EMCOR GROUP INC
Form 10-K
February 26, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2012

¨ 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)

Registrant's telephone number, including area code: (203) 849-7800

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

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes ¨ No x

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 ¨

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 ¨	Non-accelerated filer	¨	(Do not check if a smaller reporting	Smaller reporting company	¨

company)

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1,258,000,000 as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price on the New York Stock Exchange reported for such date. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock (based solely on filings of such 5% holders) have been excluded from such calculation as such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of the registrant's common stock outstanding as of the close of business on February 21, 2013: 66,983,211 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III. Portions of the definitive proxy statement for the 2013 Annual Meeting of Stockholders, which document will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year to which this Form 10-K relates, are incorporated by reference into Items 10 through 14 of Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

Certain information included in this report, or in other materials we have filed or will file with the Securities and Exchange Commission (the “SEC”) (as well as information included in oral statements or other written statements made or to be made by us) contains or may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “1995 Act”). Such statements are being made pursuant to the 1995 Act and with the intention of obtaining the benefit of the “Safe Harbor” provisions of the 1995 Act. Forward-looking statements are based on information available to us and our perception of such information as of the date of this report and our current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They contain words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “can,” “could,” “might,” variations of such wording and other words or phrases of similar meaning in connection with a discussion of our future operating or financial performance, and other aspects of our business, including market share growth, gross profit, project mix, projects with varying profit margins, selling, general and administrative expenses, and trends in our business and other characterizations of future events or circumstances. From time to time, forward-looking statements also are included in our other periodic reports on Forms 10-Q and 8-K, in press releases, in our presentations, on our web site and in other material released to the public. Any or all of the forward-looking statements included in this report and in any other reports or public statements made by us are only predictions and are subject to risks, uncertainties and assumptions, including those identified below in the “Risk Factors” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section, and other sections of this report, and in our Forms 10-Q for the three months ended March 31, 2012, June 30, 2012 and September 30, 2012 and in other reports filed by us from time to time with the SEC as well as in press releases, in our presentations, on our web site and in other material released to the public. Such risks, uncertainties and assumptions are difficult to predict, beyond our control and may turn out to be inaccurate causing actual results to differ materially from those that might be anticipated from our forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in our subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted.

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PART I

ITEM 1. BUSINESS

References to the "Company," "EMCOR," "we," "us," "our" and similar words refer to EMCOR Group, Inc. and its consolidat
subsidiaries unless the context indicates otherwise.

General

We are one of the largest electrical and mechanical construction and facilities services firms in the United States, the United Kingdom and in the world. In 2012, we had revenues of approximately $6.3 billion. We provide services to a broad range of commercial, industrial, utility and institutional customers through approximately 70 operating subsidiaries and joint venture entities. Our offices are located in the United States and the United Kingdom. Our executive offices are located at 301 Merritt Seven, Norwalk, Connecticut 06851-1092, and our telephone number at those offices is (203) 849-7800.

We specialize principally in providing construction services relating to electrical and mechanical systems in facilities of all types and in providing comprehensive services for the operation, maintenance and management of substantially all aspects of such facilities, commonly referred to as "facilities services."

We design, integrate, install, start-up, operate and maintain various electrical and mechanical systems, including:

- Electric power transmission and distribution systems;
- Premises electrical and lighting systems;
- Low-voltage systems, such as fire alarm, security and process control systems;
- Voice and data communications systems;
- Roadway and transit lighting and fiber optic lines;
- Heating, ventilation, air conditioning, refrigeration and clean-room process ventilation systems;
- Fire protection systems;
- Plumbing, process and high-purity piping systems;
- Controls and filtration systems;
- Water and wastewater treatment systems;
- Central plant heating and cooling systems;
- Crane and rigging services;
- Millwright services; and
- Steel fabrication, erection, and welding services.

Our facilities services operations, many of which support the operation of a customer's facilities, include:

- Industrial maintenance and services, including those for refineries and petrochemical plants;
- Outage services to utilities and industrial plants;
- Commercial and government site-based operations and maintenance;
- Military base operations support services;
- Mobile mechanical maintenance and services;
- Floor care and janitorial services;
- Landscaping, lot sweeping and snow removal;

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- Facilities management;
- Vendor management;
- Call center services;
- Installation and support for building systems;
- Program development, management and maintenance for energy systems;
- Technical consulting and diagnostic services;
- Small modification and retrofit projects; and
- Retrofit projects to comply with clean air laws.

Facilities services are provided to a wide range of commercial, industrial, utility, institutional and governmental facilities.

We provide construction services and facilities services directly to corporations, municipalities and federal and state governmental entities, owners/developers, and tenants of buildings. We also provide these services indirectly by acting as a subcontractor to general contractors, systems suppliers, property managers and other subcontractors. Worldwide, as of December 31, 2012, we had over 26,000 employees.

Our revenues are derived from many different customers in numerous industries, which have operations in several different geographical areas. Of our 2012 revenues, approximately 92% were generated in the United States and approximately 8% were generated in the United Kingdom. In 2012, approximately 39% of revenues were derived from new construction projects, 17% were derived from renovation and retrofit of customer's existing facilities, and 44% were derived from facilities services operations.

The broad scope of our operations is more particularly described below. For information regarding the revenues, operating income and total assets of each of our segments with respect to each of the last three years, and our revenues and assets attributable to the United States, the United Kingdom and all other foreign countries for the last three years, see Note 18 - Segment Information of the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data.

Operations

The electrical and mechanical construction services industry has grown over the years due principally to the increased content, complexity and sophistication of electrical and mechanical systems, as well as the installation of more technologically advanced voice and data communications, lighting and environmental control systems in all types of facilities in large part due to the integration of digital processing and information technology. For these reasons, buildings need extensive electrical distribution systems. In addition, advanced voice and data communication systems require sophisticated power supplies and extensive low-voltage and fiber-optic communications cabling. Moreover, the need for substantial environmental controls within a building, due to the heightened need for climate control to maintain extensive computer systems at optimal temperatures, and the demand for energy savings and environmental control in individual spaces have over the years expanded opportunities for our electrical and mechanical services businesses. The demand for these services is typically driven by non-residential construction and renovation activity.

Electrical and mechanical construction services primarily involve the design, integration, installation and start-up and provision of services relating to: (a) electric power transmission and distribution systems, including power cables, conduits, distribution panels, transformers, generators, uninterruptible power supply systems and related switch gear and controls; (b) premises electrical and lighting systems, including fixtures and controls; (c) low-voltage systems, such as fire alarm, security and process control systems; (d) voice and data communications systems, including fiber-optic and low-voltage cabling; (e) roadway and transit lighting and fiber-optic lines; (f) heating, ventilation, air conditioning, refrigeration and clean-room process ventilation systems; (g) fire protection systems; (h) plumbing, process and high-purity piping systems; (i) controls and filtration systems; (j) water and wastewater treatment systems; (k) central plant heating and cooling systems; (l) cranes and rigging; (m) millwrighting; and (n) steel fabrication, erection and welding.

Electrical and mechanical construction services generally fall into one of two categories: (a) 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 projects or the fit-out of large blocks of space within commercial buildings and

(b) smaller installation projects typically involving fit-out, renovation and retrofit work.
Our United States electrical and mechanical construction services operations accounted for about 53% of our 2012 revenues, approximately 71% of which were related to new construction and approximately 29% of which were related to renovation and

retrofit projects. Our United Kingdom electrical and mechanical construction services operations accounted for approximately 3% of our 2012 revenues, approximately 53% of which were related to new construction and approximately 47% of which were related to renovation and retrofit projects. We provide electrical and mechanical construction services for both large and small installation and renovation projects. Our largest projects have included those: (a) for institutional use (such as water and wastewater treatment facilities, hospitals, correctional facilities and research laboratories); (b) for industrial use (such as pharmaceutical plants, steel, pulp and paper mills, chemical, food, automotive and semiconductor manufacturing facilities and oil refineries); (c) for transportation projects (such as highways, airports and transit systems); (d) for commercial use (such as office buildings, data centers, hotels, casinos, convention centers, sports stadiums, shopping malls and resorts); and (e) for power generation and energy management projects. Our largest projects, which typically range in size from $10.0 million up to and occasionally exceeding $150.0 million and are frequently multi-year projects, represented approximately 33% of our worldwide construction services revenues in 2012.

Our projects of less than $10.0 million accounted for approximately 67% of our worldwide construction services revenues in 2012. These projects are typically completed in less than one year. They usually involve electrical and mechanical construction services when an end-user or owner undertakes construction or modification of a facility to accommodate a specific use. These projects frequently require electrical and mechanical systems to meet special needs such as critical systems power supply, fire protection systems, special environmental controls and high-purity air systems, sophisticated electrical and mechanical systems for data centers, new production lines in manufacturing plants and office arrangements in existing office buildings. They are not usually dependent upon the new construction market. Demand for these projects and types of services 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.

We have a broad customer base with many long-standing relationships. We perform 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 obtain bid and performance bonds, which are often a condition to bidding for and winning these projects.

We also install and maintain lighting for streets, highways, bridges and tunnels, 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, we manufacture and install sheet metal air handling systems for both our own mechanical construction operations and for unrelated mechanical contractors. We also maintain welding and pipe fabrication shops in support of some of our mechanical operations.

Our United States facilities services operations provide facilities services to a wide range of commercial, industrial, utility, institutional and governmental facilities.

These facilities services, which generated approximately 44% of our 2012 revenues, are provided 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. Of our 2012 facilities services revenues, approximately 88% were generated in the United States and approximately 12% were generated in the United Kingdom.

Our facilities services operations have built upon our traditional electrical and mechanical services operations, facilities services activities of our electrical and mechanical contracting subsidiaries, and our client relationships, as well as acquisitions, to expand the scope of services being offered and to develop packages of services for customers on a regional and national basis.

Our United States facilities services segment offers a broad range of facilities services, including operation, maintenance and service of electrical and mechanical systems; industrial maintenance and services, including outage services to utilities and industrial plants; commercial and government site-based operations and maintenance; military base operations support services; mobile mechanical maintenance and services; floor care and janitorial services; landscaping, lot sweeping and snow removal; facilities management; vendor management; call center services; installation and support for building systems; program development, management and maintenance with respect to energy systems; technical consulting and diagnostic services; infrastructure and building projects for federal, state and local governmental agencies and bodies; small modification and retrofit projects; and retrofit projects to comply with clean air laws.

Demand for our facilities services is often driven by customers' decisions to focus on their core competencies, customers' programs to reduce costs, 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 electrical and mechanical 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 associated with, the customer's core business. Clients of our facilities services business include federal and state governments, utilities, independent power producers, refineries, pulp and paper producers and major corporations engaged in information technology, telecommunications, pharmaceuticals, petrochemicals, financial services, publishing and other manufacturing, and large retailers and other businesses with multiple locations throughout the United States.

We currently provide facilities services in a majority of the states in the United States to commercial, industrial, institutional and governmental customers and as part of our operations are responsible for: (a) the oversight of all or most of the facilities operations of a business, including operation and maintenance; (b) servicing, upgrade and retrofit of HVAC, electrical, plumbing and industrial piping and sheet metal systems in existing facilities; (c) interior and exterior services, including floor care and janitorial services, landscaping, lot sweeping and snow removal; (d) diagnostic and solution engineering for building systems and their components; (e) maintenance and support services to manufacturers and power producers; and (f) services for refineries and petrochemical plants.

In the Washington D.C. metropolitan area, we provide facilities services at a number of preeminent buildings, including those that house the Secret Service, the Federal Deposit Insurance Corporation, the National Affairs Training Center, and the Department of Health and Human Services, as well as other government facilities including the NASA Jet Propulsion Laboratory in Pasadena, California. We also provide facilities services to a number of military bases, including base operations support services to the Navy Capital Region and Fort Huachuca, Arizona, and are also involved in joint ventures providing facilities services to the Naval Base Kitsap in the State of Washington. The agreements pursuant to which this division provides services to the federal government are frequently for a term of five to ten years, are subject to renegotiation of terms and prices by the government, and are subject to termination by the government prior to the expiration of the term.

As part of our facilities services operations, we also provide aftermarket maintenance, repair and cleaning services for highly engineered shell and tube heat exchangers for refineries and the petrochemical industry both at our facilities and in the field. These services are tailored to meet customer needs for scheduled turnarounds or specialty callout service.

Our United Kingdom subsidiary also has a division that focuses on facilities services. This division currently provides a broad range of facilities services under multi-year agreements to public and private sector customers, including airlines, airports, real estate property managers, manufacturers and governmental agencies.

Competition

In both our construction services and facilities services businesses, we compete with national, regional and local companies, many of which are small, owner-operated entities that carry on their businesses in a limited geographic area.

We believe that the electrical and mechanical construction services business is highly fragmented and our competition includes thousands of small companies across the United States and in the United Kingdom. In the United States, there are a few public companies focused on providing either electrical and/or mechanical construction services, such as Integrated Electrical Services, Inc., Comfort Systems USA, Inc. and Tutor Perini Corporation. Our principal competitors in the United Kingdom include Carillion plc and MITIE Group plc. A majority of our revenues are derived from projects requiring competitive bids; however, an invitation to bid is often conditioned upon prior experience, technical capability and financial strength. Because we have total assets, annual revenues, net worth, access to bank credit and surety bonding and expertise significantly greater than most of our competitors, we believe we have a significant competitive advantage over our competitors in providing electrical and mechanical construction services. Competitive factors in the electrical and mechanical construction services business include: (a) the availability of qualified and/or licensed personnel; (b) reputation for integrity and quality; (c) safety record; (d) cost structure; (e) relationships with customers; (f) geographic diversity; (g) the ability to control project costs; (h) experience in specialized markets; (i) the ability to obtain surety bonding; (j) adequate working capital; (k) access to bank credit; and (l) price. However, there are relatively few significant barriers to entry to several types of our construction services business.

While the facilities services business is also highly fragmented with most competitors operating in a specific geographic region, a number of large United States based corporations such as AECOM Technology Corporation, Johnson Controls, Inc., Fluor Corp., J&J Worldwide Services, UNICCO Service Company, the Washington Division of URS Corporation, CB Richard Ellis, Inc., Jones Lang LaSalle and ABM Facility Services are engaged in this field, as are large original equipment manufacturers such as Carrier Corp. and Trane Air Conditioning. In addition, we compete with several regional firms serving all or portions of the markets we target, such as FM Facility Maintenance, Bergensons Property Services, Inc., SMS Assist, LLC and Ferandino & Sons, Inc. With respect to our industrial services operations, we are a leading North American provider of aftermarket maintenance and repair services for highly engineered shell and tube heat exchangers. The key competitive factors in the facilities services business include price, service, quality, technical expertise, geographic scope and the availability of qualified personnel and managers. Due to our size, both financial and geographic, and our technical capability and management experience, we believe we are in a strong competitive position in the facilities services business. However, there are relatively few barriers to entry to most of our facilities services businesses.

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Employees

At December 31, 2012, we employed over 26,000 people, approximately 58% of whom are represented by various unions pursuant to more than 375 collective bargaining agreements between our individual subsidiaries and local unions. We believe that our employee relations are generally good. Only two of these collective bargaining agreements are national or regional in scope.

Backlog

Our backlog at December 31, 2012 was $3.37 billion compared to $3.33 billion of backlog at December 31, 2011. Backlog increases with awards of new contracts and decreases as we perform work on existing contracts. Backlog is not a term recognized under United States generally accepted accounting principles; however, it is a common measurement used in our industry. Backlog includes unrecognized revenues to be realized from uncompleted construction contracts plus unrecognized revenues expected to be realized over the remaining term of the facilities services contracts. If the remaining term of a facilities services contract exceeds 12 months, the unrecognized revenues attributable to such contract included in backlog are limited to only the next 12 months of revenues.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, which we refer to as the “SEC”. These filings are available to the public over the internet at the SEC's web site at http://www.sec.gov. You may also read and copy any document we file at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

Our Internet address is www.emcorgroup.com. We make available free of charge through www.emcorgroup.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Our Board of Directors has an audit committee, a compensation and personnel committee, and a nominating and corporate governance committee. Each of these committees has a formal charter. We also have Corporate Governance Guidelines, which include guidelines regarding related party transactions, a Code of Ethics for our Chief Executive Officer and Senior Financial Officers, and a Code of Ethics and Business Conduct for Directors, Officers and Employees. Copies of these charters, guidelines and codes, and any waivers or amendments to such codes which are applicable to our executive officers, senior financial officers or directors, can be obtained free of charge from our web site, www.emcorgroup.com.

You may request a copy of the foregoing filings (excluding exhibits), charters, guidelines and codes and any waivers or amendments to such codes which are applicable to our executive officers, senior financial officers or directors, at no cost by writing to us at EMCOR Group, Inc., 301 Merritt Seven, Norwalk, CT 06851-1092, Attention: Corporate Secretary, or by telephoning us at (203) 849-7800.

ITEM 1A. RISK FACTORS

Our business is subject to a variety of risks, including the risks described below as well as adverse business and market conditions and risks associated with foreign operations. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not known to us or not described below which we have not determined to be material may also impair our business operations. You should carefully consider the risks described below, together with all other information in this report, including information contained in the “Business,” “Management's Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures about Market Risk” sections. If any of the following risks actually occur, our business, financial position, results of operations and/or cash flows could be adversely affected, and we may not be able to achieve our goals. Such events may cause actual results to differ materially from expected and historical results, and the trading price of our common stock could decline.

The economic downturn has led to a reduction in demand for our services. Negative conditions in the credit markets may continue to adversely impact our ability to operate our business. The level of demand from our clients for our services has been, and will likely continue to be, adversely impacted by the slowdown in the industries we service, as well as in the economy in general. As the general level of economic activity has been reduced from historical levels, certain of our ultimate customers have delayed or cancelled, and may continue to delay or cancel, projects or capital spending, especially with respect to more profitable private sector work, and this slowdown has adversely affected our ability to continue to grow and has resulted in a reduction in our revenues and profitability from historical heights, and is likely to continue to adversely affect our revenues and profitability. A number of economic factors, including financing conditions for the industries we serve, have adversely affected, and may continue to adversely affect, our ultimate customers and their ability or willingness to fund expenditures in the future or pay for past services. General concerns about the fundamental soundness of domestic and foreign economies have caused and may continue to cause ultimate

customers to defer projects even if they have credit available to them. Continuation or further worsening of financial and macroeconomic conditions could have a significant adverse effect on our revenues and profitability.
Many of our clients depend on the availability of credit to help finance their capital and maintenance projects. At times, tightened availability of credit has negatively impacted the ability of existing and prospective ultimate customers to fund projects we might otherwise perform, particularly those in the more profitable private sector. As a result, certain ultimate customers have deferred and others may defer such projects for an unknown, and perhaps lengthy, period. Such deferrals have inhibited our growth and adversely affected our results of operations and are likely to continue to have an adverse impact on our results of operations.
In a weak economic environment, particularly in a period of restrictive credit markets, we may experience greater difficulties in collecting payments from, and negotiating change orders and/or claims with, our clients due to, among other reasons, a diminution in our ultimate customers' access to the credit markets. If clients delay in paying or fail to pay a significant amount of our outstanding receivables, or we fail to successfully negotiate a significant portion of our change orders and/or claims with clients, it could have an adverse effect on our liquidity, results of operations and financial position.
Our business is vulnerable to the cyclical nature of the markets in which our clients operate and is dependent upon the timing and funding of new awards. We provide construction and maintenance services to ultimate customers operating in a number of markets which have been, and we expect will continue to be, cyclical and subject to significant fluctuations due to a variety of factors beyond our control, including economic conditions and changes in client spending.
Regardless of economic or market conditions, investment decisions by our ultimate customers may vary by location or as a result of other factors like the availability of labor, relative construction costs or competitive conditions in their industry. Because we are dependent on the timing and funding of new awards, we are therefore vulnerable to changes in our clients' markets and investment decisions. Our business has traditionally lagged recoveries in the general economy and, therefore, may not recover as quickly as the economy at large.
Our business may be adversely affected by significant delays and reductions in government appropriations. Recent federal legislation aimed at curtailing spending by federal agencies and departments and reducing the federal budget deficit may result in federal governmental agencies or departments deferring or canceling projects that we might otherwise seek to perform or terminating existing contracts that we have with such agencies or departments. In particular, U.S. government expenditures are subject to the potential for automatic reductions, generally referred to as "sequestration." Sequestration may occur during 2013, resulting in reductions to spending by the U.S. government on both existing and new contracts. Even if sequestration does not occur, we expect that budgetary constraints and ongoing concerns regarding the U.S. national debt will continue to place downward pressure on spending levels of the U.S. government. In addition, significant budget deficits faced by state and local governments as a result of declining tax and other revenues may result in curtailment of future spending on their government infrastructure projects and/or expenditures. Some of our businesses derive a significant portion of their revenues from federal, state and local governmental bodies.
An increase in the prices of certain materials used in our businesses could adversely affect our businesses. We are exposed to market risk of fluctuations in certain commodity prices of materials, such as copper and steel, which are used as components of supplies or materials utilized in both our construction and facilities services operations. We are also exposed to increases in energy prices, particularly as they relate to gasoline prices for our fleet of over 8,500 vehicles. While we believe we can increase our prices to adjust for some price increases in commodities, there can be no assurance that price increases of commodities, if they were to occur, would be recoverable. Additionally, our fixed price contracts do not allow us to adjust our prices and, as a result, increases in material or fuel costs could reduce our profitability with respect to such projects.
Our industry is highly competitive. Our industry is served by numerous small, owner-operated private companies, a few public companies and several large regional companies. In addition, relatively few barriers prevent entry into most of our businesses. As a result, any organization that has adequate financial resources and access to technical expertise may become one of our competitors. Competition in our industry depends on numerous factors, including price. Certain of our competitors have lower overhead cost structures and, therefore, are able to provide their services

at lower rates than we are currently able to provide. In addition, some of our competitors have greater resources than we do. We cannot be certain that our competitors will not develop the expertise, experience and resources necessary to provide services that are superior in quality and lower in price to ours. Similarly, we cannot be certain that we will be able to maintain or enhance our competitive position within the industry or maintain a customer base at current levels. We may also face competition from the in-house service organizations of existing or prospective customers, particularly with respect to facilities services. Many of our customers employ personnel who perform some of the same types of facilities services that we do. We cannot be certain that our existing or prospective customers will continue to outsource facilities services in the future.

We are a decentralized company, which presents certain risks. While we believe decentralization has enhanced our growth and enabled us to remain responsive to opportunities and to our customers' needs, it necessarily places significant control and decision-

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making powers in the hands of local management. This presents various risks, including the risk that we may be slower or less able to identify or react to problems affecting a key business than we would in a more centralized environment.

Our business may also be affected by adverse weather conditions. Adverse weather conditions, particularly during the winter season, could impact our construction services operations as those conditions affect our ability to perform efficient work outdoors in certain regions of the United States and the United Kingdom. However, the absence of snow in the United States during the winter could cause us to experience reduced revenues in our United States facilities services segment, which has meaningful snow removal operations. In addition, cooler than normal temperatures during the summer months could reduce the need for our services, particularly in our businesses that provide or service air conditioning units, and result in reduced revenues and profitability during the period such unseasonal weather conditions persist.

Our business may be affected by the work environment. We perform our work under a variety of conditions, including but not limited to, difficult terrain, difficult site conditions and busy urban centers where delivery of materials and availability of labor may be impacted, clean-room environments where strict procedures must be followed, and sites which may have been exposed to environmental hazards. Performing work under these conditions can negatively affect efficiency and, therefore, our profitability.

Our dependence upon fixed price contracts could adversely affect our business. We currently generate, and expect to continue to generate, a significant portion of our revenues from fixed price contracts. We must estimate the total costs of a particular project to bid for fixed price contracts. The actual cost of labor and materials, however, may vary from the costs we originally estimated. These variations, along with other risks, inherent in performing fixed price contracts, may cause actual gross profits from projects to differ from those we originally estimated and could result in reduced profitability or losses on projects. Depending upon the size of a particular project, variations from the estimated contract costs can have a significant impact on our operating results for any fiscal quarter or year.

