors, systems suppliers and other subcontractors. Worldwide, EMCOR employs approximately 20,000 people.

EMCOR's revenues are derived from many different customers in numerous industries with operations in several different geographical areas. Of EMCOR's 1999 revenues, approximately 74% was generated in the United States and approximately 26% was generated internationally. In 1999, approximately 46% of revenues was derived from new construction projects and approximately 54% of revenues was derived from renovation and retrofit of customers' existing facilities and from EMCOR's facilities services operations. (Renovation and retrofit work and facilities services operations are sometimes referred to by stock analysts as maintenance, repair and replacement or "MRR.")

Approximately 80% of 1999 revenues was generated from both new construction and renovation and retrofit projects and approximately 20% of 1999 revenues was generated from facilities services operations. For the period 1996 through 1999, revenues and EBITDA grew at compound annual growth rates of 20.4% and 42.3%, respectively.

The Business The broad scope of EMCOR's operations are more particularly described below.

Mechanical and Electrical Construction Services and Facilities Services

EMCOR believes that the mechanical and electrical construction services and facilities services business is highly fragmented, consisting of thousands of small companies across the United States and around the world. Because EMCOR has total assets, annual revenues, net worth, and expertise significantly greater than most of its competitors, EMCOR believes it has a significant competitive advantage. The mechanical and electrical construction services industry has a higher growth rate than the overall construction industry, due principally to the increase in content and complexity of mechanical and electrical systems in all types of projects. This increased content and complexity is, in part, a result of the expanded use of computers and more technologically advanced voice and data communications, lighting, and environmental control systems in all types of facilities. For these reasons, buildings of all types consume more electricity per square foot than in the past and thus need more extensive electrical distribution systems. In addition, advanced voice and data communication systems require more sophisticated power supplies and extensive low voltage and fiber-optic communications cabling. Moreover, the need for greater environmental controls within a building, such as the heightened need for climate control to maintain extensive computer systems at optimal temperatures, and the growing demand for environmental control in individual spaces, have created expanded opportunities for the mechanical and electrical construction services and facilities services business.

Mechanical and electrical construction services primarily involve the design, integration, installation and start-up of: (1) distribution systems for electrical power, including power cables, conduits, distribution panels, transformers, generators, uninterruptible power supply systems and related switch gear and controls; (2) lighting systems, including fixtures and controls; (3) low-voltage systems, including fire alarm, security, and process control systems; (4) voice and data communications systems, including fiber-optic and low voltage copper cabling;

(5) heating, ventilation, air conditioning (collectively, "HVAC"), refrigeration and clean-room process ventilation systems; and (6) plumbing, process and high-purity piping systems.

Mechanical and electrical construction services generally fall into one of two categories: (1) large installation projects with contracts often in the multi-million dollar range that involve construction of industrial and commercial buildings and institutional and public works facilities or the fit-out of large blocks of space within commercial buildings and (2) smaller installation projects typically involving fit-out, renovation and retrofit work.

EMCOR's mechanical and electrical construction services operations accounted for about 80% of its 1999 revenues, of which revenues approximately 57% was related to new construction and approximately 43% was related to renovation and retrofit projects. EMCOR provides mechanical and electrical construction services for both large and small installation and renovation projects. Its largest projects include those (1) for institutional use (such as water and wastewater treatment facilities, hospitals, correctional facilities, schools and research laboratories); (2) for industrial use (such as pharmaceutical factories, steel, pulp and paper mills, chemical, automotive and semiconductor plants, and oil refineries); (3) for transportation systems (such as airports and transit systems); and (4) for commercial use (such as office buildings, data centers, hotels, casinos, convention centers, sports stadiums, shopping malls and resorts). EMCOR's largest projects, typically in excess of \$10.0 million, are usually multi-year projects and range in size up to, and occasionally in excess of, \$50.0 million. These projects represented about 23% of EMCOR's construction services revenues in 1999.

EMCOR's projects of less than \$10.0 million accounted for approximately 77% of 1999 construction services revenues. These projects are typically completed in less than a year. They usually involve mechanical and electrical construction services when an end-user or owner undertakes construction or modification of a facility to accommodate a specific use. These projects frequently require mechanical and electrical systems to meet special needs such as redundant power supply systems, special environmental controls and high-purity air systems, sophisticated electrical and mechanical systems for data centers, including those associated with internet service providers and electronic commerce, trading floors in financial services businesses, new production lines in manufacturing plants and office arrangements in existing office buildings. These types of projects are not usually dependent upon the new construction market. Demand for

them is often prompted by the expiration of leases, changes in technology or changes in the customer's plant or office layout in the normal course of a customer's business.

EMCOR performs its services pursuant to contracts with owners, such as corporations, municipalities and other governmental entities, general contractors, systems suppliers, construction managers, developers, other subcontractors and tenants of commercial properties. Institutional and public works projects are frequently long-term, complex projects that require significant technical and management skills and the financial strength to, among other things, obtain bid and performance bonds, which are often a condition to bidding for, and award of, these projects.

EMCOR also installs and maintains street, highway, bridge and tunnel lighting, traffic signals, computerized traffic control systems and signal and communication systems for mass transit systems in several metropolitan areas. In addition, in the United States, EMCOR manufactures and installs sheet metal air handling systems for both its own mechanical construction operations and for unrelated mechanical contractors. EMCOR also maintains welding and pipe fabrication shops for some of its own mechanical operations.

EMCOR also provides customers with facility support services which are not related to construction projects. These services, frequently referred to as facilities services, generated approximately 20% of 1999 revenues. Following completion of construction projects, EMCOR has historically provided technical support services to many of its customers, involving maintenance and service of mechanical and electrical systems and small modification and retrofit projects that support their day-to-day needs. In addition, EMCOR provides other services to owners, operators, tenants and managers of all types of facilities both on a contract basis for a specified period of time and on an individual task-order basis.

Facilities services include customer-based operations and maintenance, mobile maintenance service, small modification and retrofit projects, consulting, program development and management for energy systems and maintenance activities. These services are provided to a wide range of commercial, industrial and institutional facilities, including both those for which EMCOR provided construction services and those for which construction services were provided by others. The services are frequently bundled to provide integrated service packages and may include services in addition to EMCOR's core mechanical and electrical services.

EMCOR has experienced an expansion in the demand for its facilities services which it believes is driven by customers' downsizing programs and their focus on their own core competencies, the increasing technical complexity of their facilities and their mechanical, electrical, voice and data and other systems, and the need for increased reliability, especially in mechanical and electrical systems. These trends have led to outsourcing and privatization programs whereby customers in both the private and public sectors seek to contract out those activities that support but are not directly involved in the customer's business.

In the early 1990's the market for facilities services grew rapidly in the United Kingdom as a result of government initiatives. EMCOR's United Kingdom subsidiary expanded its traditional technical service business in response to these opportunities and established a dedicated unit to focus on the facilities services business. This unit currently provides a full range of facilities services to public and private sector customers under multi-year agreements, including maintaining British Airways' facilities at Heathrow and Gatwick Airports, the new British Library, the Department of Trade and Industry offices in London, and the new Jubilee Line Extension of the London Underground. In the United Kingdom, EMCOR also provides facilities services at several automotive manufacturing plants for the Rover Group and various British Aerospace facilities. In addition, the United Kingdom operations provide on-call and mobile service support on a task-order or contract basis, small renovation project work, data communications, security system installation, and maintenance services.

EMCOR, by virtue of its construction and facilities services expertise, is involved with teams for several private finance initiatives ("PFIs") sponsored by the British government. The PFIs, which involve the governmental bodies responsible for the national healthcare system, social security, and air traffic control, among others, seek to transfer ownership and management of United Kingdom government facilities, such as office buildings and hospitals, to teams of financial institutions, consulting service groups, construction groups and facilities services providers, which competitively bid for PFI contracts. During 1998 EMCOR was awarded a contract to provide mechanical and electrical services, ground maintenance and other ancillary services for five to seven years to approximately 300 buildings which were formerly owned and managed by the United Kingdom Department of Social Services. These facilities were privatized as part of the PFI program. EMCOR has built on its United Kingdom experience to market its facilities services business to international markets and currently provides facilities services through joint ventures to several companies in South Africa.

In 1997, EMCOR established a new subsidiary to expand its facilities services operations in North America patterned on its United Kingdom business. This unit seeks to build on existing mechanical and electrical services capabilities, facilities services activities at existing subsidiaries, and EMCOR's client relationships in order to expand the scope of services currently offered and to develop packages of services for customers on a regional, national and global basis. EMCOR's North American facilities services strategy includes initiation and expansion of facilities services operations at subsidiaries that provide mechanical and electrical construction services, including the offering of bundled facilities services programs, integrating two or more services, and development of facilities services business independent of construction services through an acquisition program. In addition, management also has targeted growth in facilities services opportunities arising from the deregulation of the electric utility industry, deregulation and expansion of the telecommunications industry and the REIT-driven consolidation of the commercial real estate industry.

The deregulation of, and increased competition in, the utility industry, along with government mandates calling for reduced energy consumption by government entities, have led to renewed focus on energy costs and conservation measures. These measures typically include energy assessments and engineering studies, retrofit construction to implement energy savings measures, and the long-term operation and maintenance of energy savings measures to ensure continued performance. Various subsidiaries of EMCOR have participated in energy savings programs in the past. EMCOR's facilities services subsidiary has established strategic alliances with, among others, DukeSolutions, Inc., a subsidiary of Duke Energy Corp., to provide energy assessment, design, installation, and operations and maintenance services for various Department of Defense facilities located in 46 states, the District of Columbia and Puerto Rico. EMCOR expects additional similar programs to be undertaken as the deregulation of electric utilities continues in the United States, and believes that because it has the ability to be a single source provider of construction and facilities services it will have a significant advantage in obtaining this type of work.

As part of its expansion of its facilities services business, during 1998, EMCOR acquired a Bakersfield, California based maintenance program consulting service firm, a Los Angeles, California area based mobile mechanical services firm and a Richmond, Virginia based industrial facilities services firm to expand its capabilities in this field. In 1999, EMCOR acquired a Boston, Massachusetts based firm that provides mobile

services in the New England area and site-based operations and maintenance services throughout the Eastern United States. These acquisitions permit EMCOR to offer integrated construction and operations and maintenance services.

The deregulation and expansion of the telecommunications industry have led to a rapid expansion of installed infrastructure, including wireless communication systems and long distance networks, much of which has been built by companies that do not have existing maintenance operations and which seek to contract out such services. EMCOR has provided construction services for the infrastructure of telecommunications companies and facilities services to support their operations. In this industry, EMCOR has worked on facilities owned by such service providers as Sprint, AT&T, and MCI, has installed and maintained equipment for suppliers such as Lucent, Nortel, and Siemens, and has provided construction and maintenance services to competitive local service providers such as Teleport Communications Group, now part of AT&T, and to users who maintain their own systems.

EMCOR has also provided construction and maintenance services to many internet service providers in support of their data center facilities. These customers include Metromedia Fiber Network, Exodus Communications, Level 3 Communications, and Qwest Communications International.

EMCOR offers facilities services to customers on single-task and multi-task bases depending on a customer's needs, under either short-term or multi-year agreements. EMCOR's services often require that its employees be permanently assigned to customer premises around the clock.

EMCOR believes mechanical and electrical construction services and facilities services activities are complementary, permitting it to offer customers a comprehensive package of services. The ability to offer both construction and facilities services should enhance EMCOR's competitive position with customers. Furthermore, EMCOR's facilities services operations tend to be less cyclical than its construction operations because facilities services are more responsive to the needs of an industry's operations requirements rather than its construction requirements.

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S E L E C T E D F I N A N C I A L D A T A (in thousands, except per share data)

The following selected financial data has been derived from audited financial statements and should be read in conjunction with the consolidated financial statements, the related notes thereto and the report of independent public

accountants thereon, included elsewhere in this annual report and in previously filed annual reports on Form 10-K of EMCOR.

