

Notes to Consolidated Financial Statements

2000 and 1999. Since the date of issuance, approximately \$21.5 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

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 was made in respect of that note in August 2000. Interest on the note was 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, 2000 and 1999, respectively, other long-term debt, excluding current maturities, totaling \$1.1 million and \$1.5 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: \$0.2 million in each of 2001 and 2002, \$0.1 million in each of 2003, 2004 and 2005, and \$0.4 million thereafter.

Note G – Income Taxes

EMCOR files a consolidated federal income tax return including all of its U.S. subsidiaries. At December 31, 2000, EMCOR had net operating loss carryforwards ("NOLs") for U.S. income tax purposes of approximately \$40.0 million, which expire in the years 2009 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. In the United Kingdom, EMCOR's wholly owned subsidiary, Drake & Scull, has a trading loss carry-forward of approximately \$6.0 million. Trading losses may be carried forward, without a time limit, against future income from the same trade.

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 to capital surplus. Amounts credited to capital surplus were \$24.4 million, \$15.6 million and \$8.2 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The income tax provision in the accompanying Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998 consisted of the following (in thousands):

	2000	1999	1998
Current:			
Federal	\$ 1,364	\$ 872	\$ 302
State and local	3,394	2,510	2,035
Foreign	1,180	1,730	2,161
	<u>5,938</u>	<u>5,112</u>	<u>4,498</u>
Deferred:			
Foreign	1,138	1,100	–
Provision in lieu of income taxes	24,422	15,645	8,151
	<u>\$ 31,498</u>	<u>\$ 21,857</u>	<u>\$ 12,649</u>

Factors accounting for the variation from U.S. statutory income tax rates relating to continuing operations for the years ended December 31, 2000, 1999 and 1998 were as follows (in thousands):

	2000	1999	1998
Federal income taxes at the statutory rate	\$ 25,055	\$ 17,387	\$ 10,409
State and local income taxes, net of federal tax benefits	3,894	2,990	1,058
Foreign income taxes	890	271	1,247
Non-deductible goodwill amortization	1,211	843	101
Other	448	366	(166)
	<u>\$ 31,498</u>	<u>\$ 21,857</u>	<u>\$ 12,649</u>