EMCOR GROUP INC
Form 10-Q
October 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from to
Commission file number 1-8267
EMCOR GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

(203) 849-7800
(Registrant's Telephone Number, Including Area Code)
N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

Applicable Only To Corporate Issuers

Number of shares of Common Stock outstanding as of the close of business on October 26, 2015: 62,723,966 shares.

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PART I. – FINANCIAL INFORMATION.
ITEM 1. FINANCIAL STATEMENTS.
EMCOR Group, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$445,400	$ 432,056
Accounts receivable, net	1,333,823	1,234,187
Costs and estimated earnings in excess of billings on uncompleted contracts	128,828	103,201
Inventories	47,843	46,854
Prepaid expenses and other	59,252	70,305
Total current assets	2,015,146	1,886,603
Investments, notes and other long-term receivables	7,146	9,122
Property, plant and equipment, net	117,039	122,178
Goodwill	834,660	834,102
Identifiable intangible assets, net	474,240	502,060
Other assets	35,198	34,902
Total assets	$3,483,429	$ 3,388,967
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings under revolving credit facility	$—	$ —
Current maturities of long-term debt and capital lease obligations	18,712	19,041
Accounts payable	423,260	460,478
Billings in excess of costs and estimated earnings on uncompleted contracts	389,727	368,555
Accrued payroll and benefits	264,788	245,854
Other accrued expenses and liabilities	212,743	189,489
Total current liabilities	1,309,230	1,283,417
Long-term debt and capital lease obligations	303,040	316,399
Other long-term obligations	356,990	359,764
Total liabilities	1,969,260	1,959,580
Equity:		
EMCOR Group, Inc. stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, zero issued and outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 63,469,018 and 63,641,070 shares issued, respectively	635	636
Capital surplus	214,631	227,885
Accumulated other comprehensive loss	(81,629)	(83,197)
Retained earnings	1,386,977	1,280,991
Treasury stock, at cost 659,841 and 659,841 shares, respectively	(10,302)	(10,302)
Total EMCOR Group, Inc. stockholders’ equity	1,510,312	1,416,013
Noncontrolling interests	3,857	13,374
Total equity	1,514,169	1,429,387
Total liabilities and equity	$3,483,429	$ 3,388,967

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues	$1,699,128	$1,566,711	$4,940,900	$4,710,169
Cost of sales	1,463,726	1,344,482	4,249,042	4,051,496
Gross profit	235,402	222,229	691,858	658,673
Selling, general and administrative expenses	165,135	159,983	488,117	454,243
Restructuring expenses	301	398	742	799
Gain on sale of building	—	11,749	—	11,749
Operating income	69,966	73,597	202,999	215,380
Interest expense	(2,226)	(2,397)	(6,650)	(6,887)
Interest income	157	186	515	641
Income from continuing operations before income taxes	67,897	71,386	196,864	209,134
Income tax provision	25,720	23,998	74,672	75,428
Income from continuing operations	42,177	47,388	122,192	133,706
Loss from discontinued operation, net of income taxes	(270)	(611)	(739)	(4,087)
Net income including noncontrolling interests	41,907	46,777	121,453	129,619
Less: Net income attributable to noncontrolling interests	(385)	(1,753)	(233)	(3,421)
Net income attributable to EMCOR Group, Inc.	$41,522	$45,024	$121,220	$126,198
Basic earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.68	$1.94	$1.94
From discontinued operation	(0.00)	(0.01)	(0.01)	(0.06)
Net income attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.67	$1.93	$1.88
Diluted earnings (loss) per common share:				
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.68	$1.92	$1.92
From discontinued operation	(0.00)	(0.01)	(0.01)	(0.06)
Net income attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.67	$1.91	$1.86
Dividends declared per common share	$0.08	$0.08	$0.24	$0.24

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income including noncontrolling interests	$41,907	$46,777	$121,453	$129,619
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	110	(312)	(78)	(246)
Post retirement plans, amortization of actuarial loss included in net income (1)	554	449	1,646	1,345
Other comprehensive income	664	137	1,568	1,099
Comprehensive income	42,571	46,914	123,021	130,718
Less: Comprehensive income attributable to noncontrolling interests	(385)	(1,753)	(233)	(3,421)
Comprehensive income attributable to EMCOR Group, Inc.	$42,186	$45,161	$122,788	$127,297

(1) Net of tax of $0.2 million and $0.1 million for the three months ended September 30, 2015 and 2014, respectively, and net of tax of $0.5 million and $0.4 million for the nine months ended September 30, 2015 and 2014, respectively.

See Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Cash flows - operating activities:		
Net income including noncontrolling interests	$121,453	$129,619
Depreciation and amortization	26,806	27,211
Amortization of identifiable intangible assets	28,391	28,497
Deferred income taxes	(3,598)	4,434
Loss on sale of subsidiary	—	608
Gain on sale of building	—	(11,749)
Excess tax benefits from share-based compensation	(1,306)	(5,886)
Equity income from unconsolidated entities	(1,634)	(1,349)
Other non-cash items	9,701	8,005
Distributions from unconsolidated entities	3,316	1,640
Changes in operating assets and liabilities, excluding the effect of businesses acquired	(87,548)	(72,036)
Net cash provided by operating activities	95,581	108,994
Cash flows - investing activities:		
Payments for acquisitions of businesses, net of cash acquired	(2,357)	—
Proceeds from sale of subsidiary	—	1,108
Proceeds from sale of building	—	11,885
Proceeds from sale of property, plant and equipment	2,921	3,138
Purchase of property, plant and equipment	(22,862)	(27,574)
Investments in and advances to unconsolidated entities and joint ventures	—	(1,865)
Net cash used in investing activities	(22,298)	(13,308)
Cash flows - financing activities:		
Repayments of long-term debt	(13,136)	(13,074)
Repayments of capital lease obligations	(2,190)	(1,272)
Dividends paid to stockholders	(15,078)	(16,109)
Repurchase of common stock	(21,148)	(76,395)
Proceeds from exercise of stock options	2,378	5,044
Payments to satisfy minimum tax withholding	(3,866)	(1,481)
Issuance of common stock under employee stock purchase plan	3,147	2,677
Payments for contingent consideration arrangements	(403)	—
Distributions to noncontrolling interests	(9,750)	(2,750)
Excess tax benefits from share-based compensation	1,306	5,886
Net cash used in financing activities	(58,740)	(97,474)
Effect of exchange rate changes on cash and cash equivalents	(1,199)	(579)
Increase (decrease) in cash and cash equivalents	13,344	(2,367)
Cash and cash equivalents at beginning of year	432,056	439,813
Cash and cash equivalents at end of period	$445,400	$437,446
Supplemental cash flow information:		
Cash paid for:		
Interest	$5,539	$5,606
Income taxes	$72,277	$60,276
Non-cash financing activities:		
Assets acquired under capital lease obligations	$1,686	$93

See Notes to Condensed Consolidated Financial Statements.

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

		EMCOR Group, Inc. Stockholders					
	Total	Common stock	Capital surplus	Accumulated other comprehensive (loss) income (1)	Retained earnings	Treasury stock	Noncontrolling interests
Balance, December 31, 2013	$1,479,626	$676	$408,083	$ (65,777)	$1,133,873	$(10,590)	$ 13,361
Net income including noncontrolling interests	129,619	—	—	—	126,198	—	3,421
Other comprehensive income	1,099	—	—	1,099	—	—	—
Common stock issued under share-based compensation plans (2)	11,286	6	10,992	—	—	288	—
Tax withholding for common stock issued under share-based compensation plans	(1,481)	—	(1,481)	—	—	—	—
Common stock issued under employee stock purchase plan	2,677	—	2,677	—	—	—	—
Common stock dividends	(16,109)	—	200	—	(16,309)	—	—
Repurchase of common stock	(84,565)	(20)	(84,545)	—	—	—	—
Distributions to noncontrolling interests	(2,750)	—	—	—	—	—	(2,750)
Share-based compensation expense	6,321	—	6,321	—	—	—	—
Balance, September 30, 2014	$1,525,723	$662	$342,247	$ (64,678)	$1,243,762	$(10,302)	$ 14,032
Balance, December 31, 2014	$1,429,387	$636	$227,885	$ (83,197)	$1,280,991	$(10,302)	$ 13,374
Net income including noncontrolling interests	121,453	—	—	—	121,220	—	233
Other comprehensive income	1,568	—	—	1,568	—	—	—
Common stock issued under share-based compensation plans (2)	3,619	4	3,615	—	—	—	—
Tax withholding for common stock issued under share-based compensation plans	(3,866)	—	(3,866)	—	—	—	—
Common stock issued under employee stock	3,147	—	3,147	—	—	—	—