Income Statement Data (a) (b)

Years Ended December 31,	1999	1998	1997	1996	1995
Revenues	\$ 2,893,962	\$ 2,210,374	\$ 1,950,868	\$ 1,669,274	\$ 1,588,744
Gross profit	295,907	223,287	182,183	160,788	143,147
Operating income	58,091	37,224	27,414	17,114	5,893
Income (loss) before extraordinary items	27,821	17,092	8,581	9,437	(10,853)
Extraordinary items—loss on early extinguishment of debt, net of income taxes	—	(4,777)	(1,004)	—	—
Net income (loss)	\$ 27,821	\$ 12,315	\$ 7,577	\$ 9,437	\$ (10,853)
Basic earnings (loss) per share: (a)					
Income (loss) before extraordinary items	\$ 2.86	\$ 1.67	\$ 0.90	\$ 1.00	\$ (1.13)
Extraordinary items—loss on early extinguishment of debt, net of income taxes	—	(0.47)	(0.11)	—	—
Basic earnings (loss) per share	\$ 2.86	\$ 1.20	\$ 0.79	\$ 1.00	\$ (1.13)
Diluted earnings (loss) per share: (a)					
Income (loss) before extraordinary items	\$ 2.21	\$ 1.46	\$ 0.84	\$ 0.96	\$ (1.13)
Extraordinary items—loss on early extinguishment of debt, net of income taxes	—	(0.35)	(0.10)	—	—
Diluted earnings (loss) per share	\$ 2.21	\$ 1.11	\$ 0.74	\$ 0.96	\$ (1.13)

Balance Sheet Data

As of December 31,	1999	1998	1997	1996	1995
Stockholders' equity (b)	\$ 170,249	\$ 119,816	\$ 95,323	\$ 83,883	\$ 70,610
Total assets	\$ 1,056,489	\$ 801,002	\$ 660,654	\$ 620,700	\$ 710,945
Goodwill	\$ 68,009	\$ 22,745	\$ 927	—	—
Net assets held for sale	—	—	—	—	\$ 61,969
Notes payable	\$ 1,150	\$ 8,314	—	—	\$ 14,665
Borrowings under working capital credit lines	—	—	\$ 9,497	\$ 14,200	\$ 25,000
7% Senior secured notes	—	—	—	—	\$ 61,969
Other long-term debt, including current maturities	\$ 116,534	\$ 116,086	\$ 62,657	\$ 72,405	\$ 68,989
Capital lease obligations	\$ 554	\$ 837	\$ 1,482	\$ 1,007	\$ 1,284

(a) Effective December 31, 1997, EMCOR adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Accordingly, earnings per share information for years prior to December 31, 1997 has been restated to conform to current year presentation.

(b) No cash dividends on EMCOR's common stock have been paid during the past five years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Highlights Revenues for the year ended December 31, 1999 were \$2.89 billion, compared to \$2.21 billion and \$1.95 billion for the years ended December 31, 1998 and 1997, respectively. Income before extraordinary items was \$27.8 million for 1999, an increase of \$10.8 million, or 63.2% from \$17.1 million for 1998 and for 1997 income before extraordinary items was \$8.6 million. Diluted earnings per share on income before extraordinary items were \$2.21 per share for 1999, compared to \$1.46 per share for 1998 and \$0.84 per share for 1997. EMCOR's increased results of operations for 1999 were attributed to companies acquired during 1997, 1998 and 1999, as well as the balance of EMCOR's operations. Growth from the balance of EMCOR's operations in 1999 resulted in a 9.4% increase in 1999 revenues compared to 1998.

Operating Segments EMCOR's business consists of the following operating segments: United States electrical construction and facilities services, United States mechanical construction and facilities services, United States other services which consists primarily of operations that provide consulting and maintenance services, Canada construction and facilities services, United Kingdom construction and facilities services, and Other International. Other International represents the Company's operations

outside of the United States, Canada and the United Kingdom, primarily in the Middle East and Asia Pacific, performing electrical construction, mechanical construction and facilities services.

Results of Operations

Revenues Revenues for the year ended December 31, 1999 increased 30.9% to \$2.89 billion, compared to \$2.21 billion of revenues for 1998. The increase in revenues for 1999 compared to 1998 was attributable to \$476.1 million of revenues from companies acquired during 1999 and 1998, and revenue growth from the balance of EMCOR's operations of \$207.5 million. Revenues for 1998 of \$2.21 billion represented a 13.3% increase over revenues of \$1.95 billion for 1997. Companies acquired during 1998 accounted for approximately \$65.0 million of the increase in 1998 revenues over 1997.

The following table presents EMCOR's revenues by operating segment and the approximate percentage of total revenues for the years ended December 31, 1999, 1998 and 1997 (in thousands, except for percentages):

	1999	% of Total	1998	% of Total	1997	% of Total
Revenues:						
United States electrical construction and facilities services	\$ 993,073	34%	\$ 888,594	40%	\$ 744,996	38%
United States mechanical construction and facilities services	1,053,727	36%	599,616	27%	577,590	30%
United States other services	96,150	3%	14,392	1%	3,019	—
Total United States Operations	2,142,950	74%	1,502,602	68%	1,325,605	68%
Canada construction and facilities services	196,694	7%	201,918	9%	179,046	9%
United Kingdom construction and facilities services	553,654	19%	493,278	22%	407,449	21%
Other International construction and facilities services	664	—	12,576	1%	38,768	2%
Total Worldwide Operations	\$ 2,893,962	100%	\$ 2,210,374	100%	\$ 1,950,868	100%

Revenues for its United States electrical construction and facilities services segment for 1999 increased by \$104.5 million, or 11.8%, compared to 1998. Revenues from companies acquired during 1999 and 1998 contributed \$23.0 million of the increase, whereas \$81.5 million, or a 9.2% increase, was due to growth from the balance of EMCOR's United States electrical construction and facilities services businesses. The growth in revenues from the balance of EMCOR's operations was due to continuing favorable market conditions for business units located in the Eastern and Midwest United States, partially offset by anticipated decreases in certain business activities in the Western United States. The favorable market conditions were due to increased renovation projects in these locations, as well as increased new construction spending. The decreased business activities in the Western United States was primarily attributable to reduced new construction activity on casinos in Las Vegas. The \$143.6 million, or 19.3%, increase in 1998 revenues compared to 1997, was attributable to \$19.4 million of revenues from companies acquired during 1998 as well as from growth from the balance of other business units located primarily in the Eastern and Midwestern United States. In particular, 1998 revenues were favorably impacted, compared to 1997, by increased interior renovation projects in New York City commercial office buildings associated with corporate relocations.

United States mechanical construction and facilities services revenues increased \$454.1 million, or 75.7%. Revenues from companies acquired during 1999 and 1998 contributed \$377.5 million, whereas \$76.6 million of the increase in revenues, or a 12.8% increase, was due to growth from the balance of EMCOR's United States mechanical construction and facilities services. Eastern and Western United States based operations were the major contributors to the increase in revenue due to the continued strong renovation market in New York City and strengthened new construction markets in Denver and Salt Lake City. A \$22.0 million, or 3.8%, increase in revenues for 1998 compared to 1997 was attributable to \$38.2 million of revenues related to 1998 acquisitions offset by the anticipated reduction of certain business activities in California.

United States other revenues increased by \$81.8 million for 1999 compared to 1998. The primary source of the increase in 1999 was revenues of \$75.6 million from companies acquired during 1999 and 1998. Revenues from the balance of EMCOR's operations increased by \$6.2 million, or 42.7%, compared with 1998 revenues. Revenues for 1998 increased by \$11.4 million versus 1997, primarily attributable to revenues of \$7.3 million from companies acquired during 1998 and increased revenues from the balance of EMCOR's United States other operations.

Revenues of Canada construction and facilities services decreased by \$5.2 million, or 2.6%, for 1999 as compared to 1998 revenues. The decrease in revenues for 1999 compared with 1998 was primarily due to a reduced level of activities in Eastern Canada and from delays during 1999 in the commencement of certain projects caused by delays in the bidding process for certain jobs. The \$22.9 million, or 12.8%, increase in revenues for 1998 compared with 1997 was attributable to the increase in construction and facility services activities in the Eastern Canadian markets.

United Kingdom construction and facilities services revenues increased \$60.4 million, or 12.2%, for 1999 compared to 1998 revenues principally due to continued growth in selected construction and facilities markets, combined with an increase in revenues associated with two major projects. The \$85.8 million, or 21.0%, increase in 1998 revenues compared with 1997 revenues was attributable to growth in the construction and facilities services market, primarily in the Southern United Kingdom.

Revenues of Other International decreased for 1999 to \$0.7 million, compared to \$12.6 million for 1998 and \$38.8 million for 1997. The decline in revenues for 1999 compared to 1998 was due to the completion of several large projects in the Middle East and Asia markets during 1998. The decline for 1998 compared to 1997 was due to a reduction of the level of ownership in, and related share of revenues from, certain joint venture activities. EMCOR continues to pursue new business selectively in these markets.

Cost of Sales and Gross Profit The following table presents EMCOR's cost of sales, gross profit, and gross profit as a percentage of revenues for the years ended December 1999, 1998 and 1997 (in thousands, except for percentages):

	1999	1998	1997
Cost of sales	\$ 2,598.1	\$ 1,987.1	\$ 1,768.7
Gross profit	\$ 295.9	\$ 223.3	\$ 182.2
Gross profit as a percentage of revenues	10.2%	10.1%	9.3%

Gross profit increased \$72.6 million, or 32.5%, for 1999 compared to 1998, primarily due to the increase in 1999 revenues over 1998 revenue levels as explained above. EMCOR reported gross profit as a percentage of revenues of 10.2% for 1999 compared to 10.1% for 1998. The moderate increase in gross profit as a percentage of revenues was attributable to the mix of projects completed and in progress during 1999. Gross profit increased \$41.1 million, or 22.6%, for 1998 compared to 1997, and gross profit as a percentage of revenues increased 0.8% for the 1998 period compared with 1997. The increase in gross profit and gross profit as a percentage of revenues was primarily due to increased revenues in markets such as New York City, Boston, Washington, D. C., Denver and Salt Lake City, markets in which higher gross profit projects are more typical than in other markets.

The following table presents EMCOR's selling, general and administrative expenses, and selling, general and administrative expenses as a percentage of revenues for the years ended December 31, 1999, 1998 and 1997 (in thousands, except for percentages):

	1999	1998	1997
Selling, general & administrative expenses	\$ 237.8	\$ 186.1	\$ 154.8
Selling, general & administrative expenses as a percentage of revenues	8.2%	8.4%	7.9%
Selling, general & administrative expenses as a percentage of revenues, excluding amortization of goodwill	8.1%	8.4%	7.9%

Selling, general and administrative expenses increased \$51.7 million, or 27.8%, between 1999 and 1998. As a percentage of revenues, selling, general and administrative expenses decreased by 0.2% to 8.2% in 1999 as compared to 8.4% in 1998. Selling, general and administrative expenses increased \$31.3 million, or 20.2%, between 1998 and 1997. As a percentage of revenues, selling, general and administrative expenses, increased by 0.5% to 8.4% in 1998 as compared to 7.9% in 1997. The dollar increase during 1999 as compared to 1998 was attributable to incremental selling, general and administrative expenses from companies acquired during 1999 and 1998, as well as the effect of the overall increase in revenues on variable indirect overhead costs. The decrease in selling, general and administrative expenses as a percentage of revenues for 1999 compared to 1998 was primarily due to the leveraging of fixed costs over increased revenues and the generally lower selling, general and administrative expenses as a percentage of revenues for companies acquired during 1999 and 1998. This decrease was partially offset by increases in selling, general and administrative expenses due to the continued development of EMCOR's facilities services operations, which operations generally require greater selling, general and administrative expenses than construction services. The increase in selling, general and administrative expenses for 1998 as compared to 1997 was primarily attributable to increased revenues and the corresponding increase in variable selling, general and administrative expenses required to support the increased revenue base. The increase of 0.5% in selling, general and administrative expenses as a percentage of revenues was primarily due to the geographic area in which increased revenues were earned (markets which required a higher level of selling, general and administrative expense spending to support the revenue base) and the continued development of EMCOR's facilities services operations.