We could incur additional costs to cover guarantees. In some instances, we guarantee completion of a project by a specific date or price, cost savings, achievement of certain performance standards or performance of our services at a certain standard of quality. If we subsequently fail to meet such guarantees, we may be held responsible for costs resulting from such failures. Such a failure could result in our payment of liquidated or other damages. To the extent that any of these events occur, the total costs of a project could exceed the original estimated costs, and we would experience reduced profits or, in some cases, a loss.

Many of our contracts, especially our facilities services contracts for governmental and non-governmental entities, may be canceled on short notice, and we may be unsuccessful in replacing such contracts if they are canceled or as they are completed or expire. We could experience a decrease in revenues, net income and liquidity if any of the following occur:

- customers cancel a significant number of contracts;
- we fail to win a significant number of our existing contracts upon re-bid;
- we complete a significant number of non-recurring projects and cannot replace them with similar projects; or
- we fail to reduce operating and overhead expenses consistent with any decrease in our revenues.

We may be unsuccessful in generating internal growth. Our ability to generate internal growth will be affected by, among other factors, our ability to:

- expand the range of services offered to customers to address their evolving needs;
- attract new customers; and
- increase the number of projects performed for existing customers.

In addition, existing and potential customers have reduced, and may continue to reduce, the number or size of projects available to us due to their inability to obtain capital or pay for services provided or because of general economic conditions. Many of the factors affecting our ability to generate internal growth are beyond our control, and we cannot be certain that our strategies will be successful or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we are not successful, we may not be able to achieve internal growth, expand operations or grow our business.

The departure of key personnel could disrupt our business. We depend on the continued efforts of our senior management. The loss of key personnel, or the inability to hire and retain qualified executives, could negatively impact our ability to manage our business. However, we have executive development and management succession plans in place in order to minimize any such negative impact.

We may be unable to attract and retain skilled employees. Our ability to grow and maintain productivity and profitability will be limited by our ability to employ, train and retain skilled personnel necessary to meet our requirements. We are dependent upon

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our project managers and field supervisors who are responsible for managing our projects; and there can be no assurance that any individual will continue in his or her capacity for any particular period of time, and the loss of such qualified employees could have an adverse effect on our business. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our business strategy or that labor expenses will not increase as a result of a shortage in the supply of these skilled personnel. Labor shortages or increased labor costs could impair our ability to maintain our business or grow our revenues.

Our unionized workforce could adversely affect our operations, and we participate in many multiemployer union pension plans which could result in substantial liabilities being incurred. As of December 31, 2012, approximately 58% of our employees were covered by collective bargaining agreements. Although the majority of these agreements prohibit strikes and work stoppages, we cannot be certain that strikes or work stoppages will not occur in the future. However, only two of our collective bargaining agreements are national or regional in scope, and not all of our collective bargaining agreements expire at the same time. Strikes or work stoppages would adversely impact our relationships with our customers and could have a material adverse effect on our financial position, results of operations and cash flows. We contribute to over 200 multiemployer union pension plans based upon wages paid to our union employees that could result in our being responsible for a portion of the unfunded liabilities under such plans. Our potential liability for unfunded liabilities could be material. Under the Employee Retirement Income Security Act, we may become liable for our proportionate share of a multiemployer pension plan's underfunding, if we cease to contribute to that pension plan or significantly reduce the employees in respect of which we make contributions to that pension plan. See Note 15 - Retirement Plans of the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data for additional information regarding multiemployer plans.

Fluctuating foreign currency exchange rates impact our financial results. We have foreign operations in the United Kingdom, which in 2012 accounted for 8% of our revenues. Our reported financial position and results of operations are exposed to the effects (both positive and negative) that fluctuating exchange rates have on the process of translating the financial statements of our United Kingdom operations, which are denominated in local currencies, into the U.S. dollar.

Our failure to comply with environmental laws could result in significant liabilities. Our operations are subject to various laws, including environmental laws and regulations, among which many deal with the handling and disposal of asbestos and other hazardous or universal waste products, PCBs and fuel storage. A violation of such laws and regulations may expose us to various claims, including claims by third parties, as well as remediation costs and fines. We own and lease many facilities. Some of these facilities contain fuel storage tanks, which may be above or below ground. If these tanks were to leak, we could be responsible for the cost of remediation as well as potential fines. As a part of our business, we also install fuel storage tanks and are sometimes required to deal with hazardous materials, all of which may expose us to environmental liability.

In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or leaks, or the imposition of new clean-up requirements could require us to incur significant costs or become the basis for new or increased liabilities that could harm our financial position and results of operations, although certain of these costs might be covered by insurance. In some instances, we have obtained indemnification or covenants from third parties (including predecessors or lessors) for such clean-up and other obligations and liabilities that we believe are adequate to cover such obligations and liabilities. However, such third-party indemnities or covenants may not cover all of such costs or third-party indemnitors may default on their obligations. In addition, unanticipated obligations or liabilities, or future obligations and liabilities, may have a material adverse effect on our business operations. Further, we cannot be certain that we will be able to identify, or be indemnified for, all potential environmental liabilities relating to any acquired business.

Adverse resolution of litigation and other legal proceedings may harm our operating results or financial position. We are a party to lawsuits and other legal proceedings, most of which occur in the normal course of our business. Litigation and other legal proceedings can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular legal proceeding could have a material adverse effect on our business, operating results, financial position, and in some cases, on our reputation or our ability to obtain projects from customers, including governmental entities. See Item 3. Legal Proceedings and Note 16 - Commitments and Contingencies of the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, for more information regarding legal proceedings in which we are involved.

Opportunities within the government sector could lead to increased governmental regulation applicable to us and unrecoverable startup costs. Most government contracts are awarded through a regulated competitive bidding process. As we pursue increased opportunities in the government arena, particularly in our facilities services segment, management's focus associated with the start-up and bidding process may be diverted away from other opportunities. If we are to be successful in being awarded additional government contracts, a significant amount of costs could be required before any revenues are realized from these contracts. In addition, as a government contractor we are subject to a number of procurement rules and other regulations, any deemed violation of which could lead to fines or penalties or a loss of business. Government agencies routinely audit and investigate government contractors. Government agencies may review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. If government agencies determine through these audits or reviews that costs are

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improperly allocated to specific contracts, they will not reimburse the contractor for those costs or may require the contractor to refund previously reimbursed costs. If government agencies determine that we are engaged in improper activity, we may be subject to civil and criminal penalties and debarment or suspension from doing business with the government. Government contracts are also subject to renegotiation of profit by the government, termination by the government prior to the expiration of the term and non-renewal by the government.

A significant portion of our business depends on our ability to provide surety bonds. We may be unable to compete for or work on certain projects if we are not able to obtain the necessary surety bonds. Our construction contracts frequently require that we obtain from surety companies and provide to our customers payment and performance bonds as a condition to the award of such contracts. Such surety bonds secure our payment and performance obligations.

Surety market conditions have in recent years become more difficult due to the economy and the regulatory environment. Consequently, less overall bonding capacity is available in the market than in the past, and surety bonds have become more expensive and restrictive. Further, under standard terms in the surety market, surety companies issue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of additional collateral as a condition to issuing any bonds.

Current or future market conditions, as well as changes in our sureties' assessment of our or their own operating and financial risk, could cause our surety companies to decline to issue, or substantially reduce the amount of, bonds for our work and could increase our bonding costs. These actions can be taken on short notice. If our surety companies were to limit or eliminate our access to bonding, our alternatives would include seeking bonding capacity from other surety companies, increasing business with clients that do not require bonds and posting other forms of collateral for project performance, such as letters of credit or cash. We may be unable to secure these alternatives in a timely manner, on acceptable terms, or at all. Accordingly, if we were to experience an interruption or reduction in the availability of bonding capacity, we may be unable to compete for or work on certain projects.

We are effectively self-insured against many potential liabilities. Although we maintain insurance policies with respect to a broad range of risks, including automobile liability, general liability, workers' compensation and employee group health, these policies do not cover all possible claims and certain of the policies are subject to large deductibles. Accordingly, we are effectively self-insured for a substantial number of actual and potential claims. In addition, if any of our insurance carriers defaulted on its obligations to provide insurance coverage by reason of its insolvency or for other reasons, our exposure to claims would increase and our profits would be adversely affected. Our estimates for unpaid claims and expenses are based on known facts, historical trends and industry averages, utilizing the assistance of an actuary. We reflect these liabilities in our balance sheet as “Other accrued expenses and liabilities” and “Other long-term obligations.” The determination of such estimated liabilities and their appropriateness are reviewed and updated at least quarterly. However, these liabilities are difficult to assess and estimate due to many relevant factors, the effects of which are often unknown, including the severity of an injury or damage, the determination of liability in proportion to other parties, the timeliness of reported claims, the effectiveness of our risk management and safety programs and the terms and conditions of our insurance policies. Our accruals are based upon known facts, historical trends and our reasonable estimate of future expenses, and we believe such accruals are adequate. However, unknown or changing trends, risks or circumstances, such as increases in claims, a weakening economy, increases in medical costs, changes in case law or legislation or changes in the nature of the work we perform, could render our current estimates and accruals inadequate. In such case, adjustments to our balance sheet may be required and these increased liabilities would be recorded in the period that the experience becomes known. Insurance carriers may be unwilling, in the future, to provide our current levels of coverage without a significant increase in insurance premiums and/or collateral requirements to cover our obligations to them. Increased collateral requirements may be in the form of additional letters of credit, and an increase in collateral requirements could significantly reduce our liquidity. If insurance premiums increase, and/or if insurance claims are higher than our estimates, our profitability could be adversely affected.

Health care reform could adversely affect our operating results. In 2010, the United States government enacted comprehensive health care reform legislation. Due to the breadth and complexity of this legislation, as well as its phased-in nature of implementation and lack of interpretive guidance, it is difficult for us to predict the overall effects it will have on our business over the coming years. To date, we have not experienced material costs related to the health care reform legislation; however, it is possible that our operating results and/or cash flows could be adversely affected in the future by increased costs, expanded liability exposure and requirements that change the ways we provide healthcare and other benefits to our employees.

We may incur liabilities or suffer negative financial impact relating to occupational, health and safety matters. Our operations are subject to extensive laws and regulations relating to the maintenance of safe conditions in the workplace. While we have invested, and will continue to invest, substantial resources in our robust occupational, health and safety programs, our industry involves a high degree of operational risk, and there can be no assurance that we will avoid significant liability exposure. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and other consequential damages and could lead to suspension of operations, large damage claims and, in extreme cases, criminal liability.

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Our customers seek to minimize safety risks on their sites and they frequently review the safety records of contractors during the bidding process. If our safety record were to substantially deteriorate over time, we might become ineligible to bid on certain work and our customers could cancel our contracts and/or not award us future business.

If we fail to integrate future acquisitions successfully, this could adversely affect our business and results of operations. As part of our growth strategy, we acquire companies that expand, complement and/or diversify our business. Realization of the anticipated benefits of an acquisition will depend, among other things, upon our ability to integrate the acquired business successfully with our other operations and gain greater efficiencies and scale that will translate into reduced costs in a timely manner. However, there can be no assurance that an acquisition we may make in the future will provide the benefits anticipated when entering into the transaction. Acquisitions we have made and future acquisitions may expose us to operational challenges and risks, including the diversion of management's attention from our existing business, the failure to retain key personnel or customers of the acquired business, the assumption of unknown liabilities of the acquired business for which there are inadequate reserves and the potential impairment of acquired identifiable intangible assets, including goodwill. Our ability to sustain our growth and maintain our competitive position may be affected by our ability to identify and acquire desirable businesses and successfully integrate any business acquired.

Our results of operations could be adversely affected as a result of goodwill and other identifiable intangible asset impairments. When we acquire a business, we record an asset called “goodwill” equal to the excess amount paid for the business, including liabilities assumed, over the fair value of the tangible and identifiable intangible assets of the business acquired. The Financial Accounting Standards Board (“FASB”) requires that all business combinations be accounted for using the acquisition method of accounting and that certain identifiable intangible assets acquired in a business combination be recognized as assets apart from goodwill. FASB Accounting Standard Codification (“ASC”) Topic 350, “Intangibles-Goodwill and Other” (“ASC 350”) provides that goodwill and other identifiable intangible assets that have indefinite useful lives not be amortized, but instead must be tested at least annually for impairment, and identifiable intangible assets that have finite useful lives should continue to be amortized over their useful lives and be tested for impairment whenever facts and circumstances indicate that the carrying values may not be fully recoverable. ASC 350 also provides specific guidance for testing goodwill and other non-amortized identifiable intangible assets for impairment, which we test annually each October 1. ASC 350 requires management to make certain estimates and assumptions to allocate goodwill to reporting units and to determine the fair value of reporting unit net assets and liabilities. Such fair value is determined using discounted estimated future cash flows. Our development of the present value of future cash flow projections is based upon assumptions and estimates by management from a review of our operating results, business plans, anticipated growth rates and margins and the weighted average cost of capital, among others. Much of the information used in assessing fair value is outside the control of management, such as interest rates, and these assumptions and estimates can change in future periods. There can be no assurance that our estimates and assumptions made for purposes of our goodwill and identifiable intangible asset impairment testing will prove to be accurate predictions of the future. If our assumptions regarding business plans or anticipated growth rates and/or margins are not achieved, or there is a rise in interest rates, we may be required to record goodwill and/or identifiable intangible asset impairment charges in future periods, whether in connection with our next annual impairment testing on October 1, 2013 or earlier, if an indicator of an impairment is present prior to the quarter in which the annual goodwill impairment test is to be performed. It is not possible at this time to determine if any such additional impairment charge would result or, if it does, whether such a charge would be material to our results of operations.

We did not record an impairment of our goodwill or identifiable intangible assets for the year ended December 31, 2012.

Amounts included in our backlog may not result in actual revenues or translate into profits. Many of the contracts in our backlog do not require the purchase of a minimum amount of services. In addition, many contracts are subject to cancellation or suspension on short notice at the discretion of the client, and the contracts in our backlog are subject to changes in the scope of services to be provided as well as adjustments to the costs relating to the contract. We have historically experienced variances in the components of backlog related to project delays or cancellations resulting from weather conditions, external market factors and economic factors beyond our control, and we may experience more delays or cancellations in the future than in the past due to the current economic slowdown. The risk of contracts in backlog being cancelled or suspended generally increases during periods of widespread slowdowns. Accordingly, there is no assurance that backlog will actually be realized. If our backlog fails to materialize, we could experience a reduction in revenues and a decline in profitability, which could result in a deterioration of our financial position and liquidity.

We account for the majority of our construction projects using the percentage-of-completion method of accounting; therefore, variations of actual results from our assumptions may reduce our profitability. We recognize revenues on construction contracts using the percentage-of-completion method of accounting in accordance with ASC Topic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts”. See Application of Critical Accounting Policies in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Under the percentage-of-completion method of accounting, we record revenue as work on the contract progresses. The cumulative amount of revenues recorded on a contract at a specified point in time is that percentage of total estimated revenues that costs incurred to date bear to estimated total costs.

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Accordingly, contract revenues and total cost estimates are reviewed and revised as the work progresses. Adjustments are reflected in contract revenues in the period when such estimates are revised. Estimates are based on management's reasonable assumptions and experience, but are only estimates. Variations of actual results from assumptions on an unusually large project or on a number of average size projects could be material. We are also required to immediately recognize the full amount of the estimated loss on a contract when estimates indicate such a loss. Such adjustments and accrued losses could result in reduced profitability, which could negatively impact our cash flow from operations.

The loss of one or a few customers could have an adverse effect on us. A few clients have in the past and may in the future account for a significant portion of our revenues in any one year or over a period of several consecutive years. Although we have long-standing relationships with many of our significant clients, our clients may unilaterally reduce, fail to renew or terminate their contracts with us at any time. A loss of business from a significant client could have a material adverse effect on our business, financial position, and results of operations.

Certain provisions of our corporate governance documents could make an acquisition of us, or a substantial interest in us, more difficult. The following provisions of our certificate of incorporation and bylaws, as currently in effect, as well as Delaware law, could discourage potential proposals to acquire us, delay or prevent a change in control of us, or limit the price that investors may be willing to pay in the future for shares of our common stock:

- our certificate of incorporation permits our board of directors to issue “blank check” preferred stock and to adopt amendments to our bylaws;
- our bylaws contain restrictions regarding the right of our stockholders to nominate directors and to submit proposals to be considered at stockholder meetings;
- our certificate of incorporation and bylaws restrict the right of our stockholders to call a special meeting of stockholders and to act by written consent; and
- we are subject to provisions of Delaware law, which prohibit us from engaging in any of a broad range of business transactions with an “interested stockholder” for a period of three years following the date such stockholder becomes classified as an interested stockholder.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our operations are conducted primarily in leased properties. The following table lists facilities over 50,000 square feet, both leased and owned, and identifies the business segment that is the principal user of each such facility.

	Approximate Square Feet	Lease Expiration Date, Unless Owned
1168 Fesler Street El Cajon, California (b)	67,560	8/31/2020
22302 Hathaway Avenue Hayward, California (b)	105,000	7/31/2016
4462 Corporate Center Drive Los Alamitos, California (c)	57,863	9/30/2014
18111 South Santa Fe Avenue Rancho Dominguez, California (a)	66,246	12/31/2016
940 Remillard Court San Jose, California (a)	119,560	7/31/2017
5101 York Street Denver, Colorado (b)	77,553	2/28/2014
345 Sheridan Boulevard Lakewood, Colorado (c)	63,000	Owned
3100 Woodcreek Drive Downers Grove, Illinois (c)	56,551	7/31/2017
7614 and 7720 Opportunity Drive Fort Wayne, Indiana (b)	136,695	10/31/2018
2655 Garfield Avenue Highland, Indiana (c)	57,765	6/30/2014
4250 Highway 30 St. Gabriel, Louisiana (a)	90,000	Owned
1750 Swisco Road Sulphur, Louisiana (a)	112,000	Owned
111-01 and 111-21 14th Avenue College Point, New York (c)	72,813	2/28/2021
70 Schmitt Boulevard Farmingdale, New York (b)	76,380	7/31/2021
Two Penn Plaza New York, New York (c)	55,891	1/31/2016
2102 Tobacco Road Durham, North Carolina (b)	55,944	9/30/2015
2900 Newpark Drive Norton, Ohio (b)	91,831	11/1/2017
1800 Markley Street Norristown, Pennsylvania (a)	103,000	9/30/2021
227 Trade Court Aiken, South Carolina (b)	71,158	9/30/2013
6045 East Shelby Drive Memphis, Tennessee (a)	53,618	4/30/2018
937 Pine Street Beaumont, Texas (a)	78,962	Owned

895 North Main Street Beaumont, Texas (a)	75,000	Owned
410 Flato Road Corpus Christi, Texas (a)	57,000	Owned
5550 Airline Drive and 25 Tidwell Road Houston, Texas (b)	97,936	12/31/2014

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	Approximate Square Feet	Lease Expiration Date, Unless Owned
12415 Highway 225 La Porte, Texas (a)	78,000	Owned
1574 South West Temple Salt Lake City, Utah (c)	120,904	Month-To-Month
2455 West 1500 South Salt Lake City, Utah (c)	58,339	4/30/2018
670 and 686 Truman Avenue Richland, Washington (b)	56,567	8/31/2016

We believe that our property, plant and equipment are well maintained, in good operating condition and suitable for the purposes for which they are used.

See Note 16 - Commitments and Contingencies of the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data for additional information regarding lease costs. We utilize substantially all of our leased or owned facilities and believe there will be no difficulty either in negotiating the renewal of our real property leases as they expire or in finding alternative space, if necessary.

(a) Principally used by a company engaged in the "United States facilities services" segment.
(b) Principally used by a company engaged in the "United States mechanical construction and facilities services" segment.
(c) Principally used by a company engaged in the "United States electrical construction and facilities services" segment.

ITEM 3. LEGAL PROCEEDINGS

We are involved in several proceedings in which damages and claims have been asserted against us. Other potential claims may exist that have not yet been asserted against us. We believe that we have a number of valid defenses to such proceedings and claims and intend to vigorously defend ourselves. We do not believe that any such matters will have a material adverse effect on our financial position, results of operations or liquidity. Litigation is subject to many uncertainties and the outcome of litigation is not predictable with assurance. It is possible that some litigation matters for which reserves have not been established could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on our financial position, results of operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) was previously included in Exhibit 95 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Anthony J. Guzzi, Age 48; President since October 25, 2004 and Chief Executive Officer since January 3, 2011. From October 25, 2004 to January 2, 2011, Mr. Guzzi served as Chief Operating Officer of the Company. From August 2001, until he joined the Company, Mr. Guzzi served as President of the North American Distribution and Aftermarket Division of Carrier Corporation (“Carrier”). Carrier is a manufacturer and distributor of commercial and residential HVAC and refrigeration systems and equipment and a provider of after-market services and components of its own products and those of other manufacturers in both the HVAC and refrigeration industries.

Sheldon I. Cammaker, Age 73; Executive Vice President and General Counsel of the Company since September 1987 and Secretary of the Company since May 1997. Prior to September 1987, Mr. Cammaker was a senior partner of the New York City law firm of Botein, Hays & Sklar.

R. Kevin Matz, Age 54; Executive Vice President-Shared Services of the Company since December 2007 and Senior Vice President-Shared Services from June 2003 to December 2007. From April 1996 to June 2003, Mr. Matz served as Vice President and Treasurer of the Company and Staff Vice President-Financial Services of the Company from March 1993 to April 1996.

Mark A. Pompa, Age 48; Executive Vice President and Chief Financial Officer of the Company since April 3, 2006. From June 2003 to April 2, 2006, Mr. Pompa was Senior Vice President-Chief Accounting Officer of the Company, and from June 2003 to January 2007, Mr. Pompa was also Treasurer of the Company. From September 1994 to June 2003, Mr. Pompa was Vice President and Controller of the Company.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. Our common stock trades on the New York Stock Exchange under the symbol “EME”.
The following table sets forth high and low sales prices for our common stock for the periods indicated as reported by the New York Stock Exchange:

2012	High	Low
First Quarter	$30.91	$26.32
Second Quarter	$30.52	$25.68
Third Quarter	$30.52	$25.32
Fourth Quarter	$34.95	$27.91

2011	High	Low
First Quarter	$32.75	$28.23
Second Quarter	$31.92	$28.03
Third Quarter	$30.86	$18.25
Fourth Quarter	$27.12	$18.91

Holders. As of February 21, 2013, there were approximately 136 stockholders of record and, as of that date, we estimate there were approximately 31,686 beneficial owners holding our common stock in nominee or “street” name.
Dividends. On September 26, 2011, we announced plans to pay a regular quarterly dividend of $0.05 per share. We have paid quarterly dividends since October 25, 2011. On December 7, 2012, our Board of Directors declared a special dividend of $0.25 per share, payable in December 2012, and announced its intention to increase the regular quarterly dividend to $0.06 per share. In addition, at the December 7, 2012 meeting of our Board of Directors, the regular quarterly dividend that would have been paid in January 2013 was declared, its amount increased to $0.06 per share and its payment date accelerated to December 28, 2012. We expect that such quarterly dividends will be paid in the foreseeable future. Prior to October 25, 2011, no cash dividends had been paid on the Company's common stock. Our revolving credit facility limits the amount of dividends we can pay on our common stock. However, we do not believe that the terms of the credit facility currently materially limit our ability to pay a quarterly dividend of $0.06 per share for the foreseeable future.
Securities Authorized for Issuance Under Equity Compensation Plans. The following table summarizes, as of December 31, 2012, certain information regarding equity compensation plans that were approved by stockholders and equity compensation plans that were not approved by stockholders. The information in the table and in the Notes thereto has been adjusted for stock splits.

	Equity Compensation Plan Information					
	A		B		C	
Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights		Weighted Average Exercise Price of Outstanding Options, Warrants and Rights		Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)	
Equity Compensation Plans Approved by Security Holders	2,009,363	(1)	$13.07	(1)	2,439,979	(2)
Equity Compensation Plans Not Approved by Security Holders	425,396	(3)	$10.70		—	

Total	2,434,759	$12.66	2,439,979

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(1) Included within this amount are 638,382 restricted stock units awarded to our non-employee directors and employees. The weighted average exercise price would have been $19.16 had the weighted average exercise price calculation excluded such restricted stock units.