purchase plan							
Common stock dividends	(15,078)	—	156	—	(15,234)	—	—
Repurchase of common stock	(22,972)	(5)	(22,967)	—	—	—	—
Distributions to noncontrolling interests	(9,750)	—	—	—	—	—	(9,750)
Share-based compensation expense	6,661	—	6,661	—	—	—	—
Balance, September 30, 2015	$1,514,169	$635	$214,631	$(81,629)	$1,386,977	$(10,302)	$3,857

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

(2) Includes the tax benefit associated with share-based compensation of $1.2 million and $6.2 million for the nine months ended September 30, 2015 and 2014, respectively.

See Notes to Condensed Consolidated Financial Statements.

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EMCOR Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
NOTE 1 Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. References to the “Company,” “EMCOR,” “we,” “us,” “our” and similar words refer to EMCOR Group, Inc. and its consolidated subsidiaries unless the context indicates otherwise. Readers of this report should refer to the consolidated financial statements and the notes thereto included in our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission.
In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of a normal recurring nature) necessary to present fairly our financial position and the results of our operations. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.
NOTE 2 New Accounting Pronouncements
In September 2015, an accounting pronouncement was issued by the Financial Accounting Standards Board ("FASB") which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. This pronouncement is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. We intend to adopt this pronouncement on January 1, 2016, and the adoption will not have a material impact on our financial position and/or results of operations.
In April 2015, an accounting pronouncement was issued by the FASB to update the guidance related to the presentation of debt issuance costs. This guidance requires debt issuance costs, related to a recognized debt liability, be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than being presented as an asset. This pronouncement is effective retrospectively for fiscal years beginning after December 15, 2015, with early adoption permitted. We intend to adopt this pronouncement on January 1, 2016, and the adoption will not have a material impact on our financial position and/or results of operations.
On January 1, 2015, we adopted the accounting pronouncement issued by the FASB updating existing guidance on discontinued operations. This guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This pronouncement is aimed at reducing the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or will have a major effect on an entity’s operations and financial results. We will consider this guidance in conjunction with future disposals, if any.
In May 2014, an accounting pronouncement was issued by the FASB to clarify existing guidance on revenue recognition. This guidance includes the required steps to achieve the core principle that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted. The guidance permits the use of one of two retrospective transition methods. We have not yet selected a transition method nor have we determined the effect that the adoption of the pronouncement may have on our financial position and/or results of operations.
NOTE 3 Acquisitions of Businesses
On June 1, 2015, we acquired a company for an immaterial amount. This company primarily provides mechanical construction services and has been included in our United States mechanical construction and facilities services segment. The purchase price for this acquisition is subject to finalization based on certain contingencies provided for in the purchase agreement. The acquisition of this business was accounted for by the acquisition method, and the price paid for the acquired business has been allocated to its assets and liabilities, based upon the estimated fair value of its assets and liabilities at the date of the acquisition.

During the three months ended September 30, 2015 and 2014, respectively, there were no reversals of liabilities recorded resulting in non-cash income attributable to contingent consideration arrangements relating to prior acquisitions. During each of the nine months ended September 30, 2015 and 2014, we recorded a net reversal of $0.2 million of liabilities resulting in non-cash income attributable to contingent consideration arrangements relating to prior acquisitions.