The following table presents EMCOR's operating income, and operating income as a percentage of segment revenues, for the years ended December 31, 1999, 1998 and 1997 (in thousands, except for percentages):

	1999	% of Segment Revenues	1998	% of Segment Revenues	1997	% of Segment Revenues
Operating income (loss):						
United States electrical construction and facilities services	\$ 38,485	3.9%	\$ 36,315	4.1%	\$ 28,696	3.9%
United States mechanical construction and facilities services	37,815	3.6%	20,955	3.5%	18,627	3.2%
United States other services	(4,390)	—	(4,783)	—	(2,103)	—
Total United States Operations	71,910	3.4%	52,487	3.5%	45,220	3.4%
Canada construction and facilities services	3,991	2.0%	5,000	2.5%	4,174	2.3%
United Kingdom construction and facilities services	3,208	0.6%	(876)	—	(4,859)	—
Other International construction and facilities services	(355)	—	(1,260)	—	(1,129)	—
Corporate Administration	(20,663)	—	(18,127)	—	(15,992)	—
Total Worldwide Operations	58,091	2.0%	37,224	1.7%	27,414	1.4%
Other Corporate Items:						
Interest expense	(10,520)		(11,041)		(13,029)	
Interest income	2,107		3,558		1,077	
Income before taxes and extraordinary items	\$ 49,678		\$ 29,741		\$ 15,462	

Operating income increased for the United States electrical construction and facilities services operations for 1999 compared to 1998. The dollar increase in operating income for 1999 of \$2.2 million, or 6.0%, as compared to 1998, was attributable to the incremental effect of businesses acquired during 1999 and 1998 as well as growth from the balance of EMCOR's operations. As a percentage of revenues, operating income decreased by 0.3% for 1999 as compared to 1998 primarily due to reduced operating income for certain operations which were only partially offset by a higher percentage of revenues being derived from markets where higher operating income margins are more typical than in other EMCOR markets, particularly in Eastern United States cities such as New York City, Boston and Washington, D.C. Operating income for 1998 for the United States electrical construction and facilities services operations increased \$7.6 million, or 26.6%, from 1997 levels due to a similar increase in revenues for businesses operating in the Eastern United States, particularly in New York City due to renovation projects.

United States mechanical construction and facilities services operations operating income increased \$16.9 million for 1999, an 80.5% increase over 1998 amounts primarily due to growth of EMCOR's existing businesses and operating income contributed by businesses acquired during 1999 and 1998. For 1998 compared with 1997, operating income increased \$2.3 million, or 12.5%, primarily due to businesses acquired in 1998. As a percentage of revenues, operating income increased 0.3% from 1997 to 1998 and 0.1% from 1998 to 1999, principally due to the continued strong renovation market in New York City and new construction markets in Denver and Salt Lake City.

United States other operating losses decreased \$0.4 million for 1999 as compared to 1998 primarily due to the continuing development of consulting and maintenance services operations, offset partially by incremental operating income from certain businesses acquired during 1999 and 1998. Operating losses for 1998 compared to 1997 increased by \$2.7 million primarily due to costs associated with the development of the consulting and maintenance services activities.

Canada construction and facilities services operations operating income decreased by \$1.0 million for 1999 compared to 1998 principally due to the decrease in revenues derived from Eastern Canada operations and the delay in commencing certain projects in 1999 caused by delays in the bidding process for certain jobs. Operating income as a percentage of revenues decreased 0.5% in 1999 compared to 1998 for the same reasons attributable to the dollar decrease in operating income. The 0.2% increase in operating income as a percentage of revenues for 1998 compared to 1997 was primarily due to the increase in construction and facility services activities in the Eastern Canadian markets, which markets generally have higher operating margin jobs than typical in other markets in which EMCOR operates.

United Kingdom construction and facilities services operating income of \$3.2 million for 1999 was an improvement compared to an operating loss of \$0.9 million for 1998. The improvement was primarily attributable to growth in selected construction and facilities services markets in the United Kingdom. For 1998, operating losses decreased to \$0.9 million, as compared to operating losses of \$4.9 million for 1997. This decrease was attributable to growth in revenues for EMCOR operations in the Southern United Kingdom.

General corporate expenses for 1999 increased by \$2.5 million from 1998 levels, and increased by \$2.1 million between 1998 and 1997 periods. The increases are attributable to increased variable overhead costs associated with the Company's increased revenues, as well as incremental fixed costs to support future growth in operations.

Interest expense decreased by \$0.5 million for 1999 compared to 1998, principally due to lower average outstanding borrowings. In addition, EMCOR's cost of borrowing was lower during 1999 as compared to 1998. The cost of borrowing was lower due to the 1998 issuance of 5.75% convertible subordinated notes, a portion of the proceeds from which were used to repay the Series C notes. These transactions accounted for the decrease in interest expense. In addition, in December 1998 EMCOR amended its working capital facility which generally provided for lower costs of borrowing. Interest expense decreased \$2.0 million for 1998 compared with 1997 due primarily to the above mentioned Series C and convertible subordinated notes transactions in March 1998.

Interest income decreased by \$1.5 million for 1999 compared with 1998, primarily due to reduced cash available to invest after approximately \$55.8 million was utilized for acquisitions in 1999. Interest income increased by \$2.5 million for 1998 compared to 1997. This increase was due to the increase in available cash balances resulting from the sales proceeds of the 5.75% convertible subordinated notes and equity offering.

Liquidity and Capital Resources On March 18, 1998, EMCOR sold, pursuant to underwritten public offerings, \$100.0 million principal amount of 5.75% convertible subordinated notes and 1,100,000 shares of its common stock. Interest on the 5.75% convertible subordinated notes is payable semi-annually. The 5.75% convertible subordinated notes are unsecured indebtedness of EMCOR and are convertible at any time into common stock of EMCOR at a conversion price of \$27.34 per share.

On March 24, 1998, the underwriter of the 5.75% convertible subordinated notes offering exercised in full its over-allotment option to purchase an additional \$15.0 million of 5.75% convertible subordinated notes, and accordingly, an additional \$15.0 million principal amount of such notes were issued.

During the third quarter of 1998, EMCOR's Board of Directors authorized a stock repurchase program under which EMCOR may repurchase up to \$20.0 million of its common stock. As of December 31, 1999, EMCOR had repurchased 1,131,995 shares of its common stock at an aggregate cost of approximately \$16.8 million.

Proceeds received from the sale of the 5.75% convertible subordinated notes along with proceeds from the sale of common stock were used to redeem the Series C notes, repay then outstanding borrowings under EMCOR's working capital credit lines, prepay EMCOR's Supplemental Sellco Note and accrued interest thereon and for the acquisition of certain businesses through December 31, 1999.

The following table presents EMCOR's net cash provided by operating activities, net cash used in investing activities and net cash provided by financing activities for the years ended December 31, 1999 and 1998 (in thousands):

	1999	1998
Net cash provided by operating activities	\$ 35,618	\$ 35,312
Net cash used in investing activities	\$ (60,475)	\$ (40,231)
Net cash provided by financing activities	\$ 356	\$ 38,596

The Company's consolidated cash balance decreased by \$24.5 million from \$83.1 million at December 31, 1998 to \$58.6 million at December 31, 1999. Net cash provided by operating activities for 1999 was \$35.6 million, an increase of \$0.3 million from \$35.3 million for 1998. The cash provided by operating activities was primarily due to increased net income, non-cash net income items, increased contracts in progress accounts payable and accrued expenses, offset partially by increased accounts receivable. Net cash used in investing activities for 1999 of \$60.5 million consisted primarily of \$55.8 million for acquisitions and \$10.7 million for the net purchase of property, plant and equipment, versus \$28.5 million and \$10.9 million used for the same activities for 1998, respectively. Net cash provided by financing activities for 1999 of \$0.4 million was primarily due to net proceeds from the exercise of common stock warrants of \$10.0 million, offset by the purchase of common stock of \$2.9 million and repayments of long-term debt and capital lease obligations of \$7.0 million. In 1998, net cash provided by financing activities of \$38.6 million was primarily due to the issuance of convertible subordinated notes of \$115.0 million, net proceeds from issuance of common stock of \$22.5 million, offset partially by the retirement of Series C notes for \$61.9 million, purchases of common stock for \$14.0 million, payment of working capital credit lines of \$9.5 million, and retirement of the Supplemental Sellco Note for \$5.5 million.

On December 22, 1998, EMCOR and certain of its subsidiaries amended and restated the June 19, 1996 credit facility; the amended credit facility provides EMCOR with a credit facility for borrowings of up to \$150.0 million. The amended working capital credit facility, which has an expiration date of June

30, 2002, is guaranteed by certain direct and indirect subsidiaries of EMCOR. It is secured by substantially all of the assets of EMCOR and those subsidiaries, and it provides for borrowing capacity available in the form of revolving loans and/or letters of credit. The revolving loans bear interest at (1) a rate which is the prime commercial lending rate announced by Harris Trust and Savings Bank from time to time (8.5% at December 31, 1999) plus 0% to 0.5%, based on certain financial tests or (2) at a LIBOR rate (6.0% at December 31, 1999) plus 1.25% to 2.0% based on certain financial tests. The interest rates in effect at December 31, 1999 were 8.5% and 7.25%, respectively. Letters of credit fees issued under the credit facility ranging from 0.5% to 2.0% are charged based on type of letters of credit issued and certain financial tests. As of December 31, 1999 and 1998, EMCOR had approximately \$17.4 million and \$30.2 million of letters of credit outstanding, respectively.

In October 1997, the Company's Canadian subsidiary, Comstock Canada Ltd., renewed a credit agreement with a bank providing for an overdraft facility of up to Cdn. \$0.5 million. The facility is secured by a standby letter of credit and provides for interest at the bank's prime rate (6.5% at December 31, 1999). There were no borrowings outstanding under this credit agreement at December 31, 1999 and 1998. The Canadian subsidiary may utilize EMCOR's 1998 credit facility for any future working capital requirements.

In 1998, EMCOR issued notes in connection with the acquisition of two companies. A principal payment of \$1.0 million was made in August 1999 in respect of one note issued in August 1998, and a principal payment of the balance of \$1.15 million is to be made in respect of that note in August 2000. Interest on the note is payable together with payments of principal. The other note, issued in the principal amount of \$6.2 million in December 1998, was paid in full in January 1999.

The Company believes that current cash balances and borrowing capacity available under lines of credit, combined with cash expected to be generated from operations, will be sufficient to provide short-term and foreseeable long-term liquidity and meet expected capital expenditure requirements.

Certain Insurance Matters As of December 31, 1999, EMCOR was utilizing approximately \$17.4 million of letters of credit obtained under its working capital credit facility as collateral for its current insurance obligations.

New Accounting Pronouncements In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133" or "the Statement"). SFAS No. 133, as amended by SFAS No. 137, establishes for fiscal quarters of fiscal years beginning after June 15, 2000 accounting and reporting standards requiring derivative instruments, as defined, to be measured in the financial statements at fair value. The Statement also requires that changes in the derivative instruments' fair value be recognized currently in earnings unless certain accounting criteria are met. EMCOR does not expect the provision of SFAS No. 133 to have a significant effect on the financial condition or results of operations of EMCOR.

Quantitative and Qualitative Disclosures about Market Risk EMCOR is exposed to market risk for changes in interest rates for borrowings under its working capital credit facility. The working capital credit facility bears interest at variable rates, and the fair value of this borrowing is not significantly affected by changes in market interest rates. EMCOR is exposed to market risk on a forward contract that is designated as, and is effective as, an economic hedge. The amount of this forward contract is not material to the consolidated financial statements and it is not believed that a change in foreign exchange rates would have a significant effect on the fair value of this forward contract.

Amounts invested in EMCOR's foreign operations are translated into U.S. dollars at the exchange rates in effect at year end. The resulting translation adjustments are recorded as accumulated other comprehensive income, a component of stockholders' equity, in the consolidated balance sheets.

Year 2000 The Year 2000 issue concerned the inability of information systems to properly recognize and process date-sensitive information beyond January 1, 2000.

EMCOR has completed the required modifications to its information technology systems. Modification costs have been expensed as SG&A as incurred and costs of new software have been capitalized and will be amortized over the expected useful life of the related software.

Since the inception of EMCOR's efforts to address the Year 2000 issue, approximately \$1.0 million has been expensed as incurred. EMCOR does not anticipate additional material expenses related to the Year 2000 issue.

Additionally, EMCOR has not been notified or become aware of any significant Year 2000 related incidents which could materially impact operations. However, management will continue to monitor the Year 2000 issue in the event such incidents become evident.

This Annual Report contains certain forward-looking statements within the meaning of the Private Securities Reform Act of 1995, particularly statements regarding market opportunities, market share growth, competitive growth, gross profit, and selling, general and administrative expenses. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those in any such forward-looking statements. Such factors include, but are not limited to, adverse changes in general economic conditions, including changes in the specific markets for the Company's services, adverse business conditions, decreased or lack of growth in the mechanical and electrical construction and facilities services industries, increased competition, pricing pressures, risk associated with foreign operations and other factors.