(2) Represents shares of our common stock available for future issuance under our 2010 Incentive Plan (the "2010 Plan"), which may be issuable in respect of options and/or stock appreciation rights granted under the 2010 Plan and/or may also be issued pursuant to the award of restricted stock, unrestricted stock and/or awards that are valued in whole or in part by reference to, or are otherwise based on the fair market value of, our common stock.

(3) Represents shares of our common stock that may be issued upon the exercise of options to our executive officers.

Stock Options. Stock options, which have been adjusted for stock splits, were awarded pursuant to equity compensation programs that were not approved by stockholders. 339,396 of these options, which are referred to in note (3) to the Table, were granted to four of our then executive officers in connection with employment agreements with us, which employment agreements were dated January 1, 2002 (the “2002 Employment Agreements”) and have since expired, and 86,000 of them were granted to Mr. Anthony Guzzi, our President and Chief Executive Officer, when he joined us in October 2004. Of these options, (i) an aggregate of 339,396 were granted on January 2, 2004 with an exercise price of $10.96 per share and (ii) 86,000 were granted to Mr. Guzzi on October 25, 2004 with an exercise price of $9.67 per share. Each of the these options have a term of ten years from their respective grant dates, an exercise price per share equal to the fair market value of a share of common stock on their respective grant dates, and are currently exercisable.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes repurchases of our common stock made during the quarter ended December 31, 2012 by us:

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Plan or Programs
October 1, 2012 to October 31, 2012	None	None	None	$48,565,219
November 1, 2012 to November 30, 2012	None	None	None	$48,565,219
December 1, 2012 to December 31, 2012	None	None	None	$48,565,219

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(1) On September 26, 2011, we announced that our Board of Directors had authorized the Company to repurchase up to $100.0 million of its outstanding common stock. The repurchase program remains in effect. No other shares have been repurchased since the program has been announced other than pursuant to this publicly announced program. Acquisitions under our repurchase program may be made from time to time as permitted by securities laws and other legal requirements.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our audited financial statements and should be read in conjunction with the consolidated financial statements, the related notes thereto and the report of our independent registered public accounting firm thereon included elsewhere in this and our previously filed annual reports on Form 10-K.

See Note 3 - Acquisitions of Businesses and Note 4 - Disposition of Assets of the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data for a discussion regarding acquisitions and dispositions. The results of operations for all periods presented reflect discontinued operations accounting due to the disposition of our interest in our Canadian subsidiary in August 2011 and the disposition of our interest in a consolidated joint venture in 2007.

Income Statement Data

(In thousands, except per share data)

	Years Ended December 31,				
	2012	2011	2010	2009	2008
Revenues	$6,346,679	$5,613,459	$4,851,953	$5,227,699	$6,360,695
Gross profit	806,354	733,949	693,523	784,225	845,707
Impairment loss on goodwill and identifiable intangible assets	—	3,795	246,081	13,526	—
Operating income (loss)	249,967	210,793	(26,528)	250,122	291,693
Net income (loss) attributable to EMCOR Group, Inc.	$146,584	$130,826	$(86,691)	$160,756	$182,204
Basic earnings (loss) per common share:					
From continuing operations	$2.20	$1.82	$(1.30)	$2.31	$2.64
From discontinued operations	—	0.14	(0.01)	0.13	0.15
	$2.20	$1.96	$(1.31)	$2.44	$2.79
Diluted earnings (loss) per common share:					
From continuing operations	$2.16	$1.78	$(1.30)	$2.25	$2.57
From discontinued operations	—	0.13	(0.01)	0.13	0.14
	$2.16	$1.91	$(1.31)	$2.38	$2.71

Balance Sheet Data

(In thousands)

	As of December 31,				
	2012	2011	2010	2009	2008
Equity (1)	$1,357,179	$1,245,131	$1,162,845	$1,226,466	$1,050,769
Total assets	3,107,070	3,014,076	2,755,542	2,981,894	3,030,443
Goodwill	566,588	566,805	406,804	593,628	582,714
Borrowings under revolving credit facility	150,000	150,000	150,000	—	—
Term loan, including current maturities	—	—	—	194,750	197,750
Other long-term debt, including current maturities	18	—	24	—	41
Capital lease obligations, including current maturities	$5,881	$4,857	$1,649	$601	$2,313

(1) On September 26, 2011, we announced plans to pay a regular quarterly dividend of $0.05 per share. We have paid quarterly dividends since October 25, 2011. On December 7, 2012, our Board of Directors declared a special

dividend of $0.25 per share, payable in December 2012, and announced its intention to increase the regular quarterly dividend to $0.06 per share. In addition, at the December 7, 2012 meeting of our Board of Directors, the regular quarterly dividend that would have been paid in January 2013 was declared, its amount increased to $0.06 per share and its payment date accelerated to December 28, 2012. Prior to October 25, 2011, no cash dividends had been paid on the Company's common stock.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We are one of the largest electrical and mechanical construction and facilities services firms in the United States, the United Kingdom and in the world. We provide services to a broad range of commercial, industrial, utility and institutional customers through approximately 70 operating subsidiaries and joint venture entities. Our offices are located in the United States and the United Kingdom. We had conducted business in Canada through an indirect wholly owned subsidiary and in the Middle East through a joint venture. We sold our interest in our Canadian operations in August 2011 and our interest in the Middle East joint venture in June 2010.

The results of operations for all periods presented reflect: (a) discontinued operations accounting due to the disposition of our interest in our Canadian subsidiary in August 2011 and (b) certain reclassifications of prior period amounts to conform to current year presentation.

Overview

The following table presents selected financial data for the fiscal years ended December 31, 2012, 2011 and 2010 (in millions, except percentages and per share data):

	2012		2011		2010	
Revenues	$6,346.7		$5,613.5		$4,852.0	
Revenues increase (decrease) from prior year	13.1	%	15.7	%	(7.2	)%
Impairment loss on goodwill and identifiable intangible assets	$—		$3.8		$246.1	
Operating income (loss)	$250.0		$210.8		$(26.5	)
Operating income (loss) as a percentage of revenues	3.9	%	3.8	%	(0.5	)%
Income (loss) from continuing operations	$148.9		$124.6		$(81.8	)
Net income (loss) attributable to EMCOR Group, Inc.	$146.6		$130.8		$(86.7	)
Diluted earnings (loss) per common share from continuing operations	$2.16		$1.78		$(1.30	)
Net cash provided by operating activities	$184.4		$149.4		$69.5	

We remain cautiously optimistic regarding some of our end user markets inasmuch as revenues, operating income and operating margins (operating income as a percentage of revenues) showed an increase from 2011 levels. We continue to experience excellent large project execution and see an increased demand for some of our offerings, including those within the industrial and oil and gas markets. In addition, we added a company in 2012 to our portfolio of companies, which expands and further strengthens our service offerings to new and existing customers. Despite these trends, we continue to see a very competitive marketplace in which there are a significant number of bidders willing to work at extremely low margins on any given project. However, we continue to replace our backlog with profitable work that delivers cost effective solutions and value to our customers throughout the United States and the United Kingdom. Additionally, we continue to integrate and refocus one of our 2011 acquisitions to deliver more consistent operating results.

The increase in 2012 revenues compared to 2011 was primarily attributable to: (a) higher revenues across all of our business segments, excluding the effect of acquisitions, and (b) incremental revenues of approximately $303.9 million attributable to companies acquired in 2012 and 2011, which are reported within our United States mechanical construction and facilities services segment and our United States facilities services segment.

Our increase in operating income and operating margin for 2012, when compared to 2011, was primarily a result of: (a) higher operating income and operating margin from our United States electrical construction and facilities services segment, (b) higher operating income and operating margin from our United States facilities services segment, excluding operating income from acquisitions in 2011, and (c) higher operating income from our United States mechanical construction and facilities services segment, excluding the effect of our 2012 and 2011 acquisitions. Companies acquired in 2012 and 2011, which are reported within our United States mechanical construction and facilities services segment and our United States facilities services segment, in the aggregate, contributed approximately $2.3 million to operating income, including $5.1 million of amortization expense attributable to identifiable intangible assets included in cost of sales and selling, general and administrative expenses. The 2012 increase in operating income was partially offset by lower operating income and operating margin from our United

Kingdom operations. Net cash provided by operating activities of $184.4 million in 2012 increased, when compared to 2011, primarily due to improved operating results and changes in our working capital.

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We acquired one company during 2012 for an immaterial amount. The results of the acquired company, which primarily provides mechanical construction services, have been included in our United States mechanical construction and facilities services segment; the acquired company expands our service capabilities into new geographic and technical areas. The acquisition is not material to our results of operations for the periods presented.

Operating Segments

Our reportable segments reflect certain reclassifications of prior year amounts from our United States mechanical construction and facilities services segment to our United States facilities services segment due to changes in our internal reporting structure.

We have the following reportable segments which provide services associated with the design, integration, installation, start-up, operation and maintenance of various systems: (a) United States electrical construction and facilities services (involving systems for electrical power transmission and distribution; premises electrical and lighting systems; low-voltage systems, such as fire alarm, security and process control; voice and data communication; roadway and transit lighting; and fiber optic lines); (b) United States mechanical construction and facilities services (involving systems for heating, ventilation, air conditioning, refrigeration and clean-room process ventilation; fire protection; plumbing, process and high-purity piping; controls and filtration; water and wastewater treatment; central plant heating and cooling; cranes and rigging; millwrighting; and steel fabrication, erection and welding); (c) United States facilities services; (d) United Kingdom construction and facilities services; and (e) Other international construction and facilities services. The segment “United States facilities services” principally consists of those operations which provide a portfolio of services needed to support the operation and maintenance of customers' facilities (industrial maintenance and services; outage services to utilities and industrial plants; commercial and government site-based operations and maintenance; military base operations support services; mobile maintenance and services; floor care and janitorial services; landscaping, lot sweeping and snow removal; facilities management; vendor management; call center services; installation and support for building systems; program development, management and maintenance for energy systems; technical consulting and diagnostic services; infrastructure and building projects for federal, state and local governmental agencies and bodies; small modification and retrofit projects; and retrofit projects to comply with clean air laws), which services are not generally related to customers' construction programs. The United Kingdom and Other international construction and facilities services segments perform electrical construction, mechanical construction and facilities services. In August 2011, we sold our Canadian subsidiary, which represented our Canada construction segment and which performed electrical construction and mechanical construction. Our “Other international construction and facilities services” segment consisted of our equity interest in a Middle East venture, which interest we sold in June 2010.

Discussion and Analysis of Results of Operations

Revenues

As described in more detail below, revenues for 2012 were $6.3 billion compared to $5.6 billion for 2011 and $4.9 billion for 2010. The increase in revenues for 2012 compared to 2011 was primarily attributable to: (a) increased revenues from all of our operating segments, excluding incremental revenues attributable to acquisitions in 2012 and 2011, and (a) incremental revenues of approximately $303.9 million generated by companies acquired in 2012 and 2011, which are reported within our United States mechanical construction and facilities services segment and our United States facilities services segment. An increase in revenues at our United Kingdom operations was offset by a decrease of $6.5 million relating to the effect of unfavorable exchange rates for the British pound versus the United States dollar. While overall revenues have increased, we continue to be disciplined in a very competitive marketplace by only accepting work that we believe can be performed at a reasonable margin.

The increase in revenues for 2011 compared to 2010 was primarily attributable to: (a) incremental revenues of approximately $407.1 million generated by companies acquired in 2011 and 2010, which are reported within our United States facilities services and our United States mechanical construction and facilities services segments, (b) increased revenues in our United States facilities services segment, excluding incremental revenues attributable to acquisitions in 2011 and 2010, particularly within our industrial services, mobile mechanical services and government services markets, and (c) an increase in revenues from our United Kingdom operations. The results of our United Kingdom operations were also impacted by an increase of $18.3 million relating to the effect of favorable exchange rates for the British pound versus the United States dollar.

Our backlog at December 31, 2012 was $3.37 billion compared to $3.33 billion of backlog at December 31, 2011. This slight increase in backlog, excluding the effect of acquisitions, was primarily attributable to: (a) an increase in contracts awarded for work in all of our domestic segments and (b) an increase of $27.7 million in backlog associated with a company acquired in 2012, which is included in our United States mechanical construction and facilities services segment. This increase was partially offset by lower backlog within our United Kingdom segment. Backlog increases with awards of new contracts and decreases as we perform work on existing contracts. Backlog is not a term recognized under United States generally accepted accounting principles; however, it is a common measurement used in our industry. Backlog includes unrecognized revenues to be realized from uncompleted construction contracts plus unrecognized revenues expected to be realized over the remaining term of facilities services contracts. If the remaining term of a facilities services contract exceeds 12 months, the unrecognized revenues attributable to such contract included in backlog are limited to only the next 12 months of revenues.

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The following table presents our revenues for each of our operating segments and the approximate percentages that each segment's revenues were of total revenues for the years ended December 31, 2012, 2011 and 2010 (in millions, except for percentages):

	2012	% of Total		2011	% of Total		2010	% of Total	
Revenues from unrelated entities:									
United States electrical construction and facilities services	$1,211.7	19	%	$1,155.1	21	%	$1,158.9	24	%
United States mechanical construction and facilities services	2,296.4	36	%	1,917.4	34	%	1,720.2	35	%
United States facilities services	2,299.8	36	%	2,012.0	36	%	1,510.5	31	%
Total United States operations	5,807.9	92	%	5,084.5	91	%	4,389.6	90	%
United Kingdom construction and facilities services	538.8	8	%	529.0	9	%	462.4	10	%
Other international construction and facilities services	—	—		—	—		—	—	
Total worldwide operations	$6,346.7	100	%	$5,613.5	100	%	$4,852.0	100	%

Revenues of our United States electrical construction and facilities services segment were $1,211.7 million for the year ended December 31, 2012 compared to revenues of $1,155.1 million for the year ended December 31, 2011. This increase in revenues was primarily attributable to higher levels of work from industrial, institutional and commercial construction projects, partially offset by a decrease in revenues from healthcare, transportation and hospitality construction projects.

Revenues of our United States electrical construction and facilities services segment were $1,155.1 million for the year ended December 31, 2011 compared to revenues of $1,158.9 million for the year ended December 31, 2010. This slight decrease in revenues was primarily attributable to a decline in revenues from hospitality construction projects, as we substantially completed work on a major project, and lower revenues from transportation construction projects. The decrease was mostly offset by increased revenues from industrial, commercial, and water and wastewater construction projects.

Our United States mechanical construction and facilities services segment revenues for the year ended December 31, 2012 were $2,296.4 million, a $379.0 million increase compared to revenues of $1,917.4 million for the year ended December 31, 2011. This increase in revenues was primarily attributable to: (a) an increase in revenues from industrial, commercial and transportation construction projects, excluding the effect of acquisitions made in 2012 and 2011, and (b) incremental revenues of approximately $128.6 million generated by companies acquired in 2012 and 2011, partially offset by a decrease in revenues from healthcare, institutional, hospitality and water and wastewater construction projects.

Our United States mechanical construction and facilities services segment revenues for the year ended December 31, 2011 were $1,917.4 million, a $197.2 million increase compared to revenues of $1,720.2 million for the year ended December 31, 2010. This increase in revenues was primarily attributable to incremental revenues of approximately $186.4 million generated by a company acquired in 2011. Revenues from this segment for the year ended December 31, 2011, excluding incremental revenues attributable to the 2011 acquisition made in this segment, also increased compared to the same period in 2010. This slight increase in revenues was primarily attributable to increased work on commercial and industrial construction projects, offset in part by a decline in revenues from hospitality construction projects, as we substantially completed work on a major project, and a decline in water and wastewater construction projects.

Revenues of our United States facilities services segment were $2,299.8 million and $2,012.0 million in 2012 and 2011, respectively. This increase in revenues was primarily attributable to incremental revenues of approximately $175.3 million generated by companies acquired in 2011, which perform facilities maintenance services and mobile mechanical services, and from an increase in revenues at: (a) our industrial services operations, which have seen a continued increase in demand for our services in the refinery market, (b) our commercial site-based operations, excluding the effect of the acquisition made in 2011, primarily the result of new project awards, and (c) our government services operations, primarily due to new contract awards and organic growth in the medical facilities services portfolio. This increase was partially offset by a decrease in revenues from our energy services operations primarily as a result of the loss of a contract at the end of 2011.

Revenues of our United States facilities services segment were $2,012.0 million and $1,510.5 million in 2011 and 2010, respectively. This increase in revenues was primarily attributable to incremental revenues of approximately $220.7 million generated by companies acquired in 2011 and 2010, which perform facilities maintenance services, government infrastructure contracting services and mobile mechanical services, and to an increase in revenues at: (a) our industrial services operations, which have seen an increase in demand for our services in the refinery and petrochemical markets, (b) our mobile mechanical services, excluding revenues attributable to acquisitions made in 2011 and 2010, reflecting an increase in demand for our repair services, controls installation and small project work and (c) our government services operations, due to new project awards. Additionally, a contract amendment with a client resulted in an increase in revenues as the new terms and conditions required us to act as a principal and no longer as the client's agent.

Our United Kingdom construction and facilities services segment revenues were $538.8 million in 2012 compared to $529.0 million in 2011. This increase in revenues was primarily attributable to growth in revenues in our facilities services business as a result of an expansion in scope of contracts with our existing customers in the commercial and transportation markets, partially offset by a decrease in revenues from our United Kingdom construction business as a result of lower volume from institutional and healthcare construction projects and a decrease of $6.5 million relating to the effect of unfavorable exchange rates for the British pound versus the United States dollar.

Our United Kingdom construction and facilities services segment revenues were $529.0 million in 2011 compared to $462.4 million in 2010. This increase in revenues was primarily attributable to growth in revenues from our facilities services business as a result of an expansion in scope of contracts with our existing customers in the commercial market. This increase was also partly attributable to an increase of $18.3 million relating to the effect of favorable exchange rates for the British pound versus the United States dollar.

Other international construction and facilities services activities consisted of a venture in the Middle East. The results of the venture were accounted for under the equity method of accounting. In June 2010, we sold our equity interest in a Middle East venture to our partner in the venture. As a result of this sale, we received $7.9 million and recognized a pretax gain in this amount, which is classified as a “Gain on sale of equity investment” on the Consolidated Statement of Operations.

Cost of sales and Gross profit

The following table presents cost of sales, gross profit (revenues less cost of sales), and gross profit margin (gross profit as a percentage of revenues) for the years ended December 31, 2012, 2011 and 2010 (in millions, except for percentages):

	2012	2011	2010
Cost of sales	$5,540.3	$4,879.5	$4,158.4
Gross profit	$806.4	$733.9	$693.5
Gross profit margin	12.7 %	13.1 %	14.3 %

Our gross profit for the year ended December 31, 2012 was $806.4 million, an increase of $72.4 million compared to the gross profit for the year ended December 31, 2011 of $733.9 million. The increase in gross profit was primarily attributable to: (a) companies acquired in 2012 and 2011 reported within our United States mechanical construction and facilities services segment and our United States facilities services segment, which contributed approximately $29.2 million to gross profit, net of amortization expense attributable to identifiable intangible assets of $0.2 million, (b) our United States facilities services segment, excluding gross profit from acquisitions made in 2011, primarily due to our industrial services operations, (c) our United States electrical construction and facilities services segment and (d) our United States mechanical construction and facilities services segment, excluding the gross profit from companies acquired in 2012 and 2011. These increases were partially offset by lower gross profit from our United Kingdom operations, whose construction business experienced several project write-downs. The increase in gross profit was also negatively impacted by changes in the exchange rates for the British pound versus the United States dollar.

Our gross profit margin was 12.7% for 2012 compared to 13.1% for 2011. The decrease in gross profit margin was primarily the result of lower gross profit margin at: (a) our United States mechanical construction and facilities services segment, primarily as a result of the favorable resolution in 2011 of various uncertainties on projects and the settlement of a long outstanding construction claim, (b) our United States facilities services segment, partially attributable to the margin dilutive impact of an acquisition in 2011, and (c) our United Kingdom operations, as a result of the operating loss from its construction business. The decrease in gross profit margin in 2012 was partially offset by higher gross profit margin at our United States electrical construction and facilities services segment, primarily as a result of: (a) the favorable resolution of a long outstanding construction claim on a water and wastewater construction project and (b) higher margins from certain other construction projects, as a result of claim settlements and better than anticipated project execution on other contracts.

Our gross profit for the year ended December 31, 2011 was $733.9 million, an increase of $40.4 million compared to the gross profit for the year ended December 31, 2010 of $693.5 million. The increase in gross profit was primarily attributable to: (a) companies acquired in 2011 and 2010 within our United States mechanical construction and facilities services and our United States facilities services segments, which contributed approximately $38.5 million to gross profit, net of amortization expense of $4.6 million attributable to identifiable intangible assets, (b) our United States facilities services segment, excluding gross profit from acquisitions in 2011 and 2010, primarily due to our industrial services operations and (c) our United States electrical construction and facilities services segment. The increase in gross profit was also attributable to an increase of $1.9 million relating

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to the effect of favorable exchange rates for the British pound versus the United States dollar. These increases were partially offset by lower gross profit and gross profit margin from: (a) our United States mechanical construction and facilities services segment, excluding gross profit from the 2011 acquisition in this segment, primarily as a result of lower margin work acquired during the then economic slow down and (b) our United Kingdom operations, whose construction business experienced project write-downs. Gross profit and gross profit margin for 2010 were favorably impacted by the resolution of long outstanding legal claim on a healthcare construction project in our United States mechanical construction and facilities services segment and the receipt of a contract termination fee pursuant to the terms of a contract in our United Kingdom operations. Additionally in 2010, we recognized a pretax gain of $4.5 million by our energy services operations within our United States facilities services segment from the sale of our interest in a venture, which gain is classified as a component of “Cost of sales” on the Consolidated Statements of Operations.

Our gross profit margin was 13.1% for 2011 compared to 14.3% for 2010. The decrease in gross profit margin was primarily the result of lower gross profit margin at: (a) our United States mechanical construction and facilities services segment (excluding gross profit margin attributable to the 2011 acquisition in this segment) for reasons discussed in the preceding paragraph, (b) our United States facilities services segment, partially attributable to acquisitions made in 2011 and 2010, and the contract amendment mentioned above and (c) our United Kingdom operations. Additionally in 2010, we recognized a pretax gain of $4.5 million by our energy services operations within our United States facilities services segment as discussed in the preceding paragraph. This decrease in gross profit margin in 2011 was partially offset by higher gross profit margin at our United States electrical construction and facilities services segment, primarily as a result of: (a) the favorable resolution of uncertainties upon the substantial completion of a hospitality construction project and (b) higher margins from certain transportation construction projects, as a result of claim settlements and better than anticipated project execution on other contracts.

Selling, general and administrative expenses

The following table presents selling, general and administrative expenses, and selling, general and administrative expenses as a percentage of revenues, for the years ended December 31, 2012, 2011 and 2010 (in millions, except for percentages):

	2012	2011	2010
Selling, general and administrative expenses	$556.2	$518.1	$472.1
Selling, general and administrative expenses as a percentage of revenues	8.8 %	9.2 %	9.7 %

Our selling, general and administrative expenses for the year ended December 31, 2012 were $556.2 million, a $38.1 million increase compared to selling, general and administrative expenses of $518.1 million for the year ended December 31, 2011. This increase was primarily attributable to: (a) $26.9 million of incremental expenses directly related to companies acquired in 2012 and 2011, including amortization expense attributable to identifiable intangible assets of $4.9 million, and (b) higher employee related costs such as incentive compensation and employee benefits, partially as a result of improved results and share-based compensation costs. This increase was partially offset by: (a) the $6.4 million reversal of contingent consideration accruals relating to acquisitions made prior to 2012 and (b) a decrease in professional fees, as we had incurred $4.7 million of transaction costs associated with an acquisition made in 2011. Selling, general and administrative expenses as a percentage of revenues decreased for 2012 compared to 2011, primarily related to our ability to increase revenues at a greater rate than the increase in overhead costs.