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

NOTE 4 Disposition of Assets

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

On July 22, 2014, we sold a building and land owned by one of our subsidiaries reported in the United States mechanical construction and facilities services segment. We recognized a gain of approximately $11.7 million for this transaction in the third quarter of 2014, which has been classified as a "Gain on sale of building" in the Condensed Consolidated Statements of Operations.

Due to a historical pattern of losses in the construction operations of our United Kingdom segment and our negative assessment of construction market conditions in the United Kingdom for the foreseeable future, we announced during the quarter ended June 30, 2013 our decision to withdraw from the construction market in the United Kingdom. During the third quarter of 2014, we ceased construction operations in the United Kingdom. The results of the construction operations of our United Kingdom segment for all periods are presented in our Condensed Consolidated Financial Statements as discontinued operations.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Revenues	$149	$3,166	$509	$17,149
Loss from discontinued operation, net of income taxes	$(270)	$(611)	$(739)	$(4,087)
Diluted loss per share from discontinued operation	$(0.00)	$(0.01)	$(0.01)	$(0.06)

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

	September 30, 2015	December 31, 2014
Assets of discontinued operation:		
Current assets	$3,548	$6,265
Non-current assets	$78	$278
Liabilities of discontinued operation:		
Current liabilities	$6,688	$10,743
Non-current liabilities	$31	$94

At September 30, 2015, the assets and liabilities of the discontinued operation consisted of accounts receivable, contract retentions and contract warranty obligations that are expected to be collected or fulfilled in the ordinary course of business. Additionally at September 30, 2015, there remained $0.9 million of obligations related to employee severance and the termination of leased facilities, the majority of which is expected to be paid in 2015. The settlement of the remaining assets and liabilities may result in additional income and/or expenses. Such income and/or expenses are expected to be immaterial and will be reflected as an additional component of “Loss from discontinued operation” as incurred.

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

NOTE 5 Earnings Per Share
Calculation of Basic and Diluted Earnings (Loss) per Common Share
The following tables summarize our calculation of Basic and Diluted Earnings (Loss) per Common Share ("EPS") for the three and nine months ended September 30, 2015 and 2014 (in thousands, except share and per share data):

	For the three months ended September 30,	
	2015	2014
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	$41,792	$45,635
Loss from discontinued operation, net of income taxes	(270)	(611)
Net income attributable to EMCOR Group, Inc. common stockholders	$41,522	$45,024
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	62,901,923	66,714,641
Effect of dilutive securities—Share-based awards	490,560	702,906
Shares used to compute diluted earnings (loss) per common share	63,392,483	67,417,547
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.68
From discontinued operation	$(0.00)	$(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.67
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.68
From discontinued operation	$(0.00)	$(0.01)
Net income attributable to EMCOR Group, Inc. common stockholders	$0.66	$0.67

	For the nine months ended September 30,	
	2015	2014
Numerator:		
Income from continuing operations attributable to EMCOR Group, Inc. common stockholders	$121,959	$130,285
Loss from discontinued operation, net of income taxes	(739)	(4,087)
Net income attributable to EMCOR Group, Inc. common stockholders	$121,220	$126,198
Denominator:		
Weighted average shares outstanding used to compute basic earnings (loss) per common share	62,921,956	67,062,732
Effect of dilutive securities—Share-based awards	521,071	739,874
Shares used to compute diluted earnings (loss) per common share	63,443,027	67,802,606
Basic earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.94	$1.94
From discontinued operation	$(0.01)	$(0.06)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.93	$1.88
Diluted earnings (loss) per common share:		
From continuing operations attributable to EMCOR Group, Inc. common stockholders	$1.92	$1.92
From discontinued operation	$(0.01)	$(0.06)
Net income attributable to EMCOR Group, Inc. common stockholders	$1.91	$1.86

There were no anti-dilutive awards for the three and nine months ended September 30, 2015 and 2014, respectively.