(In thousands, except share data)

December 31,	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,552	\$ 83,053
Accounts receivable, less allowance for doubtful accounts of \$31,083 and \$24,006, respectively	713,593	538,457
Costs and estimated earnings in excess of billings on uncompleted contracts	137,048	91,569
Inventories	9,776	7,188
Prepaid expenses and other	9,018	11,702
Total current assets	927,987	731,969
Investments, notes and other long-term receivables	17,411	6,974
Property, plant and equipment, net	36,509	32,098
Goodwill, less accumulated amortization of \$4,204 and \$786, respectively	68,009	22,745
Other assets	6,573	7,216
Total assets	\$ 1,056,489	\$ 801,002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 2,235	\$ 7,963
Accounts payable	342,917	246,856
Billings in excess of costs and estimated earnings on uncompleted contracts	216,152	135,094
Accrued payroll and benefits	84,496	62,008
Other accrued expenses and liabilities	71,782	59,996
Total current liabilities	717,582	511,917
Long-term debt and capital lease obligations	116,003	117,274
Other long-term obligations	52,655	51,995
Total liabilities	886,240	681,186
Stockholders' equity:		
Preferred Stock, \$0.10 par value, 1,000,000 shares authorized, zero issued and outstanding	—	—
Common Stock, \$0.01 par value, 13,700,000 shares authorized, 10,427,690 and 9,830,603 shares issued and outstanding, respectively	117	109
Warrants	—	2,154
Capital surplus	142,894	114,867
Accumulated other comprehensive loss	(2,223)	(1,822)
Retained earnings	46,297	18,476
Treasury stock, at cost, 1,131,995 and 957,900 shares, respectively	(16,836)	(13,968)
Total stockholders' equity	170,249	119,816
Total liabilities and stockholders' equity	\$ 1,056,489	\$ 801,002

The accompanying notes to consolidated financial statements are an integral part of these statements.

(In thousands, except per share data)

For the Years Ended December 31,

	1999	1998	1997
Revenues	\$ 2,893,962	\$ 2,210,374	\$ 1,950,868
Costs and expenses:			
Cost of sales	2,598,055	1,987,087	1,768,685
Selling, general and administrative	237,816	186,063	154,769
	2,835,871	2,173,150	1,923,454
Operating income	58,091	37,224	27,414
Interest expense	(10,520)	(11,041)	(13,029)
Interest income	2,107	3,558	1,077
Income before income taxes and extraordinary items	49,678	29,741	15,462
Income tax provision	21,857	12,649	6,881
Income before extraordinary items	27,821	17,092	8,581
Extraordinary items—loss on early extinguishment of debt, net of income taxes	—	(4,777)	(1,004)
Net income	\$ 27,821	\$ 12,315	\$ 7,577
Basic earnings per share:			
Income before extraordinary items	\$ 2.86	\$ 1.67	\$ 0.90
Extraordinary items—loss on early extinguishment of debt, net of income taxes	—	(0.47)	(0.11)
Basic earnings per share	\$ 2.86	\$ 1.20	\$ 0.79
Diluted earnings per share:			
Income before extraordinary items	\$ 2.21	\$ 1.46	\$ 0.84
Extraordinary items—loss on early extinguishment of debt, net of income taxes	—	(0.35)	(0.10)
Diluted earnings per share	\$ 2.21	\$ 1.11	\$ 0.74

The accompanying notes to consolidated financial statements are an integral part of these statements.

(In thousands)

For the Years Ended December 31,	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 27,821	\$ 12,315	\$ 7,577
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,675	9,846	8,140
Amortization of goodwill	3,418	734	52
Provision for doubtful accounts	5,967	3,508	4,300
Non-cash expense for amortization of debt issuance costs	1,236	408	1,319
Provision in lieu of income taxes	15,645	8,151	5,587
Non-cash portion of extraordinary items	—	3,152	533
Other, net	—	416	612
	64,762	38,530	28,120
Change in operating assets and liabilities excluding effect of businesses acquired:			
Increase in accounts receivable	(96,875)	(27,219)	(41,885)
Decrease in inventories and contracts in progress	14,654	1,236	3,029
Increase in accounts payable, accrued payroll and benefits and accrued expenses and liabilities	47,706	16,841	31,740
Changes in other assets and liabilities, net	5,371	5,924	4,613
Net cash provided by operating activities	35,618	35,312	25,617
Cash flows from investing activities:			
Proceeds from sale of assets	347	308	750
Purchase of property, plant and equipment	(10,737)	(10,946)	(9,753)
Payments for acquisitions of businesses	(55,782)	(28,520)	(1,500)
Net proceeds (disbursements) for other investments	5,697	(1,073)	(164)
Net cash used in investing activities	(60,475)	(40,231)	(10,667)
Cash flows from financing activities:			
Proceeds from working capital credit lines	306,400	—	136,862
Repayments of working capital credit lines	(306,400)	(9,497)	(141,565)
Net (repayments of) proceeds from long-term debt and capital lease obligations	(7,012)	(1,840)	221
Repayment and redemption of Series C Notes	—	(61,854)	(11,920)
Net proceeds from exercise of stock options	221	518	427
Premiums paid on early extinguishment of debt	—	(2,437)	—
Repayment and redemption of Supplemental SellCo Note	—	(5,464)	—
Issuance of convertible subordinated notes	—	115,000	—
Net proceeds from exercise of common stock warrants	10,015	—	—
Net proceeds from issuance of common stock	—	22,485	—
Purchase of common stock	(2,868)	(13,968)	—
Debt issuance costs	—	(4,347)	(304)
Net cash provided by (used in) financing activities	356	38,596	(16,279)
(Decrease) increase in cash and cash equivalents	(24,501)	33,677	(1,329)
Cash and cash equivalents at beginning of year	83,053	49,376	50,705
Cash and cash equivalents at end of year	\$ 58,552	\$ 83,053	\$ 49,376

The accompanying notes to consolidated financial statements are an integral part of these statements.

<i>(In thousands)</i>	Total stock- holders' equity	Common stock	Warrants	Capital surplus	Accumulated other comprehensive income (loss) ⁽¹⁾	(Accumulated deficit) retained earnings	Treasury stock	Comprehensive income
Balance, December 31, 1996	\$ 83,883	\$ 95	\$2,154	\$ 81,672	\$ 1,378	\$ (1,416)	\$ —	
Net income	7,577	—	—	—	—	7,577	—	\$ 7,577
Foreign currency translation adjustments	(1,573)	—	—	—	(1,573)	—	—	(1,573)
Comprehensive income	—	—	—	—	—	—	—	\$ 6,004
Provision in lieu of income taxes, net of benefit of extraordinary item of \$578	5,009	—	—	5,009	—	—	—	
Common stock issued under stock option plans	427	1	—	426	—	—	—	
Balance, December 31, 1997	95,323	96	2,154	87,107	(195)	6,161	—	
Net income	12,315	—	—	—	—	12,315	—	\$ 12,315
Foreign currency translation adjustments	(1,627)	—	—	—	(1,627)	—	—	(1,627)
Comprehensive income	—	—	—	—	—	—	—	\$ 10,688
Provision in lieu of income taxes, net of benefit of extraordinary item of \$3,381	4,770	—	—	4,770	—	—	—	
Issuance of common stock	22,485	11	—	22,474	—	—	—	
Common stock issued under stock option plans	518	2	—	516	—	—	—	
Treasury stock, at cost	(13,968)	—	—	—	—	—	(13,968)	
Balance, December 31, 1998	119,816	109	2,154	114,867	(1,822)	18,476	(13,968)	
Net income	27,821	—	—	—	—	27,821	—	\$ 27,821
Foreign currency translation adjustments	(401)	—	—	—	(401)	—	—	(401)
Comprehensive income	—	—	—	—	—	—	—	\$ 27,420
Provision in lieu of income taxes	15,645	—	—	15,645	—	—	—	
Common stock issued pursuant to warrants exercised	10,015	7	(1,190)	11,198	—	—	—	
Value of expired warrants	—	—	(964)	964	—	—	—	
Common stock issued under stock option plans	221	1	—	220	—	—	—	
Treasury stock, at cost	(2,868)	—	—	—	—	—	(2,868)	
Balance, December 31, 1999	\$170,249	\$ 117	\$ —	\$ 142,894	\$ (2,223)	\$ 46,297	\$ (16,836)	

(1) Represents cumulative foreign currency translation adjustments.

The accompanying notes to the consolidated financial statements are an integral part of these statements.

L NOTE A NATURE OF OPERATIONS

EMCOR Group, Inc., a Delaware corporation, and subsidiaries (“EMCOR”) is the largest mechanical and electrical construction and facilities services firm in the United States and Canada and one of the largest in the United Kingdom. EMCOR specializes in the design, installation, integration, start-up, operation and maintenance of: (1) distribution systems for electrical power, including power cables, conduits, distribution panels, transformers, generators, uninterruptible power supply systems and related switch gear and controls; (2) lighting systems, including fixtures and controls; (3) low-voltage systems, including fire alarm, security and process control systems; (4) voice and data communications systems, including fiber-optic and low voltage copper cabling; (5) heating, ventilation, air conditioning, refrigeration and clean room process ventilation systems; and (6) plumbing, process and high-purity piping systems. EMCOR provides mechanical and electrical construction services and facilities services directly to corporations, municipalities and other governmental entities, owners/developers, and tenants of buildings. It also provides these services indirectly by acting as a subcontractor to construction managers,

general contractors, systems suppliers and other subcontractors. Mechanical and electrical construction services often fall into one of two categories: (1) large installation projects with contracts often in the multi-million dollar range and (2) smaller installation projects typically involving fit-out renovations and retrofit work. In addition, EMCOR also provides services needed to support a customer’s facilities not related to construction projects. These services, frequently referred to as facilities services, include customer-based operations and maintenance, mobile maintenance and service, small modification and retrofit projects, consulting, program development and management for energy systems, and maintenance of facilities. These services are provided to a wide range of commercial, industrial, and institutional buildings including facilities at which EMCOR provided construction services and at which construction services were provided by others. Facilities services are frequently bundled to provide integrated service packages and may include services in addition to EMCOR’s core mechanical and electrical services.

L NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the accounts of EMCOR and its majority-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Investments over which EMCOR exercises significant influence, but does not control (generally a 20% to 50% ownership interest), are accounted for using the equity method of accounting.

Principles of Preparation The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires EMCOR to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications of prior years’ data have been made in the accompanying consolidated financial statements where appropriate to conform to the current presentation.

Revenue Recognition Revenues from long-term contracts are recognized on the percentage-of-completion method. Percentage-of-completion is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. Certain of EMCOR’s electrical contracting business units measure percentage-of-completion by the percentage of labor costs incurred to date for each contract to the estimated total labor costs for such contract.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. In forecasting ultimate profitability on certain contracts, estimated recoveries are included for work performed under customer change orders to contracts for which firm prices have not yet been negotiated. Due to uncertainties inherent in the estimation process, it is reasonably possible that completion costs, including those arising from contract penalty provisions and final contract settlements, will be revised in the near-term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings in excess of billings on uncompleted contracts arise when revenues have been recorded but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of the contract.

Also included in costs and estimated earnings on uncompleted contracts are amounts EMCOR seeks or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to both scope and price, or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). These amounts are recorded at their estimated net realizable value when realization is probable and can be reasonably estimated. No profit is recognized on the construction costs incurred in connection with these amounts. Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded unapproved change orders may be made in the near-term. Claims made by EMCOR involve negotiation and, in certain cases, litigation. EMCOR expenses litigation costs as incurred, although it may seek to recover these costs as part of the claim. EMCOR believes that it has established legal basis for pursuing recovery of recorded claims, and it is management's intention to pursue and litigate these claims, if necessary, until a decision or settlement is reached. Claims also involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded claims may be made in the near-term. Claims against EMCOR are recognized when a loss is considered probable and amounts are reasonably determinable.

Costs and estimated earnings on uncompleted contracts and related amounts billed as of December 31, 1999 and 1998 are as follows (in thousands):

	1999	1998
Costs incurred on uncompleted contracts	\$ 4,901,702	\$ 2,737,507
Estimated earnings	410,755	202,211
	5,312,457	2,939,718
Less: billings to date	5,391,561	2,983,243
	\$ (79,104)	\$ (43,525)

Such amounts are included in the accompanying Consolidated Balance Sheets at December 31, 1999 and 1998 under the following captions (in thousands):

	1999	1998
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 137,048	\$ 91,569
Billings in excess of costs and estimated earnings on uncompleted contracts	(216,152)	(135,094)
	\$ (79,104)	\$ (43,525)

As of December 31, 1999, costs and estimated earnings in excess of billings on uncompleted contracts included unbilled revenues for unapproved change orders of approximately \$22.7 million and claims of approximately \$17.8 million. In addition, accounts receivable as of December 31, 1999 included claims and contractually billed amounts related to such contracts of approximately \$28.3 million. Claims and related amounts included in accounts receivable aggregated approximately \$29.0 million as of December 31, 1998. Generally, contractually billed amounts will not be paid by the customer to EMCOR until final resolution of related claims.