Our selling, general and administrative expenses for the year ended December 31, 2011 were $518.1 million, a $46.0 million increase compared to selling, general and administrative expenses of $472.1 million for the year ended December 31, 2010. This increase was primarily attributable to: (a) $35.2 million of incremental expenses directly related to companies acquired in 2011 and 2010, including amortization expense of $7.9 million attributable to identifiable intangible assets, and (b) transaction costs of $4.7 million associated with an acquisition made in 2011, partially offset by the $2.8 million reversal of contingent consideration accruals relating to acquisitions made prior to 2011. Selling, general and administrative expenses in 2010 benefited from a reduction in our provision for doubtful accounts due to the favorable settlements of amounts previously determined to be uncollectible. Selling, general and administrative expenses as a percentage of revenues decreased for 2011 compared to 2010, primarily due to increased overall revenues and reduced discretionary spending.

Restructuring expenses

Restructuring expenses, primarily relating to employee severance obligations and/or the termination of leased facilities, were $0.1 million, $1.2 million and $1.8 million for 2012, 2011 and 2010, respectively. The 2012 restructuring expenses were primarily attributable to employee severance obligations and the termination of leased facilities incurred in our United States facilities services segment. In 2011, restructuring expenses were primarily related to employee severance obligations at our corporate headquarters and in 2010 to our United States electrical construction and facilities services segment. As of December 31, 2012, 2011 and 2010, the balance of obligations yet to be paid was $0.1 million, $0.2 million and $0.3 million, respectively. The majority of obligations outstanding as of December 31, 2011 and 2010 were paid during 2012 and 2011. The majority of obligations outstanding as of December 31, 2012 will be paid after 2013.

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Impairment loss on goodwill and identifiable intangible assets

In conjunction with our 2011 annual impairment test on October 1, 2011, we recognized a $3.8 million non-cash impairment charge related to customer relationships and trade names within the United States facilities services segment during the fourth quarter of 2011. This impairment primarily resulted from both lower forecasted revenues from, and lower operating margins at, specific companies within this segment.

During the third quarter of 2010 and prior to our October 1, 2010 annual impairment test, we recognized a $226.2 million non-cash impairment charge. Of this amount, $210.6 million related to goodwill and $15.6 million related to trade names. Additionally, during the second quarter of 2010, we recorded a $19.9 million non-cash impairment charge related to trade names. All of these impairments were within our United States facilities services segment.

Based upon our annual impairment testing as of October 1, 2012, no additional impairment of our goodwill or our identifiable intangible assets was recognized for the year ended December 31, 2012.

Operating income (loss)

The following table presents our operating income (loss) (gross profit less selling, general and administrative expenses, restructuring expenses, and impairment loss on goodwill and identifiable intangible assets) by segment, and each segment's operating income (loss) as a percentage of such segment's revenues from unrelated entities, for the years ended December 31, 2012, 2011 and 2010 (in millions, except for percentages):

	2012	% of Segment Revenues	2011	% of Segment Revenues	2010	% of Segment Revenues
Operating income (loss):						
United States electrical construction and facilities services	$100.7	8.3 %	$84.6	7.3 %	$70.4	6.1 %
United States mechanical construction and facilities services	123.5	5.4 %	116.0	6.0 %	132.0	7.7 %
United States facilities services	82.3	3.6 %	69.1	3.4 %	59.3	3.9 %
Total United States operations	306.5	5.3 %	269.7	5.3 %	261.7	6.0 %
United Kingdom construction and facilities services	7.1	1.3 %	9.2	1.7 %	15.7	3.4 %
Other international construction and facilities services	—	—	—	—	(0.1)	—
Corporate administration	(63.5)	—	(63.1)	—	(55.9)	—
Restructuring expenses	(0.1)	—	(1.2)	—	(1.8)	—
Impairment loss on goodwill and identifiable intangible assets	—	—	(3.8)	—	(246.1)	—
Total worldwide operations	250.0	3.9 %	210.8	3.8 %	(26.5)	(0.5)%
Other corporate items:						
Interest expense	(7.3)		(11.3)		(12.2)	
Interest income	1.6		1.8		2.7	
Gain on sale of equity investment	—		—		7.9	
Income (loss) from continuing operations before income taxes	$244.2		$201.4		$(28.1)	

As described in more detail below, we had operating income of $250.0 million for 2012 compared to operating income of $210.8 million for 2011 and an operating loss of $26.5 million for 2010. The 2010 operating loss was due to the impairment loss on goodwill and identifiable intangible assets of $246.1 million.

Operating income of our United States electrical construction and facilities services segment was $100.7 million for the year ended December 31, 2012 compared to operating income of $84.6 million for the year ended December 31, 2011. This increase in operating income primarily resulted from an increase in gross profit from: (a) water and wastewater construction projects and (b) industrial and institutional construction projects. In addition, operating income in 2012 benefited from the favorable resolution of a construction claim on a healthcare project, as well as from a long outstanding construction claim on a water and wasterwater construction project. These increases were partially offset by a decrease in gross profit attributable to: (a) hospitality construction projects and (b) smaller quick turn project work. Additionally, operating income in 2011 benefited from the favorable resolution of uncertainties on a hospitality construction project and from the favorable resolution of an institutional construction claim. Selling, general and administrative expenses increased for the year ended December 31, 2012, compared to 2011, principally due to higher employee related costs, primarily incentive compensation accruals as a result of improved results, and higher professional fees. The increase in operating margin for the year ended December 31, 2012 was primarily the result of an increase in gross profit margin and a decrease in the ratio of selling, general and administrative expense to revenues.

Operating income of our United States electrical construction and facilities services segment was $84.6 million for the year ended December 31, 2011 compared to operating income of $70.4 million for the year ended December 31, 2010. This increase in operating income primarily resulted from an increase in gross profit from: (a) water and wastewater construction projects, (b) commercial, transportation and healthcare construction projects and (c) smaller quick turn project work. In addition, operating income in 2011 benefited from the favorable resolution of uncertainties on a substantially complete hospitality construction project. The increase in 2011 operating income was partially offset by a decrease in gross profit attributable to institutional construction projects and lower operating income from certain of our Southern California operations. Selling, general and administrative expenses decreased for the year ended December 31, 2011, compared to 2010, principally due to lower employment costs, such as salaries and employee benefits. The increase in operating margin for the year ended December 31, 2011 was primarily the result of an increase in gross profit margin and a decrease in the ratio of selling, general and administrative expense to revenues.

Our United States mechanical construction and facilities services segment operating income for the year ended December 31, 2012 was $123.5 million, an $7.5 million increase compared to operating income of $116.0 million for the year ended December 31, 2011. This increase in operating income, excluding operating income from the 2012 and 2011 acquisitions in this segment, was primarily due to higher gross profit from industrial and commercial construction projects. Additionally, the increase in operating income was partially attributable to companies acquired in 2012 and 2011, which generated approximately $4.2 million of operating income, net of amortization expense attributable to identifiable intangible assets of $0.3 million. This increase was partially offset by a decrease in operating income from hospitality, healthcare and institutional construction projects. Selling, general and administrative expenses increased in 2012 compared to 2011, excluding expenses directly related to the 2012 and 2011 acquisitions in this segment, which added $11.9 million of selling, general and administrative costs, including $0.2 million of amortization expense attributable to identifiable intangible assets, primarily due to an increase in employee related costs, such as salaries and incentive compensation accruals as a result of improved results and a higher provision for doubtful accounts. A decrease in operating margin for the year ended December 31, 2012 was the result of a reduction in gross profit margin, partially offset by a decrease in the ratio of selling, general and administrative expenses to revenues.

Our United States mechanical construction and facilities services segment operating income for the year ended December 31, 2011 was $116.0 million, a $16.0 million decrease compared to operating income of $132.0 million for the year ended December 31, 2010. This decrease in operating income, excluding operating income from the 2011 acquisition in this segment, was primarily due to lower gross profit from industrial, commercial and institutional construction projects, as a result of the then economic environment and our selectivity in bidding on contracts. Additionally, 2010 benefited from the favorable resolution of long outstanding legal claim on a healthcare construction project. This decline was partially offset by an increase in operating income from: (a) a company acquired in 2011, which contributed approximately $7.1 million of operating income, net of amortization expense of $3.2 million, (b) gross profit associated with hospitality construction projects, as a result of, among other things, the favorable resolution of uncertainties on current projects and the settlement of a long outstanding construction claim and (c) gross profit from healthcare construction projects. Selling, general and administrative expenses were flat in 2011 compared to 2010, excluding expenses directly related to the 2011 acquisition in this segment, which added $18.5 million of selling, general and administrative costs, including $1.8 million of amortization expense attributable to identifiable intangible assets. A decrease in operating margin for the year ended December 31, 2011 was primarily the result of a reduction in gross profit margin.

Operating income of our United States facilities services segment was $82.3 million and $69.1 million in 2012 and 2011, respectively. The increase in operating income for 2012 compared to 2011 was primarily due to: (a) higher operating income from our industrial services operations, which have seen a continued increase in demand for our services in the refinery market, (b) higher operating income from our mobile mechanical services as a result of improved project performance compared to 2011 and (c) income attributable to the reversal of contingent consideration accruals relating to acquisitions made prior to 2012. The increase in operating income for 2012 was partially offset by lower operating income from our government services operations as a result of several project write-downs, the majority of which were due to difficult job site conditions. Additionally, companies acquired in 2011 negatively impacted operating income by approximately $1.9 million, including $4.8 million of amortization expense attributable to identifiable intangible assets. Selling, general and administrative expenses increased by $5.5 million for 2012 compared to 2011, excluding the increase of $15.0 million of selling, general and administrative expenses associated with companies acquired in 2011, including amortization expense of $4.7 million. This increase was primarily attributable to an increase in employee related costs such as salaries, incentive compensation and employee benefits, due to higher volume and profitability, and higher depreciation and amortization costs. The increases in selling, general and administrative expenses were partially offset by a reduction in the provision for doubtful accounts due to favorable settlements of amounts previously determined to be uncollectible. An increase in operating margin for 2012 was the result of a decrease in the ratio of selling, general and administrative expenses to revenues, which is related to our ability to increase revenues at a greater rate than the increase in overhead costs, partially offset by a reduction in gross profit margin.

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Operating income of our United States facilities services segment was $69.1 million and $59.3 million in 2011 and 2010, respectively. This increase in operating income was primarily due to higher operating income from our industrial services operations, which have seen an increase in demand for our services in the refinery and petrochemical markets. The increase in operating income for 2011 was partially offset by lower operating income from lower margins on project work attributable to several project write-downs, the largest of which was due to difficult job site conditions, and lower margins on projects as a result of the then very competitive market conditions. Additionally in 2010, our energy services operations benefited from the recognition of a pretax gain of $4.5 million from the sale of our interest in a venture, which gain was classified as a component of "Cost of sales" on the Consolidated Statements of Operations. Companies acquired in 2011 and 2010 negatively impacted operating income by approximately $3.8 million, including $9.2 million of amortization expense attributable to identifiable intangible assets. Selling, general and administrative expenses increased by $6.4 million for 2011 compared to 2010, excluding the increase of $16.7 million of selling, general and administrative expenses associated with companies acquired in 2011 and 2010, including amortization expense of $6.0 million. This increase in selling, general and administrative expenses was primarily attributable to an increase in employment costs such as salaries, bonuses and commissions due to higher volume. A decrease in operating margin for 2011 was primarily the result of a reduction in the gross profit margin.

Our United Kingdom construction and facilities services segment operating income was $7.1 million in 2012 compared to $9.2 million in 2011. This decrease in operating income was primarily attributable to an operating loss within our United Kingdom construction business as a result of losses recognized on various hospitality, institutional and commercial construction projects and a decrease of $0.2 million relating to the effect of unfavorable exchange rates for the British pound versus the United States dollar. The decrease in operating income was partially offset by an increase in operating income from its facilities services business as a result of better performance on its commercial and institutional portfolio of contracts. A decrease in operating margin for 2012 was brought about by a combination of lower gross profit margins, partially offset by a decrease in selling, general and administrative expenses as a percentage of revenues.

Our United Kingdom construction and facilities services segment operating income was $9.2 million in 2011 compared to $15.7 million in 2010. This decrease in operating income was primarily attributable to an operating loss within our United Kingdom construction business as a result of losses recognized on various institutional and commercial construction projects and a decrease in the gross margin from its facilities services business, which benefited in 2010 from favorable gross profit associated with the receipt of a contract termination fee pursuant to the terms of a contract. The decrease in operating income was partially offset by a reduction in the actuarially determined pension costs associated with our United Kingdom defined pension plan and an increase of $0.6 million relating to the effect of favorable exchange rates for the British pound versus the United States dollar. A decrease in operating margin for 2011 was brought about by a mix of lower gross profit margins, partially offset by a decrease in selling, general and administrative expenses as a percentage of revenues.

In June 2010, we sold our equity interest in a Middle East venture to our partner in the venture. As a result of this sale, we received $7.9 million and recognized a pretax gain in this amount, which is classified as a "Gain on sale of equity investment" on the Consolidated Statements of Operations. The Other international construction and facilities services segment operating loss was approximately $0.1 million for 2010.

Our corporate administration expenses were $63.5 million for 2012 compared to $63.1 million in 2011. This increase in expenses was primarily attributable to higher share-based compensation costs as a result of improved operating performance. This increase was partially offset by lower transaction costs of approximately $4.7 million associated with an acquisition made in 2011 and reduced salaries at headquarters, as a result of the restructuring at our corporate headquarters earlier in 2011. The increase of $7.2 million in 2011 corporate administration expenses, compared to 2010, was primarily attributable to $4.7 million of transaction costs mentioned above and higher incentive compensation costs. This increase was partially offset by reduced employee costs, such as salaries, as a result of the restructuring at our corporate headquarters.

Non-operating items

Interest expense was $7.3 million, $11.3 million and $12.2 million for 2012, 2011 and 2010, respectively. The $4.0 million decrease in interest expense for 2012 compared to 2011 was primarily due to lower borrowing rates under the credit facility that we entered into in late 2011. The $0.9 million decrease in interest expense for 2011 compared to 2010 was primarily due to lower borrowing rates. This decrease in 2011 compared to 2010 was partially offset by an increase in the amortization of debt issuance costs of $0.4 million associated with the acceleration of some of these costs in conjunction with the amendment and restatement of our credit facility in 2011.

Interest income was $1.6 million, $1.8 million and $2.7 million for 2012, 2011 and 2010, respectively. The decreases in interest income were primarily related to lower invested cash balances in 2012 and lower interest rates on those invested cash balances for all periods presented.

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The $7.9 million "Gain on sale of equity investment" in 2010 was attributable to the June 2010 sale of our equity interest in a Middle East venture to our partner in the venture, the operating results of which have been reported in our Other international construction and facilities services segment.

For joint ventures that have been accounted for using the consolidation method of accounting, noncontrolling interest represents the allocation of earnings to our joint venture partners who either have a minority-ownership interest in the joint venture or are not at risk for the majority of losses of the joint venture.

Our 2012 income tax provision from continuing operations was $95.4 million compared to $76.8 million for 2011 and $53.7 million for 2010. The actual income tax rates on income from continuing operations before income taxes, less amounts attributable to noncontrolling interests, for the years ended December 31, 2012, 2011 and 2010, were 39.4%, 38.7% and (167.2)%, respectively. The actual income tax rate for 2010, before non-cash impairment charges and less amounts attributable to noncontrolling interests, was 37.2%. The increase in the 2012 and 2011 income tax provisions was primarily due to increased income before income taxes, the effect of a change in the United Kingdom statutory tax rate and a change in the mix of earnings among various jurisdictions. The Company recognized a non-cash goodwill impairment charge of approximately $210.6 million during 2010. Approximately $34.0 million of this impairment was deductible for income tax purposes. The remaining $176.6 million of this impairment was not deductible for income tax purposes. This non-deductible portion had a significant impact on the effective income tax rate for 2010.

Discontinued operations

In August 2011, we disposed of our entire interest in our Canadian subsidiary, which represented our Canada construction segment, to a group of investors, including members of the former subsidiary's management team. We received approximately $17.3 million in payment for the shares. In addition, we also received approximately $26.4 million in repayment of indebtedness owed by our Canadian subsidiary to us. Proceeds from the sale of discontinued operation, net of cash sold, totaled $26.6 million. Net income from discontinued operation for the year ended December 31, 2011 was $9.1 million, net of income taxes. Included in the net income from discontinued operation for the year ended December 31, 2011 was a gain on sale of $9.1 million (net of income tax provision of $2.8 million) resulting from the sale of the subsidiary. The gain on sale of discontinued operation includes $15.5 million related to amounts previously reported in the foreign translation adjustment component of accumulated other comprehensive income. Loss from discontinued operation included income tax benefits of $0.4 million and $1.3 million for the years ended December 31, 2011 and 2010, respectively.

Liquidity and Capital Resources

The following table presents net cash provided by (used in) operating activities, investing activities and financing activities for the years ended December 31, 2012, 2011 and 2010 (in millions):

	2012	2011	2010
Net cash provided by operating activities	$184.4	$149.4	$69.5
Net cash used in investing activities	$(42.5)	$(320.5)	$(32.7)
Net cash used in financing activities	$(50.6)	$(29.3)	$(48.0)
Effect of exchange rate changes on cash and cash equivalents	$2.7	$0.9	$(4.9)

Our consolidated cash balance increased by approximately $94.0 million from $511.3 million at December 31, 2011 to $605.3 million at December 31, 2012. Net cash provided by operating activities for 2012 was $184.4 million compared to $149.4 million in net cash provided by operating activities for 2011. The increase was primarily due to improved operating results and changes in our working capital. Net cash used in investing activities was $42.5 million for 2012 compared to $320.5 million used in 2011. The decrease was primarily due to a $281.1 million decrease in payments for businesses acquired, partially offset by an $8.3 million increase in amounts paid for the purchase of property, plant and equipment. Net cash used in financing activities for 2012 was $50.6 million compared to $29.3 million used in 2011. The increase was primarily attributable to the payment of dividends.

Our consolidated cash balance decreased by approximately $199.5 million from $710.8 million at December 31, 2010 to $511.3 million at December 31, 2011. Net cash provided by operating activities for 2011 was $149.4 million compared to $69.5 million in net cash provided by operating activities for 2010. The increase was primarily due to improved operating results and changes in our working capital. Additionally in 2010, we made a $25.9 million one-time supplemental contribution to our United Kingdom defined benefit pension plan. Net cash used in investing activities was $320.5 million for 2011 compared to $32.7 million used in 2010. This increase was primarily due to a $262.5 million increase in payments for businesses acquired, a $10.2 million increase in amounts paid for the purchase of property, plant and equipment, and a $17.6 million increase in short-term investments. Net cash used in financing activities for 2011 was $29.3 million compared to $48.0 million used in 2010. This decrease was primarily

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attributable to the repayment of a term loan and debt issuance costs in 2010, partially offset by the $27.5 million used to repurchase our common stock in 2011. The non-cash impairment charges in 2011 and 2010 did not have any impact on our compliance with our debt covenants or on our cash flows.

The following is a summary of material contractual obligations and other commercial commitments (in millions):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Revolving Credit Facility (including interest at 1.71%) (1)	$160.1	$2.6	$5.2	$152.3	$—
Capital lease obligations	6.4	2.0	3.4	1.0	—
Operating leases	196.0	52.9	80.0	48.8	14.3
Open purchase obligations (2)	856.8	720.0	122.6	14.2	—
Other long-term obligations, including current portion (3)	272.1	32.7	228.0	11.4	—
Liabilities related to uncertain income tax positions	13.9	5.5	8.1	0.3	—
Total Contractual Obligations	$1,505.3	$815.7	$447.3	$228.0	$14.3

	Amount of Commitment Expirations by Period				
Other Commercial Commitments	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	After 5 years
Letters of credit	$84.2	$82.1	$2.1	$—	$—

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(1) We classify these borrowings as long-term on our consolidated balance sheets because of our intent to repay the amounts on a long-term basis. These amounts are outstanding at our discretion and are not payable until the 2011 Revolving Credit Facility expires in November 2016. As of December 31, 2012, there were borrowings of $150.0 million outstanding under the 2011 Revolving Credit Facility.

(2) Represents open purchase orders for material and subcontracting costs related to construction and service contracts. These purchase orders are not reflected in EMCOR's consolidated balance sheets and should not impact future cash flows, as amounts should be recovered through customer billings.

(3) Represents primarily insurance related liabilities and liabilities for deferred income taxes, incentive compensation and earn-out arrangements, classified as other long-term liabilities in the consolidated balance sheets. Cash payments for insurance related liabilities may be payable beyond three years, but it is not practical to estimate these payments. We provide funding to our post retirement plans based on at least the minimum funding required by applicable regulations. In determining the minimum required funding, we utilize current actuarial assumptions and exchange rates to forecast estimates of amounts that may be payable for up to five years in the future. In our judgment, minimum funding estimates beyond a five year time horizon cannot be reliably estimated, and therefore, have not been included in the table.

Until November 21, 2011, we had a revolving credit agreement (the "2010 Revolving Credit Facility") as amended, which provided for a credit facility of $550.0 million. The 2010 Revolving Credit Facility was effective February 4, 2010 and replaced an earlier revolving credit facility (the "2005 Revolving Credit Facility") of $375.0 million. Effective November 21, 2011, we replaced the 2010 Revolving Credit Facility that was due to expire February 4, 2013 with an amended and restated $750.0 million revolving credit facility (the "2011 Revolving Credit Facility"). The 2011 Revolving Credit Facility expires in November 2016 and permits us to increase our borrowing to $900.0 million 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 the borrowing capacity under the 2011 Revolving Credit Facility to letters of credit, which amount compares to $175.0 million under the 2010 Revolving Credit Facility and $125.0 million under the 2005 Revolving Credit Facility. The 2011 Revolving Credit Facility is guaranteed by certain of our direct and indirect subsidiaries and is secured by substantially all of our assets and most of the assets of most of our subsidiaries. The 2011 Revolving Credit Facility contains various covenants providing for, among other things, maintenance of certain financial ratios and certain limitations on payment of dividends, common stock repurchases, investments, acquisitions, indebtedness and capital expenditures. A commitment fee is payable on the average daily unused amount of the 2011 Revolving Credit Facility, which ranges from 0.25% to 0.35%, based on certain financial tests. The fee in effect on December 31, 2012 was 0.25% of the unused amount as of such date. Borrowings under the 2011 Revolving Credit Facility bear interest at (1) a rate which is the prime commercial

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lending rate announced by Bank of Montreal from time to time (3.25% at December 31, 2012) plus 0.50% to 1.00%, based on certain financial tests or (2) United States dollar LIBOR (0.21% at December 31, 2012) plus 1.50% to 2.00%, based on certain financial tests. The interest rate in effect at December 31, 2012 was 1.71%. Letter of credit fees issued under this facility range from 1.50% to 2.00% of the respective face amounts of the letters of credit issued and are charged based on certain financial tests. We capitalized approximately $4.2 million of debt issuance costs associated with the 2011 Revolving Credit Facility. This amount is being amortized over the life of the facility and is included as part of interest expense. In connection with the termination of the 2010 Revolving Credit Facility, $0.4 million attributable to the acceleration of expense for debt issuance costs in connection with the 2010 Revolving Credit Facility was recorded as part of interest expense. As of December 31, 2012 and December 31, 2011, we had approximately $84.0 million and $82.9 million of letters of credit outstanding, respectively. We had borrowings of $150.0 million outstanding under the 2010 Revolving Credit Facility at December 31, 2010, and we have borrowings of $150.0 million outstanding under the 2011 Revolving Credit Facility at December 31, 2012, which may remain outstanding at our discretion until the 2011 Revolving Credit Facility expires. Based on the $150.0 million borrowings outstanding as of December 31, 2012 on the 2011 Revolving Credit Facility, if overall interest rates were to increase by 25 basis points, interest expense, net of income taxes, would increase by approximately $0.2 million in the next twelve months. Conversely, if overall interest rates were to decrease by 25 basis points, interest expense, net of income taxes, would decrease by approximately $0.2 million in the next twelve months.