NOTE 6 Inventories

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

	September 30, 2015	December 31, 2014
Raw materials and construction materials	$23,152	$23,330
Work in process	24,691	23,524
	$47,843	$46,854

NOTE 7 Debt

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

	September 30, 2015	December 31, 2014
Term Loan	$319,375	$332,500
Capitalized lease obligations	2,331	2,883
Other	46	57
	321,752	335,440
Less: current maturities	18,712	19,041
	$303,040	$316,399

Credit Facilities

Until November 25, 2013, we had a revolving credit agreement (the "2011 Credit Agreement"), as amended, which provided for a revolving credit facility of $750.0 million. The 2011 Credit Agreement was effective November 21, 2011. Effective November 25, 2013, we amended and restated the 2011 Credit Agreement to provide for a $750.0 million revolving credit facility (the “2013 Revolving Credit Facility”) and a $350.0 million term loan (the "Term Loan") (collectively referred to as the "2013 Credit Agreement") expiring November 25, 2018. The proceeds of the Term Loan were used to repay amounts drawn under the 2011 Credit Agreement. We may increase the 2013 Revolving Credit Facility to $1.05 billion if additional lenders are identified and/or existing lenders are willing to increase their current commitments. We may allocate up to $250.0 million of available capacity under the 2013 Revolving Credit Facility to letters of credit for our account or for the account of any of our subsidiaries. Obligations under the 2013 Credit Agreement are guaranteed by most of our direct and indirect subsidiaries and are secured by substantially all of our assets and most of the assets of most of our subsidiaries. The 2013 Revolving Credit Facility and the Term Loan contain various covenants providing for, among other things, maintenance of certain financial ratios and certain limitations on payment of dividends, common stock repurchases, investments, acquisitions, indebtedness and capital expenditures. We were in compliance with all such covenants as of September 30, 2015 and December 31, 2014. A commitment fee is payable on the average daily unused amount of the 2013 Revolving Credit Facility, which ranges from 0.20% to 0.30%, based on certain financial tests. The fee is 0.20% of the unused amount as of September 30, 2015. Borrowings under the 2013 Credit Agreement bear interest at (1) a rate which is the prime commercial lending rate announced by Bank of Montreal from time to time (3.25% at September 30, 2015) plus 0.25% to 0.75%, based on certain financial tests or (2) United States dollar LIBOR (0.19% at September 30, 2015) plus 1.25% to 1.75%, based on certain financial tests. The interest rate in effect at September 30, 2015 was 1.44%. Fees for letters of credit issued under the 2013 Revolving Credit Facility range from 1.25% to 1.75% of the respective face amounts of outstanding letters of credit and are computed based on certain financial tests. We capitalized approximately $3.0 million of debt issuance costs associated with the 2013 Credit Agreement. This amount is being amortized over the life of the agreement and is included as part of interest expense. We are required to make principal payments on the Term Loan in installments on the last day of March, June, September and December of each year, which commenced with the calendar quarter ended March 31, 2014, in the amount of $4.4 million, with a payment of all unpaid principal and interest due on November 25, 2018. As of September 30, 2015 and December 31, 2014, the balance of the Term Loan was $319.4 million and $332.5 million, respectively. As of September 30, 2015 and December 31, 2014, we had approximately $95.0 million and $95.5 million of letters of credit outstanding, respectively. There were no borrowings outstanding under the 2013 Revolving Credit Facility as of September 30, 2015 and December 31, 2014.

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

NOTE 8 Fair Value Measurements
We use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy, which gives the highest priority to quoted prices in active markets, is comprised of the following three levels:
Level 1 – Unadjusted quoted market prices in active markets for identical assets and liabilities.
Level 2 – Observable inputs, other than Level 1 inputs. Level 2 inputs would typically include quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.
Level 3 – Prices or valuations that require inputs that are both significant to the measurement and unobservable.
The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2015 and December 31, 2014 (in thousands):

	Assets at Fair Value as of September 30, 2015			
Asset Category	Level 1	Level 2	Level 3	Total
Cash and cash equivalents (1)	$445,400	$—	$—	$445,400
Restricted cash (2)	4,407	—	—	4,407
Deferred compensation plan assets (3)	6,698	—	—	6,698
Total	$456,505	$—	$—	