Classification of Contract Amounts In accordance with industry practice, EMCOR classifies as current all assets and liabilities related to the performance of long-term contracts. The contracting cycle for certain long-term contracts may extend beyond one year and, accordingly, collection or payment of amounts related to these contracts may extend beyond one year. Accounts receivable at December 31, 1999 and 1998 included \$128.7 million and \$91.6 million, respectively, of retainage billed under terms of the contracts. EMCOR estimates that approximately 85% of retainage recorded at December 31, 1999 will be collected during 2000.

Cash and Cash Equivalents For purposes of the consolidated financial statements, EMCOR considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. EMCOR maintains a centralized cash management program whereby its excess cash balances are invested in high quality, short-term money market instruments which are considered cash equivalents. At times, cash balances in EMCOR's bank accounts may exceed federally insured limits.

Inventories Inventories, which consist primarily of construction materials, are stated at the lower of cost or market. Cost is determined principally using average cost.

Investments, Notes and Other Long-Term Receivables

Investments, notes and other long-term receivables at December 31, 1999 was \$17.4 million, representing a \$10.4 million increase compared to \$7.0 million at December 31, 1998, and primarily consists of investments in joint ventures accounted for using the equity method of accounting. The \$10.4 million increase was primarily attributable to such investments of a company acquired by EMCOR in 1999.

Property, Plant and Equipment Property, plant and equipment is stated at cost. Depreciation is recorded principally using the straight-line method over estimated useful lives ranging from 3 to 40 years.

Property, plant and equipment in the accompanying Consolidated Balance Sheets consisted of the following amounts as of December 31, 1999 and 1998 (in thousands):

	1999	1998
Machinery and equipment	\$ 36,814	\$ 33,894
Furniture and fixtures	9,723	6,953
Land, buildings and leasehold improvements	20,510	15,566
	67,047	56,413
Accumulated depreciation and amortization	(30,538)	(24,315)
	<u>\$ 36,509</u>	<u>\$ 32,098</u>

Goodwill Goodwill at December 31, 1999 and 1998 primarily consisted of approximately \$68.0 million and \$22.8 million, respectively, of the excess of cost over fair market value of net identifiable assets of companies acquired in purchase transactions. Goodwill is being amortized using the straight-line method over periods ranging from 5 to 20 years.

At the end of each quarter, EMCOR reviews events and changes in circumstances to determine whether the recoverability of the carrying value of Goodwill should be reassessed. Should events or circumstances indicate that the carrying value may not be recoverable based on undiscounted future cash flows, an impairment loss measured by the difference between the discounted future cash flows (or another acceptable method for determining fair value) and the carrying value of Goodwill would be recognized by EMCOR. Through December 31, 1999, no adjustment for the impairment of Goodwill carrying value has been required.

Insurance Reserves EMCOR's insurance liability is determined actuarially based on claims filed and an estimate of claims incurred but not yet reported. At December 31, 1999 and 1998, the estimated current portion of the discounted insurance liability was included in "Other accrued expenses and liabilities" in the accompanying Consolidated Balance Sheets. The non-current portion of the discounted insurance liability was included in "Other long-term obligations."

Fair Value of Financial Instruments EMCOR's financial instruments include accounts receivable, investments, notes and other long-term receivables, long-term debt, foreign currency contracts and other financing commitments whose carrying values approximate their fair values.

At December 31, 1999, the fair value of EMCOR's 5.75% convertible subordinated notes was \$97.8 million compared to the carrying value of \$115.0 million. The fair value was estimated based on quoted market prices and market interest rates as of December 31, 1999.

Foreign Operations The financial statements and transactions of EMCOR's foreign subsidiaries are maintained in their functional currency and translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Translation adjustments have been accumulated as a separate component of Stockholders' equity as Accumulated other comprehensive income (loss).

Income Taxes EMCOR accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires an asset and liability approach which requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

Foreign Exchange Contracts Gains and losses on contracts designated as hedges of net investments in foreign subsidiaries are recognized in the Consolidated Statements of Stockholders' Equity and Comprehensive Income as a component of Accumulated other comprehensive income (loss). As of December 31, 1999, EMCOR had one forward contract that was designated as, and was effective as, an economic hedge. The amount of this forward contract was not material to the Consolidated Financial Statements.

Valuation of Stock Option Grants EMCOR accounts for its stock option plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). See Note I for pro forma information relating to treatment of EMCOR's stock option plans under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

New Accounting Pronouncements In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of SFAS No. 133," establishes for fiscal quarters of fiscal years beginning after June 15, 2000 accounting and reporting standards requiring derivative instruments, as defined, to be measured in the financial statements at fair value. SFAS 133 also requires that changes in the derivative instruments' fair value be recognized currently in earnings unless certain accounting criteria are met. EMCOR does not expect the provision of SFAS 133 to have a significant effect on the financial condition or results of operations of EMCOR.

L NOTE C ACQUISITIONS OF BUSINESSES

During 1999, EMCOR acquired two businesses and paid additional consideration by reason of earnouts on prior acquisitions for an aggregate of \$55.8 million in cash. During 1998, EMCOR acquired ten businesses for an aggregate purchase price of \$36.8 million, \$28.5 million of which was paid in cash and \$8.3 million was paid in notes made by EMCOR. The purchase price of certain transactions are subject to finalization based on certain contingencies provided for in the purchase agreements. These acquisitions were accounted for by the purchase method, and the purchase price has been allocated to the assets acquired and liabilities assumed, based upon the estimated fair values of these assets and liabilities at the dates of acquisition. The purchase prices of these transactions

are of a preliminary basis and are subject to certain purchase accounting adjustments. Goodwill, representing the excess purchase price over the fair value of amounts assigned to the net tangible assets acquired, was \$68.0 million and \$22.7 million at December 31, 1999 and 1998, respectively, and is being amortized over periods of 5 to 20 years. Amortization expense for the year ended December 31, 1999, 1998 and 1997 was \$3.4 million, \$0.7 million and \$0.1 million, respectively. The pro forma effect on EMCOR's revenues, net income and earnings per share for 1999, 1998 and 1997, as though the acquisitions occurred as of January 1 of each year, was not material.

NOTE D EARNINGS PER SHARE

The following tables summarize EMCOR's calculation of Basic and Diluted Earnings per Share ("EPS") for the years ended December 31, 1999, 1998 and 1997:

	1999		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Income before extraordinary item available to common stockholders	\$ 27,821,000	9,732,930	\$ 2.86
Effect of Dilutive Securities:			
Convertible Subordinated Notes including assumed interest savings	4,099,750	4,206,291	
Options	—	245,893	
Warrants	—	259,708	
Diluted EPS	\$ 31,920,750	14,444,822	\$ 2.21

	1998		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Income before extraordinary item available to common stockholders	\$ 17,092,000	10,232,527	\$ 1.67
Effect of Dilutive Securities:			
Convertible Subordinated Notes including assumed interest savings	2,785,000	2,952,672	
Options	—	215,531	
Warrants	—	228,995	
Diluted EPS	\$ 19,877,000	13,629,725	\$ 1.46

	1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Income before extraordinary item available to common stockholders	\$ 8,581,000	9,547,869	\$ 0.90
Effect of Dilutive Securities:			
Options	—	305,336	
Warrants	—	321,690	
Diluted EPS	\$ 8,581,000	10,174,895	\$ 0.84

The number of EMCOR's options granted, which were excluded from the computation of Diluted EPS for the years ended December 31, 1999, 1998 and 1997 because they would be antidilutive, were 211,720, 306,785 and none, respectively.

NOTE E CURRENT DEBT

1998 Credit Facility On December 22, 1998, EMCOR and certain of its subsidiaries amended and restated the June 19, 1996 credit facility; the amended credit facility provides EMCOR with a credit facility for borrowings of up to \$150.0 million. The amended credit facility, which has an expiration date of June 30, 2002, is guaranteed by certain direct and indirect subsidiaries of EMCOR. It is secured by substantially all of the assets of EMCOR and those subsidiaries, and it provides for borrowing capacity available in the form of revolving loans and/or letters of credit. The revolving loans bear interest at (1) a rate which is the prime commercial lending rate announced by Harris Trust and Savings Bank from time to time (8.5% at December 31, 1999) plus 0% to 0.5%, based on certain financial tests or (2) at a LIBOR rate (6.0% at December 31, 1999) plus 1.25% to 2.0% based on certain financial tests. The interest rates in effect at December 31, 1999 were 8.5% and 7.25%, respectively. Letters of credit fees issued under the credit facility ranging from 0.5% to 2.0% are charged based on type of letters of credit issued and certain financial tests. As of December 31, 1999 and 1998, EMCOR had approximately \$17.4 million and

\$30.2 million of letters of credit outstanding, respectively. No revolving loans were outstanding under the 1998 Credit Facility at December 31, 1999 and 1998.

1996 Credit Facility On June 19, 1996, EMCOR and its subsidiary Dyn Specialty Contracting, Inc. entered into a credit agreement with Harris Trust and Savings Bank providing EMCOR with a working capital credit facility for borrowings up to \$100.0 million for a three-year period. This agreement was amended and restated on December 22, 1998.

Foreign Borrowings In October 1997, EMCOR's Canadian subsidiary, Comstock Canada Ltd., renewed a credit agreement with a bank providing for an overdraft facility of up to Cdn. \$0.5 million. The facility is secured by a standby letter of credit and provides for interest at the bank's prime rate (6.5% at December 31, 1999). There were no borrowings outstanding under this facility at December 31, 1999 and 1998. The Canadian subsidiary may utilize EMCOR's 1998 credit facility for any future working capital requirements.

NOTE F LONG-TERM DEBT

Long-term debt in the accompanying Consolidated Balance Sheets consisted of the following amounts as of December 31, 1999 and 1998 (in thousands):

	1999	1998
Convertible Subordinated Notes at 5.75% due 2005	\$ 115,000	\$ 115,000
Note Payable at 6.0%, due 2000	1,150	2,150
Note Payable, due 1999	—	6,164
Capitalized Lease Obligations at weighted average interest rates from 2.9% to 11.0% payable in varying amounts through 2004	554	837
Other, at weighted average interest rates of approximately 10.0%, payable in varying amounts through 2016	1,534	1,086
	118,238	125,237
Less: current maturities	(2,235)	(7,963)
	<u>\$ 116,003</u>	<u>\$ 117,274</u>

Convertible Subordinated Notes On March 18, 1998, EMCOR sold, pursuant to an underwritten public offering, \$100.0 million principal amount of 5.75% Convertible Subordinated Notes ("Subordinated Notes"). On March 24, 1998, the underwriter of the Subordinated Notes offering exercised in full its over-allotment option to purchase an additional \$15.0 million of Subordinated Notes, and accordingly, Subordinated Notes in the additional principal amount of \$15.0 million were issued. The Subordinated Notes will mature on April 1, 2005 and are general, unsecured obligations of EMCOR, subordinated in right to all existing and future Senior Indebtedness (as defined in the indenture pursuant to which Subordinated Notes were issued (the "Subordinated Indenture") of EMCOR.

The Subordinated Indenture does not contain any financial covenants or any restrictions on the payment of dividends, the repurchase of securities of EMCOR or the incurrence of Indebtedness (as defined in the Subordinated Indenture) or Senior Indebtedness. Holders of the Subordinated Notes have the

right at any time to convert the Subordinated Notes into Common Stock of EMCOR at a conversion price of \$27.34 per share.

Series C Notes On December 15, 1994, EMCOR issued approximately \$62.8 million principal amount of Series C Notes. Interest on the Series C Notes was payable semiannually through June 15, 1996 by the issuance of additional Series C Notes and was thereafter payable quarterly in cash until redemption. The Series C Notes were unsecured indebtedness of EMCOR and were subordinate to indebtedness under EMCOR's 1996 credit facility. The Series C Notes were recorded at a discount to their face amount to yield an estimated effective interest rate of 14.0%.