On September 19, 2007, we entered into an agreement providing for a $300.0 million term loan (“Term Loan”). The proceeds of the Term Loan were used to pay a portion of the consideration for an acquisition and costs and expenses incident thereto. In connection with the closing of the 2010 Revolving Credit Facility, we borrowed $150.0 million under that facility and used the proceeds along with cash on hand to prepay on February 4, 2010 all indebtedness outstanding under the Term Loan, which then terminated. In connection with this prepayment, $0.6 million attributable to the acceleration of expense for debt issuance costs associated with the Term Loan was recorded as part of interest expense.

On January 27, 2009, we entered into an interest rate swap, which hedged our interest rate risk associated with the Term Loan. We de-designated $45.5 million of the interest rate swap on December 31, 2009 as it was determined that it was no longer probable that the future estimated cash flows were going to occur as originally estimated. Accordingly, we discontinued the application of hedge accounting associated for this portion of the interest rate swap, and $0.2 million was expensed as part of interest expense, and removed from Accumulated other comprehensive loss, for the year ended December 31, 2010. The interest rate swap matured in October 2010.

One of our subsidiaries had a 40% interest in a venture that designs, constructs, owns, operates, leases and maintains facilities to produce chilled water for sale to customers for use in air conditioning commercial properties. The other venture partner, Baltimore Gas and Electric (a subsidiary of Constellation Energy), had a 60% interest in the venture. As a result of this, we were required to make an additional capital contribution of $8.0 million to the venture. In January 2010, this venture, including our investment, was sold to a third party. As a result of this sale, we received an aggregate amount of $17.7 million for our 40% interest and recognized a pretax gain of $4.5 million, which gain is included in our United States facilities services segment and classified as a component of “Cost of sales” on the Consolidated Statements of Operations.

On September 26, 2011, our Board of Directors authorized the Company to repurchase up to $100.0 million of its outstanding common stock. During 2012, we repurchased approximately 0.9 million shares of our common stock for approximately $23.9 million. As of December 31, 2012, we repurchased 2.1 million shares of our common stock for approximately $51.4 million, and there remained authorization for us to repurchase approximately $48.6 million of our shares. The repurchase program does not obligate the Company to acquire any particular amount of common stock and may be suspended, recommenced or discontinued at any time or from time to time without prior notice. Acquisitions under our repurchase program may be made from time to time as permitted by securities laws and other legal requirements, including provisions in our revolving credit facility placing limitations on such repurchases. The repurchase program has been and will be funded from our operations.

The terms of our construction contracts frequently require that we obtain from surety companies (“Surety Companies”) and provide to our customers payment and performance bonds (“Surety Bonds”) as a condition to the award of such contracts. The Surety Bonds secure our payment and performance obligations under such contracts, and we have agreed to indemnify the Surety Companies for amounts, if any, paid by them in respect of Surety Bonds issued on our behalf. In addition, at the request of labor unions representing certain of our employees, Surety Bonds are sometimes provided to secure obligations for wages and benefits payable to or for such employees. Public sector contracts require Surety Bonds more frequently than private sector contracts, and accordingly, our bonding requirements typically increase as the amount of public sector work increases. As of December 31, 2012, based on our percentage-of-completion of our projects covered by Surety Bonds, our aggregate estimated exposure, assuming defaults on all our then existing contractual obligations, was approximately $0.9 billion. The Surety Bonds are issued by Surety Companies in return for premiums, which vary depending on the size and type of bond.

In recent years, there has been a reduction in the aggregate Surety Bond issuance capacity of Surety Companies due to the economy and the regulatory environment. Consequently, the availability of Surety Bonds has become more limited and the terms upon which Surety Bonds are available have become more restrictive. We continually monitor our available limits of Surety Bonds

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and discuss with our current and other Surety Bond providers the amount of Surety Bonds that may be available to us based on our financial strength and the absence of any default by us on any Surety Bond issued on our behalf. However, if we experience changes in our bonding relationships or if there are further changes in the surety industry, we may seek to satisfy certain customer requests for Surety Bonds by posting other forms of collateral in lieu of Surety Bonds such as letters of credit or guarantees by EMCOR Group, Inc., by seeking to convince customers to forego the requirement for Surety Bonds, by increasing our activities in business segments that rarely require Surety Bonds such as the facilities services segment, and/or by refraining from bidding for certain projects that require Surety Bonds. There can be no assurance that we will be able to effectuate alternatives to providing Surety Bonds to our customers or to obtain, on favorable terms, sufficient additional work that does not require Surety Bonds to replace projects requiring Surety Bonds that we may decide not to pursue. Accordingly, if we were to experience a reduction in the availability of Surety Bonds, we could experience a material adverse effect on our financial position, results of operations and/or cash flows.

From time to time in the ordinary course of business, we guarantee obligations of our subsidiaries under certain contracts. Generally, we are liable under such an arrangement only if our subsidiary fails to perform its obligations under the contract. Historically, we have not incurred any substantial liabilities as a consequence of these guarantees. We do not have any other material financial guarantees or off-balance sheet arrangements other than those disclosed herein.

Our primary source of liquidity has been, and is expected to continue to be, cash generated by operating activities. We also maintain our 2011 Revolving Credit Facility, that may be utilized, among other things, to meet short-term liquidity needs in the event cash generated by operating activities is insufficient or to enable us to seize opportunities to participate in joint ventures or to make acquisitions that may require access to cash on short notice or for any other reason. However, negative macroeconomic trends may have an adverse effect on liquidity. In addition to managing borrowings, our focus on the facilities services market is intended to provide an additional buffer against economic downturns inasmuch as a part of our facilities services business is characterized by annual and multi-year contracts that provide a more predictable stream of cash flow than the construction business. Short-term liquidity is also impacted by the type and length of construction contracts in place. During past economic downturns, there were typically fewer small discretionary projects from the private sector, and companies like us aggressively bid larger long-term infrastructure and public sector contracts. Performance of long duration contracts typically requires greater amounts of working capital. While we strive to maintain a net over-billed position with our customers, there can be no assurance that a net over-billed position can be maintained. Our net over-billings, defined as the balance sheet accounts “Billings in excess of costs and estimated earnings on uncompleted contracts” less “Cost and estimated earnings in excess of billings on uncompleted contracts”, were $290.5 million and $326.9 million as of December 31, 2012 and 2011, respectively.

Long-term liquidity requirements can be expected to be met through cash generated from operating activities and our 2011 Revolving Credit Facility. Based upon our current credit ratings and financial position, we can reasonably expect to be able to incur long-term debt to fund acquisitions. Over the long term, our primary revenue risk factor continues to be the level of demand for non- residential construction services, which is influenced by macroeconomic trends including interest rates and governmental economic policy. In addition, our ability to perform work is critical to meeting long-term liquidity requirements.

We believe that current cash balances and our borrowing capacity available under the 2011 Revolving Credit Facility or other forms of financing available to us through borrowings, combined with cash expected to be generated from operations, will be sufficient to provide our short-term and foreseeable long-term liquidity needs and meet our expected capital expenditure requirements. However, we are a party to lawsuits and other proceedings in which other parties seek to recover from us amounts ranging from a few thousand dollars to over $10.0 million. We do not believe that any such matters will have a materially adverse effect on our financial position, results of operations or liquidity.

On September 26, 2011, we announced plans to pay a regular quarterly dividend of $0.05 per share. We have paid quarterly dividends since October 25, 2011. On December 7, 2012, our Board of Directors declared a special dividend of $0.25 per share, payable in December 2012, and announced its intention to increase the regular quarterly dividend to $0.06 per share. In addition, at the December 7, 2012 meeting of our Board of Directors, the regular quarterly dividend that would have been paid in January 2013 was declared, its amount increased to $0.06 per share and its payment date accelerated to December 28, 2012. We expect that such quarterly dividends will be paid in the foreseeable future. Prior to October 25, 2011, no cash dividends had been paid on the Company's common stock. Our revolving credit facility limits the amount of dividends we can pay on our common stock. However, we do not believe that the terms of the credit facility currently materially limit our ability to pay a quarterly dividend of $0.06 per share for the foreseeable future. The payment of dividends has been and will be funded from our operations.

Certain Insurance Matters

As of December 31, 2012 and 2011, we utilized approximately $84.0 million and $82.9 million, respectively, of letters of credit obtained under our 2011 Revolving Credit Facility and our 2010 Revolving Credit Facility, respectively, as collateral for insurance obligations.

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New Accounting Pronouncements

We review new accounting standards to determine the expected financial impact, if any, that the adoption of such standards will have. As of the filing of this Annual Report on Form 10-K, there were no new accounting standards that were projected to have a material impact on our consolidated financial position, results of operations or liquidity. See Note 2 - Summary of Significant Accounting Policies of the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data for further information regarding new accounting standards recently issued and/or adopted by us.

Application of Critical Accounting Policies

Our consolidated financial statements are based on the application of significant accounting policies, which require management to make significant estimates and assumptions. Our significant accounting policies are described in Note 2-Summary of Significant Accounting Policies of the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K. We believe that some of the more critical judgment areas in the application of accounting policies that affect our financial position and results of operations are the impact of changes in the estimates and judgments pertaining to: (a) revenue recognition from (i) long-term construction contracts for which the percentage-of-completion method of accounting is used and (ii) services contracts; (b) collectibility or valuation of accounts receivable; (c) insurance liabilities; (d) income taxes; and (e) goodwill and identifiable intangible assets.

Revenue Recognition from Long-term Construction Contracts and Services Contracts

We believe our most critical accounting policy is revenue recognition from long-term construction contracts for which we use the percentage-of-completion method of accounting. Percentage-of-completion accounting is the prescribed method of accounting for long-term contracts in accordance with Accounting Standards Codification (“ASC”) Topic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts”, and, accordingly, is the method used for revenue recognition within our industry. Percentage-of-completion is measured principally by the percentage of costs incurred to date for each contract to the estimated total costs for such contract at completion. Certain of our 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. Application of percentage-of-completion accounting results in the recognition of costs and estimated earnings in excess of billings on uncompleted contracts in our Consolidated Balance Sheets. Costs and estimated earnings in excess of billings on uncompleted contracts reflected in the Consolidated Balance Sheets arise when revenues have been recognized but the amounts cannot be billed under the terms of contracts. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. Costs and estimated earnings in excess of billings on uncompleted contracts also include amounts we seek 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). Such amounts are recorded at estimated net realizable value and take into account factors that may affect our ability to bill unbilled revenues and collect amounts after billing. The profit associated with claim amounts is not recognized until the claim has been settled and payment has been received. As of December 31, 2012 and 2011, costs and estimated earnings in excess of billings on uncompleted contracts included unbilled revenues for unapproved change orders of approximately $13.8 million and $14.5 million, respectively, and claims of approximately $0.7 million and $1.6 million, respectively. In addition, accounts receivable as of December 31, 2012 and 2011 included claims of approximately $0.8 million and $0.2 million, respectively. In addition, there are contractually billed amounts and retention related to such contracts of approximately $41.0 million and $40.4 million as of December 31, 2012 and 2011, respectively. Generally, contractually billed amounts will not be paid by the customer to us until final resolution of related claims. Due to uncertainties inherent in estimates employed in applying percentage-of-completion accounting, estimates may be revised as project work progresses. Application of percentage-of-completion accounting requires that the impact of revised estimates be reported prospectively in the consolidated financial statements. In addition to revenue recognition for long-term construction contracts, we recognize revenues from the performance of facilities services for maintenance, repair and retrofit work consistent with the performance of services, which are generally on a pro-rata basis over the life of the contractual arrangement.

Expenses related to all services arrangements are recognized as incurred. Revenues related to the engineering, manufacturing and repairing of shell and tube heat exchangers are recognized when the product is shipped and all other revenue recognition criteria have been met. Costs related to this work are included in inventory until the product is shipped. Provisions for the entirety of estimated losses on contracts are made in the period in which such losses are determined.

Accounts Receivable

We are required to estimate the collectibility of accounts receivable. A considerable amount of judgment is required in assessing the likelihood of realization of receivables. Relevant assessment factors include the creditworthiness of the customer, our prior collection history with the customer and related aging of past due balances. The provision for (recovery of) doubtful accounts during 2012, 2011 and 2010 amounted to approximately $1.2 million, $2.2 million and $(5.1) million, respectively. At December 31, 2012 and 2011, our accounts receivable of $1,222.0 million and $1,187.8 million, respectively, included allowances for doubtful accounts of $11.5 million and $16.7 million, respectively. The decrease in our allowance for doubtful accounts was due to the recovery of amounts previously determined to be uncollectible and the write-off of accounts receivable against the allowance for doubtful accounts. Specific accounts receivable are evaluated when we believe a customer may not be able to meet its financial obligations due to deterioration of its financial position or its credit ratings. The allowance for doubtful accounts requirements are based on the best facts available and are re-evaluated and adjusted on a regular basis as additional information is received.

Insurance Liabilities

We have loss payment deductibles for certain workers' compensation, automobile liability, general liability and property claims, have self-insured retentions for certain other casualty claims, and are self-insured for employee-related health care claims. Losses are recorded based upon estimates of our liability for claims incurred and for claims incurred but not reported. The liabilities are derived from known facts, historical trends and industry averages utilizing the assistance of an actuary to determine the best estimate for the majority of these obligations. We believe the liabilities recognized on our balance sheets for these obligations are adequate. However, such obligations are difficult to assess and estimate due to numerous factors, including severity of injury, determination of liability in proportion to other parties, timely reporting of occurrences and effectiveness of safety and risk management programs. Therefore, if our actual experience differs from the assumptions and estimates used for recording the liabilities, adjustments may be required and will be recorded in the period that the experience becomes known.

Income Taxes

We had net deferred income tax liabilities at December 31, 2012 of $35.6 million and net deferred income tax liabilities of $29.0 million at December 31, 2011, primarily resulting from differences between the carrying value and income tax basis of certain identifiable intangible assets and depreciable fixed assets, which will impact our taxable income in future periods. A valuation allowance is required when it is more likely than not that all or a portion of a deferred income tax asset will not be realized. As of December 31, 2012 and 2011, the total valuation allowance on gross deferred income tax assets was approximately $2.5 million and $3.4 million, respectively.

Goodwill and Identifiable Intangible Assets

As of December 31, 2012, we had $566.6 million and $343.7 million, respectively, of goodwill and net identifiable intangible assets (primarily consisting of our contract backlog, developed technology/vendor network, customer relationships, non-competition agreements and trade names), primarily arising out of the acquisition of companies. As of December 31, 2011, goodwill and net identifiable intangible assets were $566.8 million and $370.4 million, respectively. The determination of related estimated useful lives for identifiable intangible assets and whether those assets are impaired involves significant judgments based upon short and long-term projections of future performance. These forecasts reflect assumptions regarding the ability to successfully integrate acquired companies, as well as macroeconomic conditions. ASC Topic 350, “Intangibles-Goodwill and Other” (“ASC 350”) requires goodwill and other identifiable intangible assets with indefinite useful lives not be amortized, but instead must be tested at least annually for impairment (which we test each October 1, absent any impairment indicators), and be written down if impaired. ASC 350 requires that goodwill be allocated to its respective reporting unit and that identifiable intangible assets with finite lives be amortized over their useful lives.

We test for impairment of goodwill at the reporting unit level utilizing the two-step process as prescribed by ASC 350. The first step of this test compares the fair value of the reporting unit, determined based upon discounted estimated future cash flows, to the carrying amount, including goodwill. If the fair value exceeds the carrying amount, no further work is required and no impairment loss is recognized. If the carrying amount of the reporting unit exceeds the fair value, the goodwill of the reporting unit is potentially impaired and step two of the goodwill impairment test would need to be performed to measure the amount of an impairment loss, if any. In the second step, the impairment is computed by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss in the amount of the excess is recognized and charged to operations. The weighted average cost of capital used in our annual testing for impairment as of October 1, 2012 was 12.8% and 12.1% for our domestic construction segments and our United States facilities services segment, respectively. The perpetual growth rate used for our annual testing was 2.7% for our domestic segments. For the years ended December 31, 2012 and 2011, no impairment of our goodwill was recognized.

During the third quarter of 2010 and prior to our October 1, 2010 annual impairment test, we concluded that impairment indicators may have existed within the United States facilities services segment based upon the then year to date results and recent forecasts. As a result of that conclusion, we performed a step one test as prescribed under ASC 350 for that particular reporting unit which concluded that impairment indicators existed within that reporting unit due to significant declines in year to date revenues and operating margins which caused us to revise our expectations for the strength of a near term recovery in our financial models for businesses within that reporting unit. Specifically, we reduced our net sales growth rates and operating margins within our discounted

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cash flow model, as well as our terminal value growth rates. In addition, we estimated a higher participant risk adjusted weighted average cost of capital. Therefore, the required second step of the assessment for the reporting unit was performed in which the implied fair value of that reporting unit's goodwill was compared to the book value of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, that is, the estimated fair value of the reporting unit is allocated to all of those assets and liabilities of that unit (including both recognized and unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of that reporting unit's goodwill, an impairment loss is recognized in the amount of the excess and is charged to operations. We determined the fair value of the reporting unit using discounted estimated future cash flows. The weighted average cost of capital used in testing for impairment at the interim date was 12.5% with a perpetual growth rate of 2.8% for our United States facilities services segment. As a result of our interim impairment assessment in 2010, we recognized a $210.6 million non-cash goodwill impairment charge in the third quarter of 2010. Additionally, we performed our annual impairment test as of October 1, 2010, and no additional impairment of our goodwill was recognized for any of our reporting segments in the fourth quarter of 2010. The weighted average cost of capital used in our 2010 annual testing for impairment was 13.2% and 12.2% for our domestic construction segments and our United States facilities services segment, respectively. The perpetual growth rate used for our 2010 annual testing was 3.0% for our domestic construction segments and 2.8% for our United States facilities services segment, respectively.

As of December 31, 2012, we had $566.6 million of goodwill on our balance sheet and, of this amount, approximately 63.8% relates to our United States facilities services segment, approximately 35.5% relates to our United States mechanical construction and facilities services segment and approximately 0.7% relates to our United States electrical construction and facilities services segment. As of the date of our latest impairment test, the fair values of our United States facilities services, United States mechanical construction and facilities services and United States electrical construction and facilities services segments exceeded their carrying values by approximately $109.2 million, $376.5 million and $306.9 million, respectively.

We also test for the impairment of trade names that are not subject to amortization by calculating the fair value using the “relief from royalty payments” methodology. This approach involves two steps: (a) estimating reasonable royalty rates for each trade name and (b) applying these royalty rates to a net revenue stream and discounting the resulting cash flows to determine fair value. This fair value is then compared with the carrying value of each trade name. If the carrying amount of the trade name is greater than the implied fair value of the trade name, an impairment in the amount of the excess is recognized and charged to operations. The annual impairment review of our trade names for the year ended December 31, 2011 resulted in a $1.0 million non-cash impairment charge as a result of a change in the fair value of trade names associated with certain prior acquisitions reported within our United States facilities services segment. This impairment primarily resulted from both lower forecasted revenues from, and operating margins at, specific companies within our United States facilities services segment. During the second and third quarters of 2010, we recorded non-cash impairment charges of $35.5 million associated with the fair value of trade names from prior acquisitions reported within our United States facilities services segment. For the year ended December 31, 2012, no impairment of our trade names was recognized.

In addition, we review for the impairment of other identifiable intangible assets that are being amortized whenever facts and circumstances indicate that their carrying values may not be fully recoverable. This test compares their carrying values to the undiscounted pre-tax cash flows expected to result from the use of the assets. If the assets are impaired, the assets are written down to their fair values, generally determined based on their future discounted cash flows. Based on facts and circumstances that indicated an impairment may exist, we performed an impairment review of our other identifiable intangible assets for the year ended December 31, 2011. As a result of this review, we recognized a $2.8 million non-cash impairment charge as a result of a change in the fair value of customer relationships associated with certain prior acquisitions reported within our United States facilities services segment for the year ended December 31, 2011. For the years ended December 31, 2012 and 2010, no impairment of our other identifiable intangible assets was recognized.

We have certain businesses, particularly within our United States facilities services segment, whose results are highly impacted by weather. In addition, certain of these businesses are dependent upon a return to historical snowfall patterns during the winter months to achieve such businesses' expected performance. Future performance of this segment, along with a continued evaluation of the conditions of its end user markets, will be important to ongoing impairment assessments. Should its actual results suffer a decline or expected future results be revised downward, the risk of goodwill impairment or impairment of other identifiable intangible assets would increase.

Our development of the present value of future cash flow projections used in impairment testing is based upon assumptions and estimates by management from a review of our operating results, business plans, anticipated growth rates and margins and weighted average cost of capital, among others. Much of the information used in assessing fair value is outside the control of management, such as interest rates, and these assumptions and estimates can change in future periods. There can be no assurances that our estimates and assumptions made for purposes of our goodwill and identifiable intangible asset impairment testing will prove to be accurate predictions of the future. If our assumptions regarding business plans or anticipated growth rates and/or margins are

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not achieved, or there is a rise in interest rates, we may be required, as we did in 2011 and 2010 to record further goodwill and/or identifiable intangible asset impairment charges in future periods.

During 2011, we recognized a $3.8 million non-cash impairment charge as discussed above. Of this amount, $2.8 million related to customer relationships and $1.0 million related to trade names. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such a charge would be material.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have not used any derivative financial instruments, except as discussed below, during the years ended December 31, 2012 and 2011, including trading or speculating on changes in commodity prices of materials used in our business.

We are exposed to market risk for changes in interest rates for borrowings under the 2011 Revolving Credit Facility. Borrowings under the 2011 Revolving Credit Facility bear interest at variable rates. For further information on borrowing rates and interest rate sensitivity, refer to the Liquidity and Capital Resources discussion in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. As of December 31, 2012, there were borrowings of $150.0 million outstanding under the 2011 Revolving Credit Facility. Based on the $150.0 million borrowings outstanding on the 2011 Revolving Credit Facility, if overall interest rates were to increase by 25 basis points, interest expense, net of income taxes, would increase by approximately $0.2 million in the next twelve months. Conversely, if overall interest rates were to decrease by 25 basis points, interest expense, net of income taxes, would decrease by approximately $0.2 million in the next twelve months.

We are also exposed to construction market risk and its potential related impact on accounts receivable or costs and estimated earnings in excess of billings on uncompleted contracts. The amounts recorded may be at risk if our customers' ability to pay these obligations is negatively impacted by economic conditions. We continually monitor the creditworthiness of our customers and maintain on-going discussions with customers regarding contract status with respect to change orders and billing terms. Therefore, we believe we take appropriate action to manage market and other risks, but there is no assurance that we will be able to reasonably identify all risks with respect to collectibility of these assets. See also the previous discussions of Revenue Recognition from Long-term Construction Contracts and Services Contracts and Accounts Receivable under Application of Critical Accounting Policies in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

In addition, we are exposed to market risk of fluctuations in certain commodity prices of materials, such as copper and steel, which are used as components of supplies or materials utilized in both our construction and facilities services operations. We are also exposed to increases in energy prices, particularly as they relate to gasoline prices for our fleet of over 8,500 vehicles. While we believe we can increase our prices to adjust for some price increases in commodities, there can be no assurance that price increases of commodities, if they were to occur, would be recoverable. Additionally, our fixed price contracts do not allow us to adjust our prices and, as a result, increases in material or fuel costs could reduce our profitability with respect to projects in progress.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
EMCOR Group, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and share data)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 605,303	$ 511,322
Accounts receivable, less allowance of doubtful accounts of $11,472 and $16,685, respectively	1,221,956	1,187,832
Costs and estimated earnings in excess of billings on uncompleted contracts	93,061	114,836
Inventories	50,512	44,914
Prepaid expenses and other	73,621	77,749
Total current assets	2,044,453	1,936,653
Investments, notes and other long-term receivables	4,959	5,618
Property, plant and equipment, net	116,631	101,663
Goodwill	566,588	566,805
Identifiable intangible assets, net	343,748	370,373
Other assets	30,691	32,964
Total assets	$ 3,107,070	$ 3,014,076
LIABILITIES AND EQUITY		
Current liabilities:		
Borrowings under revolving credit facility	$ —	$ —
Current maturities of long-term debt and capital lease obligations	1,787	1,522
Accounts payable	490,621	477,801
Billings in excess of costs and estimated earnings on uncompleted contracts	383,527	441,695
Accrued payroll and benefits	224,555	204,785
Other accrued expenses and liabilities	194,029	205,110
Total current liabilities	1,294,519	1,330,913
Borrowings under revolving credit facility	150,000	150,000
Long-term debt and capital lease obligations	4,112	3,335
Other long-term obligations	301,260	284,697
Total liabilities	1,749,891	1,768,945
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, 68,010,419 and 68,125,437 shares issued, respectively	680	681
Capital surplus	416,104	417,136
Accumulated other comprehensive loss	(81,040)	(78,649)
Retained earnings	1,022,239	910,042
Treasury stock, at cost 1,046,257 and 1,681,037 shares, respectively	(11,903)	(14,476)
Total EMCOR Group, Inc. stockholders' equity	1,346,080	1,234,734
Noncontrolling interests	11,099	10,397
Total equity	1,357,179	1,245,131
Total liabilities and equity	$ 3,107,070	$ 3,014,076

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

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EMCOR Group, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
For The Years Ended December 31,
(In thousands, except per share data)

	2012	2011	2010
Revenues	$6,346,679	$5,613,459	$4,851,953
Cost of sales	5,540,325	4,879,510	4,158,430
Gross profit	806,354	733,949	693,523
Selling, general and administrative expenses	556,242	518,121	472,135
Restructuring expenses	145	1,240	1,835
Impairment loss on goodwill and identifiable intangible assets	—	3,795	246,081
Operating income (loss)	249,967	210,793	(26,528)
Interest expense	(7,275)	(11,261)	(12,153)
Interest income	1,556	1,820	2,657
Gain on sale of equity investment	—	—	7,900
Income (loss) from continuing operations before income taxes	244,248	201,352	(28,124)
Income tax provision	95,362	76,764	53,711
Income (loss) from continuing operations	148,886	12>	

Condensed Consolidating Statement of Operations
For the three months ended June 30, 2009
(unaudited)
(In thousands)

	Abraxas Petroleum Corporation	Abraxas Energy Partners, L.P.	Reclassifi-cations and eliminations	Consolidated
Revenues:				
Oil and gas production revenues	$2,428	$9,691	$ —	$ 12,119
Rig revenues	247	—	—	247
Other	2	—	—	2
	2,677	9,691	—	12,368
Operating costs and expenses:				
Lease operating and production taxes	956	5,029	—	5,985
Depreciation, depletion, and amortization	935	3,502	70	4,507
Rig operations	211	—	—	211
General and administrative	933	668	—	1,601
	3,035	9,199	70	12,304
Operating income (loss)	(358)	492	(70)	64
Other (income) expense:				
Interest income	(2)	(4)	—	(6)
Amortization of deferred financing fees	39	335	—	374
Interest expense	167	2,884	—	3,051
Loss on derivative contracts	—	14,560	—	14,560
Other	—	2,208	—	2,208
	204	19,983	—	20,187
Net loss	(562)	(19,491)	(70)	(20,123)
Less: Net loss attributable to non-controlling interest	—	—	10,091	10,091
Net loss attributable to Abraxas Petroleum	$ (562)	$ (19,491)	$ 10,021	$ (10,032)

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Condensed Consolidating Statement of Operations
For the three months ended June 30, 2008 (1)
(unaudited)
(In thousands)

	Abraxas Petroleum Corporation	Abraxas Energy Partners, L.P.	Reclassifi-cations and eliminations	Consolidated
Revenues:				
Oil and gas production revenues	$ 5,639	$ 28,444	$ —	$ 34,083
Rig revenues	329	—	—	329
Other	11	—	—	11
	5,979	28,444	—	34,423
Operating costs and expenses:				
Lease operating and production taxes	840	6,330	—	7,170
Depreciation, depletion, and amortization	925	5,079	—	6,004
Rig operations	193	—	—	193
General and administrative	1,097	776	—	1,873
	3,055	12,185	—	15,240
Operating income	2,924	16,259	—	19,183
Other (income) expense:				
Interest income	(28)	(3)	—	(31)
Amortization of deferred financing fees	10	263	—	273
Interest expense	48	2,624	—	2,672
Loss on derivative contracts	—	81,135	—	81,135
Other	23	711		734
	53	84,730	—	84,783
Net income (loss)	2,871	(68,471)	—	(65,600)
Less: Net loss attributable to non-controlling interest………………	—	—	7,912	7,912
Net income (loss) attributable to Abraxas Petroleum.	$ 2,871	$(68,471)	$ 7,912	$ (57,688)

(1) As adjusted for FAS No. 160 “Non-controlling Interest in Consolidated Financial Statements.”

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Condensed Consolidating Statement of Operations
For the six months ended June 30, 2009
(unaudited)
(In thousands)

	Abraxas Petroleum Corporation	Abraxas Energy Partners, L.P.	Reclassifi-cations and eliminations	Consolidated
Revenues:				
Oil and gas production revenues	$ 4,394	$ 18,321	$ —	$ 22,715
Rig revenues	500	—	—	500
Other	3	—	—	3
	4,897	18,321	—	23,218
Operating costs and expenses:				
Lease operating and production taxes	2,021	9,833	—	11,854
Depreciation, depletion, and amortization	1,892	7,028	74	8,994
Impairment	—	2,775	(2,775)	—
Rig operations	399	—	—	399
General and administrative	2,255	1,475	—	3,730
	6,567	21,111	(2,701)	24,977
Operating income (loss)	(1,670)	(2,790)	2,701	(1,759)
Other (income) expense:				
Interest income	(5)	(6)	—	(11)
Amortization of deferred financing fees	49	537	—	586
Interest expense	285	5,322	—	5,607
Financing fees	—	362	—	362
Loss on derivative contracts	—	1,695	—	1,695
Other	—	2,229	—	2,229
	329	10,139	—	10,468
Net loss	(1,999)	(12,929)	2,701	(12,227)
Less: Net loss attributable to non-controlling interest	—	—	6,645	6,645
Net loss attributable to Abraxas Petroleum	$ (1,999)	$ (12,929)	$ 9,346	$ (5,582)

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Condensed Consolidating Statement of Operations
For the six months ended June 30, 2008 (1)
(unaudited)
(In thousands)

	Abraxas Petroleum Corporation	Abraxas Energy Partners, L.P.	Reclassifi-cations and eliminations	Consolidated
Revenues:				
Oil and gas production revenues	$ 8,686	$ 47,260	$ —	$ 55,946
Rig revenues	635	—	—	635
Other	12	—	—	12
	9,333	47,260	—	56,593
Operating costs and expenses:				
Lease operating and production taxes	1,616	10,756	—	12,372
Depreciation, depletion, and amortization	1,515	9,583	—	11,098
Rig operations	403	—	—	403
General and administrative	2,382	1,290	—	3,672
	5,916	21,629	—	27,545
Operating income	3,417	25,631	—	29,048
Other (income) expense:				
Interest income	(111)	(16)	—	(127)
Amortization of deferred financing fees	20	447	—	467
Interest expense	70	5,068	—	5,138
Loss on derivative contracts	—	108,093	—	108,093
Other	23	711	—	734
	2	114,303	—	114,305
Net income (loss)	3,415	(88,672)	—	(85,257)
Less: Net loss attributable to non-controlling interest	—	—	18,578	18,578
Net income (loss) attributable to Abraxas Petroleum .	$ 3,415	$ (88,672)	$ 18,578	$ (66,679)

(1) As adjusted for FAS No. 160 “Non-controlling Interest in Consolidated Financial Statements.”

Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2009
(unaudited)
(In thousands)

	Abraxas Petroleum Corporation	Abraxas Energy Partners, L.P.	Reclassifi-cations and eliminations	Consolidated
Operating Activities				
Net income (loss)	$ (1,999)	$ (12,929)	$ 2,701	$ (12,227)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Change in derivative fair value	—	14,577	—	14,577
Depreciation, depletion, and amortization	1,892	7,028	74	8,994
Proved property impairment	—	2,775	(2,775)	—
Accretion of future site restoration	26	255	—	281
Amortization of deferred financing fees	49	537	—	586
Stock-based compensation	526	70	—	596
Other non-cash transactions	123	—	—	123
Previously capitalized registration fees	—	2,207	—	2,207
Changes in operating assets and liabilities:				
Accounts receivable	4,087	(258)	(3,250)	579
Other assets	139	(4)	—	135
Accounts payable and accrued expenses	(6,063)	(3,582)	3,250	(6,395)
Net cash provided by (used in) operations	(1,220)	10,676	—	9,456
Investing Activities				
Capital expenditures, including purchases and development of properties – net of dispositions	(4,412)	(3,098)	—	(7,510)
Net cash used in investing activities	(4,412)	(3,098)	—	(7,510)
Financing Activities				
Proceeds from issuance of common stock				
Proceeds from long-term borrowings	5,924	—	—	5,924
Payments on long-term borrowings	(63)	(1,925)	—	(1,988)

Partnership distribution		—		(2,257)		—		(2,257)
Deferred financing fees		—		(3,242)		—		(3,242)
Other		47		(564)		—		(517)
Net cash provided by (used in) financing activities		5,908		(7,988)		—		(2,080)
Increase (decrease) in cash		276		(410)		—		(134)
Cash at beginning of period		—		1,924		—		1,924
Cash at end of period	$	276	$	1,514	$	—	$	1,790

Condensed Consolidating Statement of Cash Flows
For the six months ended June 30, 2008 (1)
(unaudited)
(In thousands)

	Abraxas Petroleum Corporation	Abraxas Energy Partners, L.P.	Reclassifi-cations and eliminations	Consolidated
Operating Activities				
Net income (loss)	$ 3,415	$ (88,672)	$ —	$ (85,257)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Change in derivative fair value	—	100,038	—	100,038
Depreciation, depletion, and amortization	1,515	9,583	—	11,098
Distribution from Energy Partners	4,154	—	(4,154)	—
Accretion of future site restoration	39	224	—	263
Amortization of deferred financing fees	20	447	—	467
Stock-based compensation	896	—	—	896
Other non-cash transactions	42	—	—	42
Changes in operating assets and liabilities:				
Accounts receivable	(18,801)	(9,871)	14,604	(14,068)
Other assets	78	(10)	—	68
Accounts payable and accrued expenses	20,601	7,546	(11,207)	16,940
Net cash provided by operations	11,959	19,285	(757)	30,487
Investing Activities				
Capital expenditures, including purchases and development of properties	(21,436)	(134,039)	—	(155,475)
Net cash used in investing activities	(21,436)	(134,039)	—	(155,475)
Financing Activities				
Proceeds from stock options	44	—	—	44
Proceeds from long-term borrowings	4,662	119,700	—	124,362
Partnership distribution	—	(4,786)	757	(4,029)
Deferred financing fees	—	(1,615)	—	(1,615)
Net cash provided by financing activities	4,706	113,299	757	118,762
Decrease in cash	(4,771)	(1,455)	—	(6,226)
Cash at beginning of period	17,177	1,759	—	18,936

Cash at end of year period	$	12,406	$	304	$	—	$	12,710

(1) As adjusted for FAS No. 160 “Non-controlling Interest in Consolidated Financial Statements.”

Note 7. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Numerator:				
Net loss available to common stockholders	$(10,032)	$(57,688)	$(5,582)	$(66,679)
Denominator:				
Denominator for basic earnings (loss) per share - Weighted-average shares	49,564	48,911	49,628	48,901
Effect of dilutive securities:				
Stock options and warrants	—	—	—	—
Dilutive potential common shares	—	—	—	—
Denominator for diluted earnings (loss) per share - adjusted weighted-average shares and assumed conversions	49,564	48,911	49,628	48,901
Net loss per common share – basic	$(0.20)	$(1.18)	$(0.11)	$(1.36)
Net loss per common share – diluted	$(0.20)	$(1.18)	$(0.11)	$(1.36)

For the three and six months ended June 30, 2009 and 2008 none of the shares issuable in connection with stock options or warrants are included in diluted shares. Inclusion of these shares would be antidilutive due to losses incurred in the periods. Had there not been losses in the periods, dilutive shares would have been 321,286 and 330,226 shares and 607,610 and 508,958 shares for the three and six months ended June 30, 2009 and 2008, respectively.

Note 8. Hedging Program and Derivatives

The Company does not use hedge accounting rules as prescribed by SFAS 133 Accounting for Derivative Instruments and Hedging Activities, and related interpretations. Accordingly, instruments are recorded on the balance sheet at their fair value with adjustments to the carrying value of the instruments being recognized in gain loss on derivative contracts in the current period.

Under the terms of the Partnership Credit Facility, Abraxas Energy Partners was required to enter into derivative contracts for specified volumes, which equated to approximately 85% of the estimated oil and gas production through December 31, 2011. In connection with the April 30, 2009 amendment to the Partnership Credit Facility, the Partnership was required to enter into additional derivative contracts for volumes equating to approximately 60% of the estimated oil and gas production from net proved developed producing reserves for the year 2012. The Partnership intends to enter into derivative contracts in the future to reduce the impact of price volatility on its cash flow. We have not designated any of these derivative contracts as a hedge as prescribed by applicable accounting rules.

The following table sets forth the Partnership's derivative contract position at June 30, 2009:

Period Covered	Product	Volume (Production per day)	Fixed Price
Year 2009	Gas	10,595 Mmbtu	$8.44
Year 2009	Oil	1,000 Bbl	$83.80
Year 2010	Gas	9,130 Mmbtu	$8.22
Year 2010	Oil	895 Bbl	$83.26
Year 2011	Gas	8,010 Mmbtu	$8.10
Year 2011	Oil	810 Bbl	$86.45
Year 2012	Gas	3,000 Mmbtu	$6.88
Year 2012	Oil	670 Bbl	$67.60

At June 30, 2009, the aggregate fair market value of our commodity derivative contracts was approximately $24.3 million.

On July 29, 2009, the derivative contracts for the periods 2009 through 2011 were monetized for $26.7 million. These funds, together with the July 2009 settlement of its commodity swaps of $2.0 million, were used by the Partnership to repay outstanding indebtedness under the Partnership Credit Facility. In connection with the monetization and repayment, the Partnership was required to enter into new commodity swaps. The following table sets forth the consolidated weighted average derivative contract position as of July 29, 2009 for Abraxas Petroleum and the Partnership:

	Fixed-Price Swaps			
	Oil		Gas	
Contract Period	Daily Volume (Bbl)	Swap Price	Daily Volume (Mmbtu)	Swap Price
Q4 2009	1,355	$68.90	13,981	$4.50
2010	1,158	73.28	11,258	5.73
2011	1,035	76.61	9,580	6.52
2012	946	70.89	8,303	6.77
2013	705	80.79	5,962	6.84

In order to mitigate its interest rate exposure, the Partnership entered into an interest rate swap, effective August 12, 2008, amended in February 2009, to fix its floating LIBOR based debt. The 2-year interest rate swap arrangement is for $100 million at a fixed rate of 2.95%. The arrangement expires on August 12, 2010. The fair value of this interest rate swap at June 30, 2009 was a liability of $2.7 million.

Note 9. Financial Instruments

SFAS 157—Effective January 1, 2008, the Company adopted Financial Accounting Standards Board (“FASB”) Statement No. 157, Fair Value Measurements (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The implementation of SFAS 157 did not cause a change in the method of calculating fair value of assets or liabilities, with the exception of incorporating a measure of the Company’s own nonperformance risk or that of its counterparties as appropriate, which was not material. The primary impact from adoption was additional disclosures.

The Company elected to implement SFAS 157 with the one-year deferral permitted by FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (“FSP 157-2”), issued February 2008, which deferred the effective date of SFAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. As it relates to the Company, the deferral applies to certain nonfinancial assets and liabilities as may be acquired in a business combination and thereby measured at fair value; impaired oil and gas property assessments; and the initial recognition of asset retirement obligations for which fair value is used. The adoption of FAS 157 did not have an impact on the Company.

Fair Value Hierarchy—SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

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Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2- inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2009
Assets				
Investment in common stock	$192	$ —	$ —	$ 192
NYMEX-based fixed price derivative contracts	—	27,548	—	27,548
Total assets	$192	$ 27,548	$ —	$ 27,740
Liabilities				
NYMEX-based fixed price derivative contracts	$—	$3,202	$ —	$3,202
Interest Rate Swaps	—	—	2,697	2,697
Total Liabilities	$—	$ 3,202	$ 2,697	$ 5,899

The Company has an investment in a former subsidiary consisting of shares of common stock. The stock is actively traded on the Toronto Stock Exchange. This investment is valued at its quoted price as of June 30, 2009 in US dollars. Accordingly this investment is characterized as Level 1.

The Partnership's derivative contracts consist of NYMEX-based fixed price commodity swaps and interest rate swaps, which are not traded on a public exchange. The NYMEX-based fixed price derivative contracts are indexed to NYMEX futures contracts, which are actively traded, for the underlying commodity, and are commonly used in the energy industry. A number of financial institutions and large energy companies act as counter-parties to these type of derivative contracts. As the fair value of these derivative contracts is based on a number of inputs, including contractual volumes and prices stated in each derivative contract, current and future NYMEX commodity prices, and quantitative models that are based upon readily observable market parameters that are actively quoted and can be validated through external sources, we have characterized these derivative contracts as Level 2.

In August 2008, the Partnership entered into a two year interest rate swap. The notional amount is $100.0 million for the first year and $50.0 million for the second year. The Partnership will pay interest at 3.367% and be paid on a floating LIBOR rate. The interest rate swap was amended in February 2009 and increased the notional amount in the second year to $100.0 million and reduced the overall interest rate to 2.95%. As there is no actively traded market for this type of swap and no observable market parameters, these derivative contracts are classified as Level 3.

Additional information for the Partnership's recurring fair value measurements using significant unobservable inputs (Level 3 inputs) for the three and six months ended June 30, 2009 is as follows (in thousands):

	Derivative Assets and (Liabilities) - net	
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Balance Beginning of period	$(2,950)	$(3,000)
Total realized and unrealized losses included in change in net liability	(357)	(869)
Settlements during the period	610	1,172
Ending balance June 30, 2009	$(2,697)	$(2,697)

Note 10. Contingencies - Litigation

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. At June 30, 2009, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition, results of operations, liquidity and capital resources. This discussion should be read in conjunction with our consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed for the year ended December 31, 2008 filed with the Securities and Exchange Commission on February 24, 2009. The terms "Abraxas" or "Abraxas Petroleum" refer to Abraxas Petroleum Corporation and its subsidiaries other than Abraxas Energy Partners, L.P., which we refer to as "Abraxas Energy Partners" or the "Partnership", and its subsidiary, Abraxas Operating, LLC, which we refer to as "Abraxas Operating" and the terms "we", "us", "our" or the "Company" refer to Abraxas Petroleum Corporation and all of its consolidated subsidiaries including Abraxas Energy Partners and Abraxas Operating. The operations of Abraxas Petroleum and the Partnership are consolidated for financial reporting purposes with the interest of the 51.8% non-controlling owners presented as non-controlling interest. Abraxas owns the remaining 48.2% of the partnership interests.

Critical Accounting Policies

Except as set forth in the following paragraph, there have been no changes from the Critical Accounting Policies described in our Annual Report on Form 10-K for the year ended December 31, 2008.

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for (1) ownership interests in subsidiaries held by others, (2) the amount of consolidated net income attributable to the controlling and noncontrolling interests, (3) changes in the controlling ownership interest, (4) the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated and (5) disclosures that clearly identify and distinguish between the interests of the controlling and noncontrolling owners. The adoption of SFAS 160 resulted in changes to our presentation for noncontrolling interests and did not have a material impact on the Company's results of operations and financial condition.

In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock ("EITF 07-5"). EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS No. 133 paragraph 11(a) scope exception. The Company intends to utilize liability treatment of warrants going forward. The adoption of this standard has not had a significant impact on the Company's consolidated financial position, results of operations or cash flows.

General

We are an independent energy company primarily engaged in the development and production of oil and gas. Our principal means of growth has been through the acquisition and subsequent development and exploitation of producing properties. As a result of these activities, we believe that we have a number of development opportunities on our properties. In addition, we intend to expand upon our development activities with complementary exploration projects in our core areas of operation. Success in our development and exploration activities is critical to the maintenance and growth of our current production levels and associated reserves.

Factors Affecting Our Financial Results

While we have attained positive net income in four of the five years ended December 31, 2008, we sustained a loss in the year ended December 31, 2008 and we cannot assure you that we can achieve positive operating income and net income in the future. Our financial results depend upon many factors, which significantly affect our results of operations including the following:

- the sales prices of oil and gas;

- the level of total sales volumes of oil and gas;
- the availability of, and our ability to raise additional capital resources and provide liquidity to meet cash flow needs;
- the level of and interest rates on borrowings; and
- the level of success of exploitation, exploration and development activity.

Commodity Prices and Hedging Activities.

The results of our operations are highly dependent upon the prices received for our oil and gas production. The prices we receive for our production are dependent upon spot market prices, price differentials and the effectiveness of our derivative contracts, which we sometimes refer to as hedging arrangements. Substantially all of our sales of oil and gas are made in the spot market, or pursuant to contracts based on spot market prices, and not pursuant to long-term, fixed-price contracts. Accordingly, the prices received for our oil and gas production are dependent upon numerous factors beyond our control. Significant declines in prices for oil and gas could have a material adverse effect on our financial condition, results of operations, cash flows and quantities of reserves recoverable on an economic basis.

Recently, the prices of oil and gas have been volatile. During the first six months of 2008, prices for oil and gas were sustained at record or near-record levels. New York Mercantile Exchange (NYMEX) spot prices for West Texas Intermediate (WTI) oil averaged $111.10 per barrel for the six month period ended June 30, 2008. WTI oil ended the quarter at $140.00 per barrel. NYMEX Henry Hub spot prices for gas averaged $10.02 per million British thermal units (MMBtu) during first six months of 2008. During the first six months of 2009, prices of oil and gas declined significantly from the levels experienced during the first six months of 2008. During the first six months of 2009, the New York Mercantile (NYMEX) price for West Texas Intermediate (WTI) averaged $51.59 per barrel. NYMEX Henry Hub spot prices for gas averaged $4.12 per million British thermal units (MMBtu) for the first six months of 2009. Prices closed the quarter at $69.89 per Bbl of oil and $3.71 per MMBtu of gas and continue to be significantly lower when compared to the same period of 2008. If commodity prices continue to decline, our revenue and cash flow from operations could also decline. In addition, lower commodity prices could also significantly reduce the amount of oil and gas we can produce economically. The current global recession has had a significant impact on commodity prices and our operations. If commodity prices remain depressed, our revenues, profitability and cash flow from operations may decrease which could cause us to alter our business plans, including reducing our drilling activities.

Declines in commodity prices could also result in downward adjustments to our estimated proved reserves under applicable accounting rules. Under these rules, if the net capitalized cost of oil and gas properties exceeds the PV-10 of our reserves, we must charge the amount of the excess to earnings. For example, as of December 31, 2008, our net capitalized costs of oil and gas properties exceeded the present value of our estimated proved reserves by $116.4 million ($19.2 million for Abraxas Petroleum’s properties and $97.1 million for Abraxas Energy’s properties) resulting in a write-down of $116.4 million. These amounts were calculated considering 2008 year-end prices of $44.60 per Bbl for oil and $5.62 per Mcf for gas as adjusted to reflect the expected realized prices for each of our oil and gas reserves compared to each of the full cost pools. This charge did not impact cash flow from operating activities, but did reduce our stockholder’s equity and earnings. The risk that we will be required to write-down the carrying value of oil and gas properties increases when oil and gas prices are low. In addition, write-downs may occur if we experience substantial downward adjustments to our estimated proved reserves. An expense recorded in one period may not be reversed in a subsequent period even though higher gas and oil prices may have increased the ceiling applicable to the subsequent period.