On June 3, 1997, EMCOR purchased \$1.0 million of Series C Notes and retired such notes. On June 27, 1997, EMCOR called for the partial redemption of approximately \$10.9 million principal amount of Series C Notes. In accordance with the Indenture governing the Series C Notes, the redemption price of the Series C Notes was 105% of the principal amount redeemed. Accordingly, EMCOR recorded an extraordinary loss of approximately \$1.0 million related to the early retirement of debt. The extraordinary loss consisted primarily of the write-off of the associated debt discount plus premiums and costs associated with the redemption, net of income tax benefits of approximately \$0.7 million.

On March 18, 1998, EMCOR called for redemption approximately \$61.9 million principal amount of Series C Notes and irrevocably funded such amounts, together with a redemption premium, with the trustee of the Series C Notes. In accordance with the Indenture governing the Series C Notes, the redemption price of the Series C Notes was 104% of the principal amount redeemed. Accordingly, EMCOR recorded an extraordinary loss of \$4.8 million net of income taxes related to the early retirement of debt. The extraordinary loss consisted primarily of the write-off of the associated debt discount plus the redemption premium and costs associated with the redemption, net of income tax benefits.

Supplemental SellCo Note On December 15, 1994, EMCOR issued to its wholly-owned subsidiary SellCo Corporation ("SellCo") its 8.0% promissory note in the principal amount of approximately \$5.5 million (the "Supplemental SellCo Note"). The Supplemental SellCo Note provided that it matured on the earlier of (i) December 15, 2004 or (ii) one day prior to the date on which the SellCo Notes (hereafter defined) are deemed canceled. The Supplemental SellCo Note was

recorded at a discount to its face amount to yield an estimated effective interest rate of 14.0%.

In June 1998, EMCOR prepaid in full, including accrued interest thereon, the Supplemental SellCo Note.

SellCo Notes On December 15, 1994, SellCo issued approximately \$48.1 million principal amount of 12.0% Subordinated Contingent Payments Notes, due 2004, (the "SellCo Notes"). Interest was payable semiannually in additional SellCo Notes. Net Cash Proceeds (as defined in the Indenture pursuant to which the SellCo Notes were issued) from the sales of stock or assets of SellCo subsidiaries were to be used to redeem SellCo Notes. The SellCo Notes were not obligations of EMCOR and, accordingly, were not included in the accompanying Consolidated Balance Sheets as of December 31, 1999 and 1998. Since the date of issuance, approximately \$20.0 million of the SellCo Notes have been redeemed with proceeds from the sale of stock and assets of SellCo subsidiaries and the prepayment by EMCOR of the Supplemental SellCo Note. The SellCo Notes mature on December 15, 2004 if not deemed canceled at an earlier date pursuant to the Indenture.

Notes Payable for Acquisitions In 1998, EMCOR issued notes in connection with the acquisition of two companies. A principal payment of \$1.0 million was made in August 1999 in respect of one note issued in August 1998, and a principal payment of the balance of \$1.15 million is to be made in respect of that note in August 2000. Interest on the note is payable together with payments of principal. The other note, issued in the principal amount of \$6.2 million in December 1998, was paid in full in January 1999.

Capitalized Lease Obligations See Note K in the Notes to Consolidated Financial Statements.

Other Long-Term Debt Other long-term debt consists primarily of loans for real estate, office equipment, automobiles and building improvements. As of December 31, 1999 and 1998, respectively, other long-term debt, excluding current maturities, totaling \$1.5 million and \$1.1 million was owed by certain of EMCOR's subsidiaries. The aggregate amount of other long-term debt maturing during the next five years is approximately: \$0.6 million in 2000, \$0.2 million in 2001, \$0.1 million in each of 2002, 2003 and 2004, and \$0.4 million thereafter.

NOTE G INCOME TAXES

EMCOR files a consolidated federal income tax return including all its U.S. subsidiaries. At December 31, 1999, EMCOR had net operating loss carryforwards ("NOLs") for U.S. income tax purposes of approximately \$110.0 million, which expire in the years 2007 through 2012. The NOLs are subject to review by the Internal Revenue Service. Future changes in ownership of EMCOR, as defined by Section 382 of the Internal Revenue Code, could limit the amount of NOLs available for use in any one year.

EMCOR adopted Fresh-Start Accounting in connection with EMCOR's reorganization in December 1994. As a result, the tax benefit of any net operating loss carryforwards or net deductible temporary differences which existed as of December 15, 1994 will result in a charge to the tax provision (provision in lieu of income taxes) and be allocated to reorganization value in excess of amounts allocable to identifiable assets established in connection with EMCOR's emergence from bankruptcy and to capital surplus. For the year ended December 31, 1996, EMCOR allocated approximately \$4.5 million of its tax provision to reorganization value in excess of amounts allocable to identifiable assets, thereby reducing this balance to zero. The remaining utilization of NOLs and other deferred tax assets, approximately \$15.6 million, \$8.2 million and \$5.6 million for the years ended December 31, 1999, 1998 and 1997, respectively, have been applied to capital surplus for the years then ended.

The income tax provision in the accompanying Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997 consists of (in thousands):

	1999	1998	1997
Current:			
Federal	\$ 2,482	\$ 1,549	\$ 396
State and local	2,000	788	580
Foreign	630	2,161	1,418
	5,112	4,498	2,394
Deferred:			
Foreign	1,100	—	(1,100)
Provision in lieu of income taxes	15,645	8,151	5,587
	<u>\$ 21,857</u>	<u>\$ 12,649</u>	<u>\$ 6,881</u>

Factors accounting for the variation from U.S. statutory income tax rates relating to continuing operations for the years ended December 31, 1999, 1998 and 1997 are as follows (in thousands):

	1999	1998	1997
Federal income taxes at the statutory rate	\$ 17,387	\$ 10,409	\$ 5,412
State and local income taxes, net of federal tax benefits	2,990	1,058	686
Foreign income taxes	271	1,247	1,630
Non-deductible goodwill amortization	843	101	—
Other	366	(166)	(847)
	<u>\$ 21,857</u>	<u>\$ 12,649</u>	<u>\$ 6,881</u>

The components of the net deferred income tax asset included in "Other assets" in the accompanying Consolidated Balance Sheets for the years ended December 31, 1999 and 1998 are as follows (in thousands):

	1999	1998
Deferred tax assets:		
Net operating loss carryforward	\$ 42,166	\$ 57,998
Excess of amounts expensed for financial statement purposes over amounts deducted for income tax purposes	64,149	30,177
Other	2,899	2,899
Total deferred tax asset	109,214	91,074
Deferred tax liabilities:		
Costs capitalized for financial statement purposes and deducted for income tax purposes	20,433	17,823
Total deferred tax liability	20,433	17,823
Net deferred tax asset before valuation allowance	88,781	73,251
Valuation allowance for net deferred tax asset	(88,781)	(72,151)
Net deferred tax asset	<u>\$ —</u>	<u>\$ 1,100</u>

Income before income taxes and extraordinary items for the years ended December 31, 1999, 1998, and 1997 consists of the following (in thousands):

	1999	1998	1997
United States	\$ 42,714	\$ 27,130	\$ 19,207
Foreign	6,964	2,611	(3,745)
	<u>\$ 49,678</u>	<u>\$ 29,741</u>	<u>\$ 15,462</u>

NOTE H COMMON STOCK

On March 18, 1998, EMCOR sold, pursuant to an underwritten public offering, 1,100,000 of its common stock at a price of \$21.875 per share.

As part of a program previously authorized by the Board of Directors, EMCOR purchased 174,095 and 957,900 shares of its common stock during 1999 and

1998, respectively. The aggregate amount of \$16.8 million paid for those shares has been classified as "Treasury Stock, at Cost" in the Consolidated Balance Sheet at December 31, 1999. EMCOR management is authorized to repurchase up to \$20.0 million of EMCOR's common stock under this program.

NOTE I STOCK OPTIONS AND WARRANTS

EMCOR has stock-based compensation plans under which employees receive stock options and outside directors receive stock options or shares of common stock. During 1999, certain stock options were granted by the board of directors

outside of established stock option plans. A summary of the general terms of the stock option and stock unit plans, plus other stock option grants follows:

	Authorized Shares	Vesting	Expiration	Exercise Price
1994 Management Stock Option Plan (the "1994 Plan")	1,000,000	Generally, 33 1/3% on each anniversary of grant date	Ten years from grant date	Fair market value of common stock on grant date
1995 Non-Employee Directors' Non-Qualified Stock Option Plan (the "1995 Plan")	200,000	100% on grant date	Ten years from grant date	Fair market value of common stock on grant date
1997 Non-Employee Directors' Non-Qualified Stock Option Plan (the "1997 Directors' Stock Option Plan")	300,000	(1)	Five years from grant date	Fair market value of common stock on grant date(3)
1997 Stock Plan for Directors (the "1997 Directors' Stock Plan")	150,000	(2)	Five years from grant date	Fair market value of common stock on grant date(4)
Other Stock Option Grants	Not applicable	Generally, either 100% on first anniversary of grant date or 33 1/3% on each anniversary of grant date	Ten years from grant date	Fair market value of common stock on grant date

(1) At the election of an individual serving as a Director, the individual may elect to receive one-third, two-thirds or all of his retainer for a calendar year in the form of stock options. Such options become exercisable quarterly over the calendar year. In addition, the individual will receive additional stock options equal to the product of .5 times the amount of stock options otherwise issued as a result of his election.

(2) At the election of an individual serving as a Director, the individual may elect to receive one-third, two-thirds or all of his retainer for a calendar year in the form of deferred stock units equal in value to the retainer. In addition, the individual will receive additional deferred stock units equal to .2 times the amount

of deferred stock units otherwise issued as a result of his election. Following termination of Board service, the director receives shares of common stock equal to the number of deferred stock units.

(3) The grant date is the first business day of a calendar year for individuals who are serving as Directors as of such date, and on the date.

(4) The grant date is the first business day of a calendar year for individuals who are serving as Directors as of such date.

The following table summarizes EMCOR's stock option activity since December 31, 1996:

	1994 Plan		1995 Plan		1997 Directors' Stock Option Plan		1997 Directors' Stock Plan		Other Stock Option Grants	
	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price	Shares	Weighted Average Price
Balance December 31, 1996	628,236	\$ 5.33	52,500	\$ 10.21	—	—	—	—	—	—
Granted	366,000	\$ 19.82	18,000	\$ 16.31	—	—	—	—	—	—
Forfeited	(2,668)	\$ 5.13	—	—	—	—	—	—	—	—
Exercised	(73,191)	\$ 5.13	(3,000)	\$ 17.13	—	—	—	—	—	—
Balance December 31, 1997	918,377	\$ 11.12	67,500	\$ 11.53	—	—	—	—	—	—
Granted	90,000	\$ 20.06	18,000	\$ 19.63	35,785	\$ 19.94	1,800	\$ 20.00	—	—
Forfeited	(205,000)	\$ 19.73	—	—	—	—	—	—	—	—
Exercised	(81,676)	\$ 5.29	—	—	—	—	—	—	—	—
Balance December 31, 1998	721,701	\$ 10.44	85,500	\$ 13.24	35,785	\$ 19.94	1,800	\$ 20.00	—	—
Granted	—	—	18,000	\$ 22.13	40,968	\$ 16.19	330	\$ 19.63	315,000	\$ 18.49
Forfeited	—	—	—	—	—	—	—	—	—	—
Exercised	(16,933)	\$ 9.13	(10,500)	\$ 6.34	—	—	(1,200)	\$ 20.00	—	—
Balance December 31, 1999	704,768	\$ 10.47	93,000	\$ 15.74	76,753	\$ 17.94	930	\$ 19.87	315,000	\$ 18.49

At December 31, 1999, 1998 and 1997, approximately 943,000, 642,000 and 386,000 options were exercisable, respectively. The weighted average exercise price of exercisable options at December 31, 1999, 1998 and 1997 was approximately \$12.28, \$8.43 and \$6.46, respectively.

The following table summarizes information about EMCOR's stock options at December 31, 1999:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
\$4.75-\$5.13	450,767	5.26 Years	\$ 4.96	450,767	\$ 4.96
\$9.38-\$9.63	15,000	5.88 Years	\$ 9.48	15,000	\$ 9.48
\$14.13-\$20.00	693,351	7.97 Years	\$ 18.77	456,029	\$ 19.15
\$20.38-\$22.13	31,333	8.94 Years	\$ 21.39	21,334	\$ 21.86

The weighted average fair value of options granted during 1999, 1998 and 1997 were \$18.41, \$15.18 and \$14.67, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1999, 1998 and 1997: risk-free interest rates

of 4.6% to 5.7% (representing the risk-free interest rate at the date of the grant); expected dividend yields of zero percent; expected terms of 3.3 to 6.5 years; and expected volatility of 56.5% for options granted prior to December 31, 1996, and 73.6%, 87.3% and 79.8% for options granted during 1999, 1998 and 1997, respectively.