The realized prices that we receive for our production differ from NYMEX futures and spot market prices, principally due to:

- basis differentials which are dependent on actual delivery location,
- adjustments for BTU content and quality; and

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- gathering, processing and transportation costs.

During the first six months of 2009, differentials averaged $7.71 per Bbl of oil and $0.99 per Mcf of gas as compared to $3.85 per Bbl of oil and $1.38 per Mcf of gas during the first six months of 2008. We are realizing greater differentials during 2009 as compared to 2008 because of the increased percentage of our production from the Rocky Mountain and Mid-Continent regions which experience higher differentials than our Texas properties. As the percentage of our production from the Rocky Mountain and Mid-Continent regions increases, we expect that our price differentials will also increase. Increases in the differential between benchmark prices for oil and gas and the wellhead price we receive could significantly reduce revenues and cash flow from operations.

Under the terms of the Partnership Credit Facility, Abraxas Energy Partners was required to enter into derivative contracts for specified volumes, which equated to approximately 85% of the estimated oil and gas production through December 31, 2011 and 60% of the estimated oil and gas production from its net estimated proved developed producing reserves for calendar year 2012. By removing a significant portion of price volatility on its future oil and gas production, the Partnership believes it will mitigate, but not eliminate, the potential effects of changing commodity gas prices on its cash flow from operations for those periods. The Partnership intends to enter into derivative contracts in the future to reduce the impact of price volatility on its cash flow. The prices at which future production is hedged will be dependent upon commodity prices at the time the agreement is entered into, which may be substantially higher or lower than current oil and gas prices. Accordingly, future commodity derivative contracts may not protect us from significant declines in oil and gas prices. We have not designated any of these derivative contracts as a hedge as prescribed by applicable accounting rules.

The following table sets forth the Partnership's derivative contract position at June 30, 2009:

Period Covered	Product	Volume (Production per day)	Fixed Price
Year 2009	Gas	10,595 Mmbtu	$8.45
Year 2009	Oil	1,000 Bbl	$83.80
Year 2010	Gas	9,130 Mmbtu	$8.22
Year 2010	Oil	895 Bbl	$83.26
Year 2011	Gas	8,010 Mmbtu	$8.10
Year 2011	Oil	810 Bbl	$86.45
Year 2012	Gas	3,000 Mmbtu	$6.88
Year 2012	Oil	670 Bbl	$67.60

At June 30, 2009, the aggregate fair market value of our derivative contracts was approximately $24.3 million.

On July 29, 2009, the derivative contracts for the periods 2009 through 2011 were monetized for $26.7 million. These funds, together with the July 2009 settlement of its commodity swaps of $2.0 million, were used by the Partnership to repay outstanding indebtedness under the Partnership Credit Facility. In connection with the monetization and repayment, the Partnership's borrowing base was reduced and the Partnership was required to enter into new commodity swaps. The following table sets forth the consolidated weighted average derivative contract position as of July 29, 2009 for us and the Partnership:

	Fixed-Price Swaps			
	Oil		Gas	
Contract Period	Daily Volume (Bbl)	Swap Price	Daily Volume (Mmbtu)	Swap Price
	1,355	$ 68.90	13,981	$ 4.50

Q4 2009				
2010	1,158	73.28	11,258	5.73
2011	1,035	76.61	9,580	6.52
2012	946	70.89	8,303	6.77
2013	705	80.79	5,962	6.84

When our derivative contract prices are higher than market prices, we will incur realized and unrealized gains on the derivative contracts and when contract prices are lower than market prices, we will incur realized and unrealized losses.

Production Volumes. Because our proved reserves will decline as oil and gas are produced, unless we find, acquire or develop additional properties containing proved reserves or conduct successful exploration and development activities, our reserves and production will decrease. Approximately 85% of the estimated ultimate recovery of Abraxas' and 92% of the Partnership's, or 92% of our consolidated proved developed producing reserves as of December 31, 2008 had been produced. Based on the reserve information set forth in our reserve estimates as of December 31, 2008, Abraxas' average annual estimated decline rate for its net proved developed producing reserves is 18% during the first five years, 13% in the next five years, and approximately 7% thereafter. Based on the reserve information set forth in our reserve estimates as of December 31, 2008, the Partnership's average annual estimated decline rate for its net proved developed producing reserves is 10% during the first five years, 8% in the next five years and approximately 8% thereafter. These rates of decline are estimates and actual production declines could be materially higher. While Abraxas has had some success in finding, acquiring and developing additional revenues, Abraxas has not always been able to fully replace the production volumes lost from natural field declines and prior property sales. For example, in 2006, Abraxas replaced only 7% of the reserves it produced. In 2007, however, we replaced 219% of the reserves we produced and in 2008, we replaced 555% of the reserves we produced primarily as a result of the St. Mary property acquisition in January 2008. Our ability to acquire or find additional reserves in the near future will be dependent, in part, upon the amount of available funds for acquisition, exploration and development projects.

We had capital expenditures of $7.5 million during the first six months of 2009 of which $3.1 million was by the Partnership and $4.4 million was by Abraxas Petroleum and our capital budget for 2009 is approximately $32.0 million, of which $20.0 million is applicable to Abraxas and $12.0 million applicable to the Partnership. Under the terms of the Partnership Credit Facility, the Partnership's capital expenditures may not exceed $12.5 million prior to the termination of the Partnership's Subordinated Credit Agreement. The final amount of our capital expenditures for 2009 will depend on our success rate, production levels, the availability of capital and commodity prices.

Availability of Capital. As described more fully under "Liquidity and Capital Resources" below, if the Merger is not consummated, Abraxas' sources of capital going forward will primarily be cash from operating activities, funding under the Credit Facility, cash on hand, sales of debt or equity securities, if available, and, if an appropriate opportunity presents itself, proceeds from the sale of properties. If the Merger is not consummated, Abraxas Energy Partners principal sources of capital will be cash from operating activities, borrowings under the Partnership Credit Facility, and sales of debt or equity securities if available to it. If the Merger is consummated, the Credit Facility, the Partnership Credit Facility and the Subordinated Credit Agreement will be refinanced and terminated and our sources of capital going forward will primarily be cash from operating activities, funding under the new credit facility, cash on hand and, if an appropriate opportunity presents itself, proceeds from the sale of properties and sales of debt or equity securities.

At June 30, 2009, Abraxas had approximately $0.6 million of availability under the Credit Facility and the Partnership had approximately $4.4 million of availability under the Partnership Credit Facility. At July 31, 2009, in connection with the monetization and repayment of $28.7 million of indebtedness, Abraxas Energy had indebtedness of approximately $95.0 million and no availability under its credit facility. The Subordinated Credit Agreement currently matures on August 14, 2009. The Partnership has entered into discussions with the lenders under the Partnership Credit Facility and the Subordinated Credit Agreement to extend the maturity date and certain other items to September 14, 2009. The Partnership had intended to repay the Subordinated Credit Agreement with proceeds from its initial public offering. Under the terms of the Voting Agreement, the Partnership agreed to not file any further amendments to the registration statement for its initial public offering or take any actions intended to consummate the initial public offering and, as a result of executing the Merger Agreement, we and the Partnership are no longer pursuing the refinancing of the Subordinated Credit Agreement other than in connection with the new credit facility which is subject to the completion of the Merger. In connection with the Merger, we have received a non-binding term sheet for a new senior secured revolving credit facility of up to $300.0 million, of which $155.0 million is expected to be available to us at closing. If the Merger is not consummated, the Partnership would be in default under its Subordinated Credit Agreement and under the Partnership Credit

Facility. We cannot assure you that the new credit facility will be consummated. If an event of default were to occur under the Subordinated Credit Agreement or the Partnership Credit Facility, the lenders could foreclose on the Partnership's assets and exercise other customary remedies, all of which would have a material adverse effect on us.

Exploration and Development Activity. We believe that our high quality asset base, high degree of operational control and inventory of drilling projects position us for future growth. Our properties are concentrated in locations that facilitate substantial economies of scale in drilling and production operations and more efficient reservoir management practices. At December 31, 2008, we operated properties accounting for approximately 83% of our reserves, giving us substantial control over the timing and incurrence of operating and capital expenditures. We have identified 234 additional drilling locations (of which 109 were classified as proved undeveloped at December 31, 2008) on our existing leasehold, the successful development of which we believe could significantly increase our production and proved reserves. Over the five years ended December 31, 2008, we drilled or participated in drilling 77 gross (34.8 net) wells, of which 94.8% resulted in commercially productive wells.

Our future oil and gas production, and therefore our success, is highly dependent upon our ability to find, acquire and develop additional reserves that are profitable to produce. The rate of production from our oil and gas properties and our proved reserves will decline as our reserves are produced unless we acquire additional properties containing proved reserves, conduct successful development and exploration activities or, through engineering studies, identify additional behind-pipe zones or secondary recovery reserves. We cannot assure you that our exploration and development activities will result in increases in our proved reserves. In 2006, for example, Abraxas replaced only 7% of the reserves it produced. In 2007, however, we replaced 219% of our reserves, and in 2008, we replaced 555% of our reserves, primarily as the result of the St. Mary property acquisition in January 2008. If our proved reserves decline in the future, our production may also decline and, consequently, our cash flow from operations, and the amount that Abraxas is able to borrow under its credit facility and that the Partnership will be able to borrow under its credit facility will also decline. In addition, approximately 65% of Abraxas' and 39% of the Partnership's estimated proved reserves at December 31, 2008 were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. We may be unable to acquire or develop additional reserves, in which case our results of operations and financial condition could be adversely affected.

Borrowings and Interest. The Partnership had indebtedness of approximately $123.7 million under the Partnership Credit Facility and $40 million under its Subordinated Credit Agreement as of June 30, 2009. On July 31, 2009, the Partnership repaid $28.7 million of indebtedness after which, the Partnership had $95.0 million outstanding under the Partnership Credit Facility and no availability. At June 30, 2009, Abraxas had indebtedness of $5.9 million and availability of $575,000 under its Credit Facility. At July 31, 2009, in connection with the monetization and repayment of $28.7 million of indebtedness, Abraxas Energy had indebtedness of approximately $95.0 million and no availability under its credit facility. If interest expense increases as a result of higher interest rates or increased borrowings, more cash flow from operations would be used to meet debt service requirements. As a result, we would need to increase our cash flow from operations in order to fund the development of our numerous drilling opportunities which, in turn, will be dependent upon the level of our production volumes and commodity prices. In order to mitigate its interest rate exposure, the Partnership entered into an interest rate swap, effective August 12, 2008, to fix its floating LIBOR-based debt. The Partnership's two-year interest rate swap arrangement for $100 million at a fixed rate of 3.367% expires on August 12, 2010. This interest rate swap was amended in February 2009 lowering the Partnership's fixed rate to 2.95%.

Recent Events

Merger Agreement

On July 17, 2009, Abraxas Petroleum and Abraxas Energy Partners, and, from and after its accession to the agreement, the Delaware limited liability company formed as a wholly-owned subsidiary of Abraxas (“Merger Sub”), entered into an Amended and Restated Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which Abraxas Energy Partners will, subject to the terms and conditions of the Merger Agreement, merge with and into Merger Sub, with Merger Sub surviving and continuing as a wholly-owned subsidiary of Abraxas Petroleum (the “Merger”).

As of July 17, 2009, Abraxas Petroleum and its subsidiaries beneficially own, within the meaning of Rule 13d-3 of the U.S. Securities and Exchange Act of 1934, as amended, 5,350,598 common units of Abraxas Energy Partners, representing approximately 46.7% of the outstanding Abraxas Energy Partners common units (the “Abraxas Energy Partners Common Units”).

Subject to the terms and conditions of the Merger Agreement, if and when the Merger is completed, each outstanding Abraxas Energy Partners Common Unit, other than treasury units and Abraxas Energy Partners Common Units owned by Abraxas Petroleum and its subsidiaries, will be canceled and converted into the right to receive the number of shares of Abraxas Petroleum common stock determined by dividing (i) $6.00 by (ii) the average volume weighted average price for the Abraxas Petroleum common stock as reported on NASDAQ for the twenty consecutive trading days ending on the third business day preceding the date of the meeting of the Abraxas Petroleum stockholders held to approve the Merger (the “Exchange Ratio”); provided, however, that in no event shall the Exchange Ratio be less than 4.25 or greater than 6.

In addition, as of the consummation of the Merger, each outstanding restricted unit and phantom unit of Abraxas Energy Partners will be converted into an equivalent number of shares of restricted stock of Abraxas Petroleum and each unit option of Abraxas Energy Partners which was to be issued upon the completion of the initial public offering of Abraxas Energy Partners will become a stock option of Abraxas Petroleum, with adjustments in the number of shares and exercise price to reflect the Exchange Ratio, but otherwise on substantially the same terms and conditions as were applicable prior to the Merger. The exercise price of the Abraxas Petroleum stock options will be the closing price of the Abraxas Petroleum common stock on the date the Merger closes.

The Merger Agreement contains (a) customary representations and warranties of Abraxas Petroleum, Abraxas Energy Partners and Merger Sub; (b) covenants of Abraxas Petroleum and Abraxas Energy Partners to conduct their respective businesses in the ordinary course until the Merger is completed; and (c) covenants of Abraxas Petroleum and Abraxas Energy Partners not to take certain actions during such period, including prohibitions on the declaration or payment of dividends and distributions.

Consummation of the Merger is subject to conditions set forth in the Merger Agreement, including, among others, (1) the approval of the issuance of Abraxas Petroleum common stock in the Merger (the “Stock Issuance”) by the affirmative vote of the holders of a majority of the Abraxas Petroleum common stock voting at a stockholders’ meeting, (2) the approval of an amendment to the Abraxas Petroleum 2005 Long-Term Equity Incentive Plan to increase the number of authorized shares for issuance under the plan (the “LTIP Amendment”) by the affirmative vote of the holders of a majority of the outstanding Abraxas Petroleum common stock voting at a stockholders’ meeting, (3) the receipt by Abraxas Petroleum of financing that is sufficient to consummate the Merger and repay all indebtedness outstanding under Abraxas Energy Partner’s credit agreement and subordinated credit agreement, and, (4) certain other customary closing conditions.

The board of directors of Abraxas Petroleum and a special committee comprised entirely of independent Abraxas Petroleum directors have approved the Merger Agreement. The board of directors adopted a resolution recommending adoption of the LTIP Amendment and approval of the Stock Issuance by the Abraxas Petroleum stockholders.

The foregoing description of the Merger and the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement which was filed with the SEC on July 21, 2009.

The above description of the Merger Agreement has been included to provide investors and security holders with information regarding its terms. It is not intended to provide any other factual information about the parties or their respective subsidiaries and affiliates. The Merger Agreement contains representations and warranties made by and to the parties thereto as of specific dates. The statements embodied in those representations and warranties were made for purposes of that contract between the parties and are subject to qualifications and limitations agreed to by the parties in connection with negotiating the terms of that contract. In addition, certain representations and warranties were made as of a specified date, may be subject to a contractual standard of materiality different from those generally applicable to investors, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts.

Voting Agreement

In order to induce Abraxas Petroleum and Abraxas Energy Partners to enter into the Merger Agreement, certain limited partners of Abraxas Energy Partners entered into a Voting, Registration Rights and Lock-Up Agreement (the "Voting Agreement") with Abraxas Petroleum and Abraxas Energy Partners.

The Voting Agreement provides, among other things, that all of the limited partners that are party to the Voting Agreement will:

- vote all of their outstanding common units of Abraxas Energy Partners in favor of the Merger;

- vote against any other merger agreement, consolidation, combination, sale of substantial assets or similar transaction;

- grant an irrevocable proxy to Abraxas Petroleum to vote all of their common units of Abraxas Energy Partners in favor of the Merger Agreement and against any other transaction;

- agree to not, directly or indirectly, transfer any of such limited partners common units of Abraxas Energy Partners to any person (other than an affiliate of such limited partner who agrees to be bound by the terms of this agreement) other than pursuant to the Merger;

- not directly, or indirectly permit any person on behalf of such limited partner, to effect any transactions in the securities of Abraxas Petroleum;

- not transfer any of the shares of Abraxas Petroleum common stock received by such limited partner in the Merger (the "Merger Shares") for 90 days after the effective time of the Merger (the "Effective Time") followed by a staggered lock-up period for the shares of Abraxas Petroleum common stock issued in the Merger; and

- not exercise any of its rights or take any action under the Exchange and Registration Rights Agreement, dated as of May 25, 2007, as amended, by and among Abraxas Petroleum, Abraxas Energy Partners and the limited partners signatories thereto.

The Voting Agreement provides, among other things, that Abraxas Petroleum and Abraxas Energy Partners will:

- not file any further amendments to the registration statement on Form S-1 (No. 333-144537) relating to the initial public offering of the common units of Abraxas Energy Partners; and

- at the Effective Time increase the size of the Board of Directors of Abraxas Petroleum by two members and elect Ed Russell and Brian Melton to serve on the Board of Directors.

In addition, under the Voting Agreement, Abraxas Petroleum agreed to file with the SEC a registration statement on Form S-3 or such other successor form, no later than 120 days following the Effective Time to enable the resale of the Merger Shares by the limited partners party to the Voting Agreement and shall use its commercially reasonable efforts to cause the Registration Statement to become effective. Abraxas Petroleum also granted such limited partners the right to demand that Abraxas Petroleum conduct an underwritten offering and to participate in certain Abraxas offerings.

The foregoing description of the Voting Agreement does not purport to be complete and is qualified in its entirety by reference to the Voting Agreement and Amendment No. 1 to the Voting Agreement which were filed with the SEC on July 2, 2009 and July 21, 2009, respectively.

The above description of the Voting Agreement has been included to provide investors and security holders with information regarding its terms. It is not intended to provide any other factual information about the parties or their respective subsidiaries and affiliates. The Voting Agreement contains representations and warranties made by and to the parties thereto as of specific dates. The statements embodied in those representations and warranties were made for purposes of that contract between the parties and are subject to qualifications and limitations agreed to by the parties in connection with negotiating the terms of that contract. In addition, certain representations and warranties were made as of a specified date, may be subject to a contractual standard of materiality different from those generally applicable to investors, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts.

Amendments to the Credit Agreements

On June 30, 2009, Abraxas Energy Partners entered into Amendment No. 4 to the Partnership Credit Facility, dated as of January 31, 2008, by and among Abraxas Energy Partners, the lenders party thereto and Société Générale, as Administrative Agent, and Amendment No. 4 to the Subordinated Credit Agreement dated as of January 31, 2008, by and among Abraxas Energy Partners, the lenders party thereto and Société Générale, as Administrative Agent. Pursuant to these amendments, among other things, the maturity date of the Subordinated Credit Agreement was extended to August 14, 2009.

On July 22, 2009, Abraxas Energy Partners entered into Amendment No. 5 to the Partnership Credit Facility, dated as of January 31, 2008, by and among Abraxas Energy Partners, the lenders party thereto and Société Générale, as Administrative Agent, and Amendment No. 5 to the Subordinated Credit Agreement dated as of January 31, 2008, by and among Abraxas Energy Partners, the lenders party thereto and Société Générale, as Administrative Agent. Pursuant to these amendments, among other things, the lenders permitted the monetization of the Partnership's existing commodity swaps. On July 29, 2009, the Partnership monetized all of its "in-the-money" commodity swaps for $26.7 million and together with the July 2009 settlement of its commodity swaps of $2.0 million, the Partnership repaid $28.7 million of indebtedness under the Partnership Credit Facility on July 31, 2009. In connection with the monetization and repayment, the Partnership was required to enter into new commodity swaps. The following table sets forth the consolidated weighted average derivative contract position as of July 29, 2009 for Abraxas Petroleum and the Partnership:

	Fixed-Price Swaps			
	Oil		Gas	
Contract Period	Daily Volume (Bbl)	Swap Price	Daily Volume (Mmbtu)	Swap Price
Q4 2009	1,355	$68.90	13,981	$4.50
2010	1,158	73.28	11,258	5.73
2011	1,035	76.61	9,580	6.52
2012	946	70.89	8,303	6.77
2013	705	80.79	5,962	6.84

Results of Operations

The following table sets forth certain of our operating data for the periods presented. The operating data represents the consolidated data for Abraxas Petroleum and Abraxas Energy Partners.

Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2009	2008	2009	2008 (2)
	(in thousands)			
Operating Revenue: (1)				
Oil Sales	$ 7,639	$ 17,410	$ 12,669	$ 28,268
Gas Sales	4,480	16,673	10,046	27,678
Rig Operations	247	329	500	635
Other	2	11	3	12
	$ 12,368	$ 34,423	$ 23,218	$ 56,593

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Operating Income (loss)	$ 64	$ 19,183	$ (1,759)	$ 29,048
Oil Production (MBbls)	147	148	290	264
Gas Production (MMcfs)	1,584	1,698	3,205	3,203
Average Oil Sales Price ($/Bbl)	$ 52.05	$ 117.94	$ 43.69	$ 107.25
Average Gas Sales Price ($/Mcf)	$ 2.83	$ 9.82	$ 3.13	$ 8.64

(1) Revenue and average sales prices are before the impact of derivative activities.

(2) Includes results of operations for properties acquired from St. Mary Land & Exploration for February through June 2008.

Comparison of Three Months Ended June 30, 2009 to Three Months Ended June 30, 2008

Operating Revenue. During the three months ended June 30, 2009, operating revenue from oil and gas sales decreased to $12.1 million compared to $34.1 million in the three months ended June 30, 2008. The decrease in revenue was due to significantly lower realized prices as well as a slight decrease in production volumes. Decreased commodity prices had a negative impact of $21.6 million on revenue from oil and gas sales while decreased production volumes had a negative impact of approximately $388,000 for the quarter ended June 30, 2009.

Oil production volumes decreased from 147.6 MBbls during the quarter ended June 30, 2008 to 146.8 MBbls for the same period of 2009. The decrease in oil sales volumes was primarily due to natural field declines partially offset by wells that were put on production in early 2009. New wells put on production contributed 7.9 MBbls during the second quarter of 2009. Gas production volumes decreased from 1,698 MMcf for the three months ended June 30, 2008 to 1,584 MMcf for the same period of 2009. The decrease in gas sales volumes was primarily due to natural field declines partially offset by wells that were put on production in early 2009. New wells put on production contributed 120.7 MMcf during the second quarter of 2009.

Average sales prices, before the impact of derivative activities, for the quarter ended June 30, 2009 were:

- $ 52.05 per Bbl of oil, and
- $ 2.83 per Mcf of gas

Average sales prices, before the impact of derivative activities, for the quarter ended June 30, 2008 were:

- $ 117.94 per Bbl of oil, and
- $ 9.82 per Mcf of gas

Lease Operating Expenses ("LOE"). LOE for the three months ended June 30, 2009 decreased to $6.0 million from $7.2 million for the same period in 2008. The decrease in LOE was primarily due to a decrease in production taxes as a result of lower commodity prices realized during the second quarter of 2009. LOE on a per BOE basis for the three months ended June 30, 2009 was $14.57 per BOE compared to $16.65 for the same period of 2008.

General and Administrative Expenses ("G&A"). G&A expenses excluding stock-based compensation increased to $1.3 million for the quarter ended June 30, 2009 from $1.2 million for the same period of 2008. The increase in G&A was primarily due to higher professional fees and consulting fees. G&A expense on a per BOE basis was $3.10 for the quarter ended June 30, 2009 compared to $2.84 for the same period of 2008. The increase in G&A expense on a per BOE basis was primarily due to increased cost and lower production volumes in the second quarter of 2009 compared to the same period in 2008.

Equity-based Compensation. We currently utilize a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. Options granted to employees are valued at the date of grant and expense is recognized over the options vesting period. In addition to options, restricted shares of the Company’s common stock and restricted units of the Partnership have been granted.

For the quarters ended June 30, 2009 and 2008, equity based compensation was approximately $329,000 and $650,000 respectively. The decrease in 2009 as compared to 2008 was due to expenses related to higher valued options granted in prior years that have been fully amortized.