EMCOR applies APB 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized in the accompanying Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997 for options granted during those years. Had compensation cost for these plans been determined consistent with SFAS 123, EMCOR's net income, Basic EPS and Diluted EPS would have been reduced from the following as reported amounts to the following pro forma amounts (in thousands, except per share amounts):

	1999	1998	1997
Net income:			
As reported	\$ 27,821	\$ 12,315	\$ 7,577
Pro forma	\$ 25,597	\$ 10,176	\$ 6,842
Basic EPS:			
As reported	\$ 2.86	\$ 1.20	\$ 0.79
Pro forma	\$ 2.63	\$ 0.99	\$ 0.72
Diluted EPS:			
As reported	\$ 2.21	\$ 1.11	\$ 0.74
Pro forma	\$ 2.06	\$ 0.75	\$ 0.67

Warrants On December 15, 1994, EMCOR issued to the holders of \$7,040,000 principal amount of its pre-bankruptcy petition 7.75% Convertible Subordinated Debentures and \$9,600,000 principal amounts of its pre-bankruptcy petition 12.0% Subordinated Notes, their pro rata share of each of two series of five-year Warrants to purchase shares of Common Stock, namely Series X Warrants and Series Y Warrants, with an exercise price of \$12.55 per share and \$17.55 per share, respectively. In addition, approximately 28,000 Series X Warrants and 28,000 Series Y Warrants, were issued to Belmont Capital Partners II, L. P. as a portion of additional interest under a debtor-in-possession credit facility. During November and December 1999, 600,603 Series X and 141,944 Series Y Warrants were exercised, respectively. All unexercised Series X and Series Y Warrants expired on December 15, 1999.

NOTE J RETIREMENT PLANS

EMCOR's United Kingdom subsidiary has a defined benefit pension plan covering substantially all eligible employees. The benefits under the plan are based on wages and years of service with the subsidiary. EMCOR's policy is to fund the minimum amount required by law.

The change in benefit obligation and plan assets for the years ended December 31, 1999 and 1998 consists of the following components (in thousands):

	1999	1998
Change in pension benefit obligation:		
Benefit obligation at beginning of year	\$ 87,574	\$ 62,597
Service cost	6,285	4,994
Interest cost	5,243	5,554
Changes in actuarial assumptions	3,965	16,679
Benefits paid	(2,881)	(2,870)
Foreign currency exchange rate changes	(2,969)	620
Benefit obligation at end of year	\$ 97,217	\$ 87,574

	1999	1998
Change in pension plan assets:		
Fair value of plan assets at beginning of year	\$ 82,428	\$ 69,078
Actual return on plan assets	17,810	9,666
Employer contributions	4,529	3,763
Plan participants' contributions	2,155	2,107
Benefits paid	(2,881)	(2,870)
Foreign currency exchange rate changes	(2,794)	684
Fair values of plan assets at end of year	\$ 101,247	\$ 82,428
Funded status	4,030	(5,146)
Unrecognized transition amount	(383)	(480)
Unrecognized prior service cost	518	615
Unrecognized losses(gains)	(6,338)	3,671
Net amount recognized	\$ (2,173)	\$ (1,340)
Amounts recognized in the Consolidated Financial Statements:		
Employer contributions	\$ 4,529	\$ 3,763
Net periodic pension benefit cost	(5,408)	(3,318)
Accrued pension cost brought forward	(1,340)	(1,768)
Foreign currency exchange rate changes	46	(17)
Net amount recognized as accrued pension liability	\$ (2,173)	\$ (1,340)

The assumptions used as of December 31, 1999, 1998 and 1997 in determining pension cost and liability shown above were as follows:

	1999	1998	1997
Discount rate	6.0%	6.0%	8.5%
Annual rate of salary provisions	4.0%	6.5%	6.5%
Annual rate of return on plan assets	7.5%	10.0%	10.0%

For measurement purposes, a 2.5% and 5.0% annual rate of increase in the per capita cost of covered pension benefits was assumed for 1999 and 1998, respectively.

The components of net periodic pension benefit cost for the years ended December 31, 1999, 1998 and 1997 were as follows (in thousands):

	1999	1998	1997
Service cost	\$ 6,285	\$ 4,994	\$ 4,224
Interest cost	5,243	5,554	4,828
Expected return on plan assets	(17,810)	(9,666)	(9,750)
Net amortization of prior service cost and actuarial (gain)/loss	11,690	2,436	3,988
Net periodic pension benefit cost	<u>\$ 5,408</u>	<u>\$ 3,318</u>	<u>\$ 3,290</u>

EMCOR contributes to various union pension funds based upon wages paid to union employees of EMCOR. Such contributions approximated \$71.1 million, \$57.4 million and \$50.8 million for the years ended December 31, 1999, 1998 and 1997, respectively.

EMCOR has a defined contribution retirement plan that covers its U.S. nonunion eligible employees. Contributions to this plan are based on a percentage of the employee's base compensation. The expense recognized for the years ended December 31, 1999, 1998 and 1997, for the defined contribution plan was \$2.2 million, \$1.9 million and \$2.6 million, respectively.

NOTE K COMMITMENTS AND CONTINGENCIES

EMCOR and its subsidiaries lease land, buildings and equipment under various leases. The leases frequently include renewal options and require EMCOR to pay for utilities, taxes, insurance and maintenance expenses.

Future minimum payments, by year and in the aggregate, under capital leases, non-cancelable operating leases and related sub-leases with initial or remaining terms of one or more years at December 31, 1999 are as follows (in thousands):

	Capital Lease	Operating Lease	Sublease Income
2000	\$ 318	\$23,475	\$ 574
2001	163	19,055	656
2002	63	14,449	558
2003	50	10,296	523
2004	13	7,607	401
Thereafter	—	16,930	1,932
Total minimum lease payment	607	<u>\$91,812</u>	<u>\$ 4,644</u>
Amounts representing interest	(53)		
Present value of net minimum lease payments	<u>\$ 554</u>		

Rent expense for the years ended December 31, 1999, 1998 and 1997 was \$15.1 million, \$12.1 million and \$9.8 million, respectively. Rent expense for the years ended December 31, 1999, 1998 and 1997 included sublease rentals of \$0.7 million, \$0.1 million: and \$2.3 million, respectively.

EMCOR has employment agreements with certain of its executive officers and management personnel. These agreements generally continue until terminated by the executive or EMCOR and provide for severance benefits if terminated. Certain of the agreements provide the employees with certain additional rights if a change of control (as defined) of EMCOR occurs.

EMCOR is contingently liable to sureties in respect of performance and payment bonds issued by the sureties in connection with certain contracts entered into by EMCOR's subsidiaries in the normal course of their business. EMCOR has agreed to indemnify the sureties for any payments made by them in respect of such bonds.

EMCOR is subject to regulation with respect to the handling of certain materials used in construction which are classified as hazardous or toxic by federal, state and local agencies. EMCOR's practice is to avoid participation in projects principally involving the remediation or removal of such materials. However,

where remediation is a required part of contract performance, EMCOR believes it complies with all applicable regulations governing the discharge of material into the environment or otherwise relating to the protection of the environment.

NOTE L ADDITIONAL CASH FLOW INFORMATION

The following presents information about cash paid for interest and income taxes for the years ended December 31, 1999, 1998 and 1997 (in thousands):

	1999	1998	1997
Cash paid during the year for:			
Interest	\$ 9,018	\$ 10,849	\$ 9,116
Income taxes	\$ 5,418	\$ 1,480	\$ 521

NOTE M SEGMENT INFORMATION

EMCOR adopted Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131") in 1998. SFAS 131 changed the way EMCOR reports information about its operating segments. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. EMCOR evaluates financial performance based on the operating income of the reportable business units.

EMCOR has the following reportable segments pursuant to SFAS 131: United States electrical construction and facilities services, United States mechanical construction and facilities services, Canada construction and facilities services

and United Kingdom construction and facilities services. United States other services primarily represents those operations which principally provide consulting and maintenance services. Other International represents EMCOR's operations outside of the United States, Canada, and the United Kingdom, primarily in the Middle East and performing electrical construction, mechanical construction and facilities services. Inter-segment sales are not material for any of the periods presented. The Extraordinary items—loss on early extinguishment of debt, net of income taxes, of \$4.8 million and \$1.0 million for the years ended December 31, 1998 and 1997, respectively, are related to Corporate Administration of EMCOR.

The following presents information about industry segments and geographic areas for the years ended December 31, 1999, 1998 and 1997 (in thousands):

	1999	1998	1997
Revenues:			
United States electrical construction and facilities services	\$ 993,073	\$ 888,594	\$ 744,996
United States mechanical construction and facilities services	1,053,727	599,616	577,590
United States other services	96,150	14,392	3,019
Total United States Operations	2,142,950	1,502,602	1,325,605
Canada construction and facilities services	196,694	201,918	179,046
United Kingdom construction and facilities services	553,654	493,278	407,449
Other International construction and facilities services	664	12,576	38,768
Total Worldwide Operations	\$ 2,893,962	\$ 2,210,374	\$ 1,950,868
Operating income (loss):			
United States electrical construction and facilities services	\$ 38,485	\$ 36,315	\$ 28,696
United States mechanical construction and facilities services	37,815	20,955	18,627
United States other services	(4,390)	(4,783)	(2,103)
Total United States Operations	71,910	52,487	45,220
Canada construction and facilities services	3,991	5,000	4,174
United Kingdom construction and facilities services	3,208	(876)	(4,859)
Other International construction and facilities services	(355)	(1,260)	(1,129)
Corporate Administration	(20,663)	(18,127)	(15,992)
Total Worldwide Operations	58,091	37,224	27,414
Other Corporate Items:			
Interest expense	(10,520)	(11,041)	(13,029)
Interest income	2,107	3,558	1,077
Income before taxes and extraordinary items	\$ 49,678	\$ 29,741	\$ 15,462
Capital expenditures:			
United States electrical construction and facilities services	\$ 3,689	\$ 2,928	\$ 2,378
United States mechanical construction and facilities services	3,012	2,473	3,507
United States other services	655	116	95
Total United States Operations	7,356	5,517	5,980
Canada construction and facilities services	804	990	575
United Kingdom construction and facilities services	2,226	3,928	2,594
Other International construction and facilities services	113	48	379
Corporate Administration	238	463	225
Total Worldwide Operations	\$ 10,737	\$ 10,946	\$ 9,753
Depreciation and amortization:			
United States electrical construction and facilities services	\$ 3,284	\$ 3,315	\$ 2,009
United States mechanical construction and facilities services	5,083	2,664	2,143
United States other services	2,329	526	36
Total United States Operations	10,696	6,505	4,188
Canada construction and facilities services	680	651	1,364
United Kingdom construction and facilities services	2,550	3,072	2,203
Other International construction and facilities services	60	207	277
Corporate Administration	107	145	160
Total Worldwide Operations	\$ 14,093	\$ 10,580	\$ 8,192

	1999	1998
Costs and estimated earnings in excess of billings on uncompleted contracts:		
United States electrical construction and facilities services	\$ 40,353	\$ 33,346
United States mechanical construction and facilities services	76,628	34,830
United States other services	3,417	1,942
Total United States Operations	120,398	70,118
Canada construction and facilities services	7,949	4,346
United Kingdom construction and facilities services	8,675	17,095
Other International construction and facilities services	26	10
Total Worldwide Operations	\$ 137,048	\$ 91,569
Billings in excess of costs and estimated earnings on uncompleted contracts:		
United States electrical construction and facilities services	\$ 103,278	\$ 74,193
United States mechanical construction and facilities services	79,535	34,977
United States other services	1,786	1,341
Total United States Operations	184,599	110,511
Canada construction and facilities services	8,252	6,568
United Kingdom construction and facilities services	18,494	16,896
Other International construction and facilities services	4,807	1,119
Total Worldwide Operations	\$ 216,152	\$ 135,094
Total assets:		
United States electrical construction and facilities services	\$ 343,309	\$ 282,580
United States mechanical construction and facilities services	378,813	204,469
United States other services	58,950	25,725
Total United States Operations	781,072	512,774
Canada construction and facilities services	62,141	49,463
United Kingdom construction and facilities services	151,414	156,693
Other International construction and facilities services	18,295	14,605
Corporate Administration	43,567	67,467
Total Worldwide Operations	\$ 1,056,489	\$ 801,002

L NOTE N SELECTED UNAUDITED QUARTERLY INFORMATION

(In thousands, except share data)	March 31	June 30	Sept. 30	Dec. 31
1999 Quarterly Results				
Revenues	\$ 539,983	\$ 696,489	\$ 810,749	\$ 846,741
Gross profit	\$ 51,955	\$ 66,628	\$ 78,017	\$ 99,307
Net income	\$ 2,051	\$ 5,427	\$ 8,638	\$ 11,705
Basic EPS	\$ 0.21	\$ 0.56	\$ 0.89	\$ 1.19
Diluted EPS	\$ 0.20	\$ 0.45	\$ 0.66	\$ 0.88
1998 Quarterly Results				
Revenues	\$ 493,923	\$ 545,547	\$ 565,964	\$ 604,940
Gross profit	\$ 44,240	\$ 52,275	\$ 57,954	\$ 68,818
Income before extraordinary item	\$ 802	\$ 3,674	\$ 5,760	\$ 6,856
Net (loss) income	\$ (3,975)	\$ 3,674	\$ 5,760	\$ 6,856
Basic EPS before extraordinary item	\$ 0.08	\$ 0.34	\$ 0.55	\$ 0.69
Basic EPS (loss)	\$ (0.41)	\$ 0.34	\$ 0.55	\$ 0.69
Diluted EPS	\$ (0.41)	\$ 0.31	\$ 0.45	\$ 0.55

L NOTE O LEGAL PROCEEDINGS

EMCOR's subsidiary Dynaletric Company ("Dynaletric") had been a party to an arbitration proceeding arising out of Dynaletric's participation in a joint venture with Computran Systems Corp. ("Computran"). The proceeding, which was instituted in 1988 in the Superior Court of New Jersey, Bergen County ("Superior Court") by Computran, a participant in, and a subcontractor to, the joint venture, alleged that Dynaletric wrongfully terminated its subcontract, fraudulently diverted funds due to it, misappropriated its trade secrets and proprietary information, fraudulently induced it to enter into the joint venture and conspired with others to commit certain acts in violation of the New Jersey Racketeering Influence and Corrupt Organization Act. The Superior Court ordered that the matter in dispute between Dynaletric and Computran be resolved by binding arbitration in accordance with an original agreement between the parties. Following a decision by the arbitrator, the parties decided to settle all matters relating to the dispute and exchange general releases and, as a consequence, Dynaletric paid to Computran \$1,000,000.

In February 1995, as part of an investigation by the New York County District Attorney's office into the business affairs of Herbert Construction Company

("Herbert"), a general contractor that did business with EMCOR's subsidiary, Forest Electric Corp. ("Forest"), a search warrant was executed at Forest's executive offices. At that time, EMCOR was informed that Forest and certain of its officers are targets of the continuing investigation. Neither EMCOR nor Forest has been advised of the precise nature of any suspected violation of law by Forest or its officers. On April 7, 1997, Ted Kohl, a principal of Herbert, pled guilty to one count of money laundering, one count of offering a false instrument for filing and one count of filing a false New York State Resident Income Tax Return. DPL Interiors, Inc., a company allegedly owned by Mr. Kohl, also pled guilty to one count of failing to file New York City General Income Tax Returns. Mr. Kohl and DPL Interiors, Inc. have not yet been sentenced.

On July 31, 1998, a former employee of a subsidiary of EMCOR filed a class-action complaint on behalf of the participants in two employee benefit plans sponsored by EMCOR against EMCOR and other defendants for breach of fiduciary duty under the Employee Retirement Income Security Act. All of the claims relate to alleged acts or omissions which occurred during the period

May 1, 1991 to December 1994. The principal allegations of the complaint are that the defendants breached their fiduciary duties by causing the plans to purchase and hold stock of EMCOR when it was then known as JWP, Inc. and when the defendants knew or should have known it was imprudent to do so. The plaintiff has not made claim for a specific dollar amount of damages but generally seeks to recover for the benefit plans the loss in the value of JWP stock held by the plans. EMCOR and the other defendants intend to vigorously defend the case. Insurance coverage may be applicable under an EMCOR pension trust liability insurance policy for EMCOR and those present and former employees of EMCOR who are defendants in the action.

Substantial settlements or damage judgements against EMCOR arising out of these matters could have a material adverse effect on EMCOR's business, operating results and financial condition.

In addition to the above, EMCOR is involved in other legal proceedings and claims, asserted by and against EMCOR, which have arisen in the ordinary course of business. EMCOR believes it has a number of valid defenses to these actions and EMCOR intends to vigorously defend or assert these claims and does not believe that a significant liability will result. However, EMCOR cannot predict the outcome thereof or the impact that an adverse result of the matters discussed above will have upon EMCOR's financial position or results of operations.

To the Board of Directors and Stockholders of EMCOR Group, Inc.:

We have audited the accompanying consolidated balance sheets of EMCOR Group, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of Valuation and Qualifying Accounts is presented for purposes of complying with the Securities and Exchange Commission rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.



Stamford, Connecticut
February 18, 2000

MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information EMCOR's common stock trades on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol "EMCG."

The following table sets forth high and low sales prices for the common stock for the periods indicated as reported by the Nasdaq National Market:

1999	High	Low
First Quarter	\$ 17 5/8	\$16 1/16
Second Quarter	\$ 26	\$ 16 1/2
Third Quarter	\$ 25 1/4	\$ 19
Fourth Quarter	\$ 20 1/8	\$ 16 7/8

1998		
First Quarter	\$ 23 1/8	\$ 19 1/4
Second Quarter	\$ 22 1/8	\$ 19 1/8
Third Quarter	\$ 20 1/4	\$ 12 1/2
Fourth Quarter	\$16 11/16	\$ 13 3/8

Holders As of February 18, 2000, there were 167 shareholders of record and, as of that date, EMCOR estimates there were approximately 1,100 beneficial owners holding stock in nominee or "street" name.

Dividends EMCOR did not pay dividends on its common stock during 1999 or 1998, and it does not anticipate that it will pay dividends on its common stock in the foreseeable future. EMCOR's working capital credit facility limits the payment of dividends on its common stock.

BOARD OF DIRECTORS

Stephen W. Bershad Chairman of the Board and Chief Executive Officer of Axsys Technologies, Inc., a manufacturer of electronic components and controls

David A.B. Brown President of The Windsor Group, a management consulting firm

Georges L. de Buffévent Chairman of the Board and Chief Executive Officer of SAGED, a French company specializing in road construction, land development and waste management

Albert Fried, Jr. Managing Member of Albert Fried & Company, LLC, a broker/dealer and member of the New York Stock Exchange; Managing Member of Buttonwood Specialties, LLC, a New York Stock Exchange specialist firm

Richard F. Hamm, Jr. Vice President, Corporate Strategic Development and Acquisitions of Carlson Companies, Inc., a global travel, hospitality and marketing services company

Kevin C. Toner Principal of Aristeia Capital, LLC, an investment manager, and President of the Isdell 86 Foundation, a not-for-profit organization

CORPORATE OFFICERS

Frank T. MacInnis Chairman of the Board and Chief Executive Officer

Jeffrey M. Levy President and Chief Operating Officer

Sheldon I. Cammaker, Esq. Executive Vice President, General Counsel and Secretary

Leicle E. Chesser Executive Vice President and Chief Financial Officer

Sidney R. Bernstein, Esq. Vice President, Taxation

R. Kevin Matz Vice President and Treasurer

Mark A. Pompa Vice President and Controller

Rex C. Thrasher Vice President, Risk Management

OTHER INFORMATION

Corporate Headquarters

EMCOR Group, Inc., 101 Merritt Seven, 7th Floor, Norwalk, Connecticut 06851
T: (203) 849-7800 www.emcorgroup.com

Common Stock Transfer Agent and Registrar

Bank of New York, 101 Barclay Street, New York, New York 10286
T: (800) 524-4458

EMCOR Group, Inc. 5.75% Convertible Subordinated Notes, Trustee

State Street Bank and Trust Co., 225 Asylum Street, Hartford, Connecticut 06103
Attention: Corporate Trust Administration
T: (860) 244-1846

SellCo Corporation 12% Subordinated Contingent Payment Notes, Trustee

State Street Bank and Trust Co., 225 Asylum Street, Hartford, Connecticut 06103
Attention: Corporate Trust Administration
T: (860) 244-1846

Independent Public Accountants

Arthur Andersen LLP, 400 Atlantic Street, Stamford, Connecticut 06912

Nasdaq Information

The Common Stock of EMCOR Group, Inc. is traded on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol "EMCG"

Copies of the Company's Annual Report are available without charge upon written request to: Investor Relations, EMCOR Group, Inc., 101 Merritt Seven, 7th Floor, Norwalk, Connecticut 06851

EMCOR COMPANIES

UNITED STATES

BALCO, Inc.
Boston, MA
617-482-0100

Building Technology
Engineers, Inc. (BTE)
Boston, MA
617-482-5455

Gaithersburg, MD
301-294-2995
Marlton, NJ
856-988-5531

Contra Costa
Electric, Inc.
Martinez, CA (San Francisco
& Los Angeles Areas)
925-229-4250

Bakersfield, CA
661-322-4036

Dynaletric Company
Lakewood, CO (Denver Area)
303-233-4488

Miami Lakes, FL
305-556-5666
Atlanta, GA
770-451-2164

Owensboro, KY
270-685-4925
Las Vegas, NV
702-736-8577

Columbus, OH
614-529-7500

Portland, OR
503-226-6771

Los Alamitos, CA (Los Angeles &
Orange County Areas)
714-828-7000

San Diego, CA
858-712-4700

San Francisco, CA
415-597-4700

Newport News, VA
757-249-4032

Dulles, VA (Washington, DC Area)
703-742-3500

F.J. O'Toole Company
St. Clair Shores, MI (Detroit Area)
810-779-6500

Forest Electric Corp.
New York, NY
212-318-1500
Edison, NJ
732-819-0669

Fred B. DeBra Company, Inc.
Cincinnati, OH
513-631-1911

Gibson Electric Co., Inc.
Oak Brook, IL (Chicago Area)
630-572-3500
Waukegan, IL (Chicago Area)
847-336-1616

Gowan, Inc.
Houston, TX
713-696-5400

Hansen Mechanical
Contractors, Inc.
Las Vegas, NV
702-361-5111

Heritage Air Systems, Inc.
Deer Park, NY
(Greater New York City Area)
516-667-1044

Hyre Electric Company
of Indiana, Inc.
Highland, IN
219-923-6100

J.C. Higgins Corp.
Stoughton, MA (Boston Area)
781-341-1500

John Miller Electric
Company
Troy, MI (Detroit Area)
248-585-5454

Labov Mechanical, Inc.
Pleasantville, NJ
(Atlantic City Area)
609-383-9600

Marelich Mechanical
Co., Inc.
Hayward, CA
(San Francisco Area)
510-785-5500

Anaheim, CA
714-632-2600
Sacramento, CA
916-930-0620

Mesa Energy
Systems, Inc.
Irvine, CA
949-460-0460

San Diego, CA
619-674-2299
Van Nuys, CA
818-756-0500
Pleasanton, CA
925-485-6180

Newcomb Anderson
Associates
San Francisco, CA
415-434-2600

Northern Digital, Inc.
Bakersfield, CA
661-322-6044

PACE Mechanical
Services, Inc.
Westland, MI (Detroit Area)
734-595-8300

Penguin Air
Conditioning Corp.
Brooklyn, NY
(Greater New York City Area)
718-706-6500

Poole & Kent Company
Baltimore, MD
410-247-2200

Miami, FL
305-325-1930
Columbia, SC
803-735-8130

Raleigh, NC
919-781-6945
Waterbury, CT
203-591-8093

Tampa, FL
813-251-2438
West Palm Beach, FL
561-471-3330

R.S. Harritan
& Company, Inc.
Richmond, VA
804-275-7821

Trautman & Shreve, Inc.
Denver, CO
303-295-1414

Tucker Mechanical
Meriden, CT (Hartford Area)
203-630-2506

University Mechanical
& Engineering
Contractors, Inc.
San Diego, CA
619-283-3181

Tempe, AZ
480-921-0903

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