Depreciation, Depletion and Amortization Expenses ("DD&A"). DD&A expense decreased to $4.5 million for the three months ended June 30, 2009 from $6.0 million for same period of 2008. The decrease in DD&A was primarily the result of a reduction in the depletion base as a result of the proved property impairment recorded for the year ended December 31, 2008. Our DD&A on a per BOE basis for the three months ended June 30, 2009 was $10.98 per BOE compared to $13.95 per BOE in 2008. The decrease in the per BOE DD&A was due to the lower depletion base for the period.

Interest Expense. Interest expense increased to $3.1 million for the second quarter of 2009 compared to $2.7 million for the same period of 2008. The increase in interest expense was primarily due to higher interest rates during the second quarter of 2009 as compared to 2008. The interest rates on the Partnership Credit Agreement averaged approximately 5.5% and the interest rate on the Subordinated Credit Facility averaged approximately 12.0% for the quarter ended June 30, 2009 compared to 4.8% and 8.0% for the quarter ended June 30, 2008. In addition, the Abraxas Senior Secured Credit Facility had a balance of $5.9 million as of June 30, 2009 compared to zero at June 30, 2008. The interest rate on this credit facility was 2.8% at June 30, 2009.

Gain (loss) from derivative contracts. We account for derivative gains and losses based on realized and unrealized amounts. The realized derivative gains or losses are determined by actual derivative settlements during the period. Unrealized gains and losses are based on the periodic mark to market valuation of derivative contracts in place. Our derivative contract transactions do not qualify for hedge accounting as prescribed by SFAS 133; therefore, fluctuations in the market value of the derivative contract are recognized in earnings during the current period. The Partnership has entered into a series of NYMEX–based fixed price commodity swaps, the estimated unearned value of these derivative contracts was approximately $24.3 million as of June 30, 2009. For the quarter ended June 30, 2009, we realized a gain on these derivative contracts of $7.0 million.

Other expense. Other expense for the quarter ended June 30, 2009, consist primarily of fees and expenses, which were paid over the past two years, associated with the Partnerships initial public offering which it is no longer pursuing in accordance with the terms of the Voting Agreement.

Non-controlling interest. Non-controlling interest represents the share of the net income (loss) of Abraxas Energy Partners for the period, owned by the partners other than Abraxas Petroleum. Additionally, in accordance with generally accepted accounting principles in effect prior to the adoption of SFAS 160, when cumulative losses applicable to the non-controlling interest exceed the non-controlling interest equity capital in the entity, such excess and any further losses applicable to the non-controlling interest are charged to the earnings of the controlling interest. During the second quarter of 2008, primarily as a result of unrealized losses on derivative contracts, losses applicable to the non-controlling interest exceeded the non-controlling interest equity capital by $28.2 million and, thus $28.2 million of the non-controlling interest loss in excess of equity was charged to earnings and is reflected as a reduction of the losses, realized and unrealized, applicable to the non-controlling interest. Under the provisions of SFAS 160, the non-controlling interest share of the loss for the period ended June 30, 2009 would have increased by $28.2 million, from $18.6 million to $46.8 million.

Comparison of Six Months Ended June 30, 2009 to Six Months Ended June 30, 2008

Operating Revenue. During the six months ended June 30, 2009, operating revenue from oil and gas sales decreased to $22.7 million compared to $55.9 million in the six months ended June 30, 2008. The decrease in revenue was due to significantly lower commodity prices partially offset by increased production volumes. Decreased commodity prices had a negative impact of $34.4 million on revenue from oil and gas sales while increased production volumes contributed $1.2 million for the first six months of 2009.

Oil production volumes increased from 263.6 MBbls during the six months ended June 30, 2008 to 290.0 MBbls for the same period of 2009. The increase in oil sales volumes was primarily due to wells put on production during the first six months of 2009. New wells put on production contributed 11.7 MBbls during the six months ended June 30, 2009. In addition, production from properties acquired in the St Mary acquisition in January 2008 contributed a full six months of production to the six month period ended June 30, 2009 compared to five months for the six month period ended June 30, 2008. Production from these properties was 161.1 MBbls for the period February through June 2008, compared to 171.5 MBbls for the six months ended June 30, 2009. Gas production increased to 3,205 MMcf for the six months ended June 30, 2009 from 3,203 MMcf for the same period of 2008.

Average sales prices, before the impact of derivative activities, for the six months ended June 30, 2009 were:

- $ 43.69 per Bbl of oil, and
- $ 3.13 per Mcf of gas

Average sales prices, before the impact of derivative activities, for the six months ended June 30, 2008 were:

- $ 107.25 per Bbl of oil, and
- $ 8.64 per Mcf of gas

Lease Operating Expenses. LOE for the six months ended June 30, 2009 decreased to $11.9 million from $12.4 million for the same period in 2008. The decrease in LOE was primarily due to a decrease in production taxes as a result of lower commodity prices realized during the six months ended June 30, 2009. LOE on a per BOE basis for the six months ended June 30, 2009 was $14.38 per BOE compared to $15.51 for the same period of 2008.

General and Administrative Expenses. G&A expenses, excluding stock-based compensation expense, increased from $2.8 million for the first six months of 2008 to $3.1 million for the same period of 2009. The increase in G&A was primarily due to higher professional fees. G&A expense on a per BOE basis was $3.80 for the six months ended June 30, 2009 compared to $3.48 for the same period of 2008. The increase in G&A expense on a per BOE basis was primarily due to increased cost offset by higher production volumes in the first six months of 2009 compared to the same period in 2008.

Equity-based Compensation. We currently utilize a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. Options granted to employees are valued at the date of grant and expense is recognized over the options vesting period. In addition to options, restricted shares of the Company's common stock and restricted units of the Partnership have been granted. For the six months ended June 30, 2009 and 2008, equity based compensation was approximately $596,000 and $896,000 respectively. The decrease in 2009 as compared to 2008 was due to expenses related to higher valued options granted in prior years that have been fully amortized.

Depreciation, Depletion and Amortization Expenses ("DD&A"). DD&A expense decreased to $9.0 million for the six months ended June 30, 2009 from $11.1 million for same period of 2008. The decrease in DD&A was primarily the result of a reduction in the depletion base as a result of the proved property impairment recorded for the year ended December 31, 2008. Our DD&A on a per BOE basis for the six months ended June 30, 2009 was $10.91 per BOE compared to $13.92 per BOE in 2008. The decrease in the per BOE DD&A was due to the lower depletion base for the period.

Interest Expense. Interest expense increased to $5.6 million for the six months ended June 30, 2009 compared to $5.1 million for the same period of 2008. The increase in interest expense was primarily due to higher interest rates during the six months ended June 30, 2009 as compared to 2008. The interest rates on the Partnership Credit Agreement averaged approximately 5.5% and the interest rate on the Subordinated Credit Facility averaged approximately 11.0% for the six months ended June 30, 2009 compared to 5.4% and 8.5% for the six months ended June 30, 2008. In addition, the Abraxas Senior Secured Credit Facility had a balance of $5.9 million as of June 30, 2009 compared to zero at June 30, 2008. The interest rate on this credit facility was 2.8% at June 30, 2009.

Gain (loss) from derivative contracts. We account for derivative gains and losses based on realized and unrealized amounts. The realized derivative gains or losses are determined by actual derivative settlements during the period. Unrealized gains and losses are based on the periodic mark to market valuation of derivative contracts in place. Our derivative contract transactions do not qualify for hedge accounting as prescribed by SFAS 133; therefore, fluctuations in the market value of the derivative contract is recognized in earnings during the current period. The Partnership has entered into a series of NYMEX–

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based fixed price commodity swaps, the estimated unearned value of these derivative contracts was approximately $24.3 million as of June 30, 2009. For the six months ended June 30, 2009, we realized a gain on these derivative contracts of $14.0 million.

Other expense. Other expense for the six months ended June 30, 2009, consist primarily of fees and expenses which, were paid over the past two years, associated with the Partnerships initial public offering which it is no longer pursuing in accordance with the terms of the Voting Agreement.

Non-controlling interest. Non-controlling interest represents the share of the net income (loss) of Abraxas Energy Partners for the period owned by the partners other than Abraxas Petroleum. Additionally, in accordance with generally accepted accounting principles in effect prior to the adoption of SFAS 160,, when cumulative losses applicable to the non-controlling interest exceed the non-controlling interest equity capital in the entity, such excess and any further losses applicable to the non-controlling interest are charged to the earnings of the controlling interest. During the six months ended June 30, 2008, primarily as a result of unrealized losses on derivative contracts, losses applicable to the non-controlling interest exceeded the non-controlling interest equity capital by $28.2 million and, thus $28.2 million of the non-controlling interest loss in excess of equity was charged to earnings and is reflected as a reduction of the losses, realized and unrealized, applicable to the non-controlling interest. Under the provisions of SFAS 160, the non-controlling interest share of the loss for the period ended June 30, 2008 would have increased by $28.2 million, from $18.6 million to $46.8 million.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 168, “The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162” (“SFAS 168”), which establishes the FASB Accounting Standards CodificationTM as the source of GAAP to be applied to nongovernmental agencies. SFAS 168 explicitly recognizes rules and interpretive releases of the SEC under authority of federal securities laws as authoritative GAAP for SEC registrants. SFAS 168 will become effective for interim or annual periods ending after September 15, 2009. SFAS 168 will not have a material impact on our financial statements.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS 165”), which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 was adopted effective for the second quarter of 2009 and did not have a material impact on our financial statements. The Company has evaluated subsequent events through the time of filing these financial statements with the SEC on August 10, 2009.

In April 2009, the FASB issued FASB Staff Position No. SFAS 107-1 and APB No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS 107-1 and APB 28-1”), which requires quarterly disclosure of information about the fair value of financial instruments within the scope of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments.” FSP FAS 107-1 and APB 28-1 was adopted effective for the second quarter of 2009 and did not have an impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (“FSP FAS 115-2 and 124-2”). FSP FAS 115-2 and 124-2 amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and 124-2 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP FAS 115-2 and 124-2 requires comparative disclosures only for periods ending after initial adoption. FSP FAS 115-2 and 124-2 was adopted effective for the second quarter of 2009 and did not have an impact on our financial statements.

In December 2008, the SEC issued Release No. 33-8995, “Modernization of Oil and Gas Reporting,” amending oil and gas reporting requirements under Rule 4-10 of Regulation S-X and Industry

Guide 2 in Regulation S-K. The new requirements provide for consideration of new technologies in evaluating reserves, allow companies to disclose their probable and possible reserves to investors, report oil and gas reserves using an average price based on the prior 12-month period rather than year-end prices, and revise the disclosure requirements for oil and gas operations. The final rules are effective for fiscal years ending on or after December 31, 2009.

Liquidity and Capital Resources

General. The oil and gas industry is a highly capital intensive and cyclical business. Our capital requirements are driven principally by our obligations to service debt and to fund the following costs:

- the development of existing properties, including drilling and completion costs of wells;
- acquisition of interests in additional oil and gas properties; and
- production and transportation facilities.

The amount of capital expenditures we are able to make has a direct impact on our ability to increase cash flow from operations and, thereby, will directly affect our ability to service our debt obligations and to continue to grow the business through the development of existing properties and the acquisition of new properties.

Abraxas' sources of capital have primarily been cash from operating activities, funding under the Credit Facility, cash distributions from the Partnership, cash on hand, and if an appropriate opportunity presents itself, proceeds from the sale of properties. The Partnership's principal sources of capital have been cash from operating activities, borrowings under the Partnership Credit Facility and sales of debt or equity securities if available to it.

After the Merger is consummated, we expect that our principal sources of capital will be cash flow from operations, borrowings under our new credit facility and if an opportunity presents itself, the sale of debt or equity securities. We may also sell assets in order to provide us with capital.

Working Capital (Deficit). At June 30, 2009, our current liabilities of approximately $58.6 million exceeded our current assets of $27.7 million resulting in a working capital deficit of $30.9 million. This compares to a working capital deficit of approximately $26.0 million at December 31, 2008. Current liabilities at June 30, 2009 primarily consisted of the current portion of long-term debt consisting of $40.0 million outstanding under the Subordinated Credit Agreement and $5.9 million outstanding under the Credit Facility, the current portion of derivative liabilities of $2.7 million, trade payables of $5.2 million, revenues due third parties of $2.8 million, and other accrued liabilities of $1.6 million. . The Abraxas Senior Secured Credit Facility which is due on September 30, 2010 is classified as current maturities at June 30, 2009 as a result of continued non-compliance with the current ratio covenant as defined in the facility.

The Subordinated Credit Agreement currently matures on August 14, 2009 and currently requires that Abraxas Energy Partners receives $20.0 million of proceeds from an equity issuance on or before August 14, 2009. Abraxas Energy Partners has entered into discussions with the lenders to extend the maturity date and requirement for proceeds from an equity issuance to September 14, 2009. The Partnership had intended to repay the Subordinated Credit Agreement with proceeds from its initial public offering. Under the terms of the Voting Agreement, the Partnership agreed to not file any further amendments to the registration statement for its initial public offering or take any actions intended to consummate the initial public offering and, as a result of executing the Merger Agreement, we and the Partnership are no longer pursuing the refinancing of the Subordinated Credit Agreement other than in connection with the new credit facility which is subject to the completion of the Merger. In connection with the Merger, we have received a non-binding term sheet for a new senior secured revolving credit facility of up to $300.0 million, of which $155.0

million is expected to be available to us at closing. We cannot assure you that the Merger or new credit facility will be consummated. If the Merger is not consummated, the Partnership would likely be in default under the Partnership Credit Facility and the Subordinated Credit Agreement. Upon an event of default, the Partnership's lenders could foreclose on its assets and exercise other customary remedies which would have a material adverse effect on us.

Capital expenditures. Capital expenditures during the first six months of 2009 were $7.5 million compared to $155.5 million during the same period of 2008. The table below sets forth the components of these capital expenditures on a historical basis for the six months ended June 30, 2009 and 2008.

	Six Months Ended June 30,	
	2009	2008
	(in thousands)	
Expenditure category:		
Acquisitions	$ —	$ 133,156
Development	7,380	16,341
Facilities and other	130	5,978
Total	$ 7,510	$ 155,475

During the six months ended June 30, 2009, capital expenditures were primarily for development of our existing properties. During the six months ended June 30, 2008, capital expenditures were primarily for the acquisition of properties from St. Mary as well as the development of our existing properties. Abraxas anticipates making capital expenditures of $20 million in 2009. The Partnership anticipates making capital expenditures in 2009 of $12 million which will be used primarily for the development of its current properties. These anticipated expenditures are subject to adequate cash flow from operations, availability under our Credit Facility and the Partnership's Credit Facility and, after the consummation of the Merger, the new credit facility. If these sources of funding do not prove to be sufficient, we may also issue additional shares of equity securities although we may not be able to complete equity financings on terms acceptable to us, if at all. Our ability to make all of our budgeted capital expenditures will also be subject to availability of drilling rigs and other field equipment and services. Our capital expenditures could also include expenditures for the acquisition of producing properties if such opportunities arise. Additionally, the level of capital expenditures will vary during future periods depending on market conditions and other related economic factors. Should the prices of oil and gas decline and if our costs of operations increase or if our production volumes decrease, our cash flows will decrease which may result in a reduction of the capital expenditures budget. If we decrease our capital expenditures budget, we may not be able to offset oil and gas production volumes decreases caused by natural field declines and sales of producing properties, if any.

Sources of Capital. The net funds provided by and/or used in each of the operating, investing and financing activities are summarized in the following table:

	Six Months Ended June 30,	
	2009	2008
	(dollars in thousands)	
Net cash provided by operating activities	$ 9,456	$ 30,487
Net cash used in investing activities	(7,510)	(155,475)
Net cash provided by financing activities	(2,080)	118,762
Total	$ (134)	$ (6,226)

Operating activities during the six months ended June 30, 2009 provided us $9.5 million of cash compared to providing $30.5 in the same period in 2008. Net income plus non-cash expense items during 2009 and 2008 and net changes in operating assets and liabilities accounted for most of these funds. Financing activities used $2.1 million for the first six months of 2009 compared to providing $118.8 million for the same period of 2008. Funds provided in 2008 were primarily proceeds from the Partnership Credit Facility and Subordinated Credit Agreement in connection with the St. Mary property acquisition. Most of the funds provided in 2009 were proceeds from long-term debt offset by partnership distributions and deferred financing fees. Investing activities used $7.5 million during the six months ended June 30, 2009 compared to using $155.5 million for the six months ended June 30, 2008. Expenditures of $155.5 million during the six months ended June 30, 2008 were primarily for the acquisition of properties from St. Mary Land and Exploration as well as the development of our existing properties. For the first half of 2009, capital expenditures were primarily for the development of existing properties.

Future Capital Resources. Since the formation of the Partnership in May 2007, Abraxas' sources of capital have primarily been cash from operating activities, funding under the Credit Facility and distributions from the Partnership. As a result of recent amendments to the Partnership Credit Facility and the Merger Agreement, Abraxas Energy Partners is precluded from declaring or paying cash distributions. In addition, under the terms of the Partnership Credit Facility, Abraxas was required to repay the distribution attributable to the fourth quarter of 2008 of approximately $1.9 million to the Partnership which, in turn, made a principal payment of approximately $1.9 million under the Partnership Credit Facility. Abraxas Energy Partners' principal sources of capital have been cash from operating activities, (including realized gains and losses on its derivative contracts), borrowings under the Partnership Credit Facility and sales of equity securities.

After the Merger is consummated, we expect that our principal sources of capital will be cash flow from operations, borrowings under our new credit facility and if an opportunity presents itself, the sale of debt or equity securities. We may also sell assets in order to provide us with capital.

Cash from operating activities is dependent upon commodity prices and production volumes. Oil and gas prices are volatile and declined significantly during the second half of 2008 and continued to decline during the first part of 2009. Oil prices have strengthened during the second quarter of 2009 while gas prices have remained weak. The decline in commodity prices has significantly reduced our cash flow from operations. As the result of the global recession, commodity prices may stay depressed which could further reduce our cash flows from operations. This could cause us to alter our business plans, including reducing our exploration and development plans.

Our cash flow from operations will also depend upon the volume of oil and gas that we produce. Unless we otherwise expand reserves, our production volumes may decline as reserves are produced. For example, in 2006, Abraxas replaced only 7% of the reserves it produced. In 2007 we replaced 219% of the reserves we produced and in 2008, we replaced 555% of the reserves we produced, primarily as the result of the St. Mary property acquisition in January 2008. In the future, if an appropriate opportunity presents itself, we may sell producing properties, which could further reduce our production volumes. To offset the loss in production volumes resulting from natural field declines and sales of producing properties, we must conduct successful exploration and development activities, acquire additional producing properties or identify additional behind-pipe zones or secondary recovery reserves. We believe our numerous drilling opportunities will allow us to increase our production volumes; however, our drilling activities are subject to numerous risks, including the risk that no commercially productive oil and gas reservoirs will be found. If our proved reserves decline in the future, our production will also decline and, consequently, our cash flow from operations, distributions from the Partnership and the amount that we are able to borrow under our credit facilities will also decline. The risk of not finding commercially productive reservoirs will be compounded by the fact that 65% of Abraxas Petroleum's and 39% of the Partnership's total estimated proved reserves at December 31, 2008 were classified as undeveloped.

Our Credit Facility and the Partnership Credit Facility are each subject to a borrowing base. Our Credit Facility matures on September 30, 2010 and the Partnership Credit Facility matures on January 31, 2012. Should current credit market volatility be prolonged for several years, future extensions of credit may contain terms that are less favorable than those in our Credit Facility and the Partnership Credit Facility. The Subordinated Credit Agreement currently matures on August 14, 2009. The Partnership has entered into discussions with the lenders under the Partnership Credit Facility and the Subordinated Credit Agreement to extend the maturity date to September 14, 2009. The Partnership had intended to repay the Subordinated Credit Agreement with proceeds from its initial public offering. Under the terms of the Voting Agreement, the Partnership agreed to not file any further amendments to the registration statement for its initial public offering or take any actions intended to consummate the initial public offering and, as a result of executing the Merger Agreement, we and the Partnership are no longer pursuing the refinancing of the Partnership's Subordinated Credit Agreement other than in connection with the new credit facility which is subject to the completion of the Merger.

In connection with the Merger, we have received a non-binding term sheet for a new senior secured revolving credit facility of up to $300.0 million, of which $155.0 million is expected to be available to us at closing. If the Merger is not consummated, the Partnership would be in default under the Subordinated Credit Agreement and under the Partnership Credit Facility. We cannot assure you that the

Merger or the new credit facility will be consummated. If an event of default were to occur under the Subordinated Credit Agreement or the Partnership Credit Facility, the lenders could foreclose on the Partnership's assets and exercise other customary remedies, all of which would have a material adverse effect on us.

The credit markets are undergoing significant volatility and capacity constraints. Many financial institutions have liquidity concerns, prompting government intervention to mitigate pressure on the credit market. Our exposure to the current credit market crisis includes our Credit Facility, the Partnership Credit Facility and the Subordinated Credit Agreement and counterparties performance risk. Current market conditions also elevate concern over counterparties risks related to our commodity derivative instruments. The Partnership has all of its commodity derivative instruments with two major financial institutions. Should these financial counterparties not perform, we may not realize the benefit of some of our derivative contracts under lower commodity prices. Although these derivative instruments as well as our Credit Facility and the Partnership Credit Facility expose us to credit risk, we monitor the creditworthiness of our counterparties, and we are not currently aware of any inability on the part of our counterparties to perform under our contracts. However, we are not able to predict sudden changes in the credit worthiness of our counterparties.

Since the formation of the Partnership in May 2007, cash distributions from the Partnership have been a significant source of liquidity for Abraxas Petroleum. During 2008, Abraxas Petroleum received $8.9 million in distributions. The declaration of the cash distribution to be made by the Partnership on or about May 15, 2009 attributable to the first quarter of 2009 was deferred. In addition, under the amended terms of the Partnership Credit Facility, Abraxas Petroleum was required to repay the distribution for the fourth quarter of 2008 of approximately $1.9 million to the Partnership which, in turn, made a principal payment under the Partnership Credit Facility of approximately $1.9 million. In consideration of making this payment, Abraxas Petroleum was issued a number of additional units of the Partnership determined by dividing approximately $1.9 million by 110% of the average trading yields of comparable E&P MLPs based on the closing market price on May 14, 2009 multiplied by the most recent quarterly distribution paid or declared by the Partnership times four. As a result of these amendments, Abraxas Petroleum will not be able to rely on distributions from the Partnership as a source of liquidity until such time as the indebtedness under the Subordinated Credit Agreement has been repaid if the Merger is not completed. Furthermore, under the Merger Agreement, the Partnership is precluded from declaring or paying cash distributions.

Both Abraxas Petroleum and the Partnership could also seek capital through the sale of debt and equity securities. The current state of the equity and debt markets will have a significant impact on our ability to sell debt or equity securities on terms as favorable as those which existed prior to the current crisis.

Contractual Obligations

We are committed to making cash payments in the future on the following types of agreements:

- Long-term debt
- Operating leases for office facilities

Below is a schedule of the future payments that we are obligated to make based on agreements in place as of June 30, 2009:

		Payments due in twelve month periods ending:			
Contractual Obligations	Total	June 30, 2010	June 30, 2011-2012	June 30, 2013-2014	Thereafter

(dollars in thousands)										
Long-Term Debt (1)	$	174,905	$	40,138	$	129,903	$	347	$	4,517
Interest on long-term debt (2)		20,362		7,935		11,557		607		263
Total	$	195,267	$	48,073	$	141,460	$	954	$	4,780

(1) These amounts represent the balances outstanding under the Credit Facility, the Partnership Credit Facility, the Subordinated Credit Agreement and the real estate term loan. These repayments assume that we will not draw down additional funds.

(2) Interest expense assumes the balances of long-term debt at the end of the period and current effective interest rates.

We maintain a reserve for cost associated with the retirement of tangible long-lived assets. At June 30, 2009, our reserve for these obligations totaled $10.2 million for which no contractual commitment exists.

Off-Balance Sheet Arrangements. At June 30, 2009, we had no existing off-balance sheet arrangements, as defined under SEC regulations, that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Contingencies. From time to time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. At June 30, 2009, we were not engaged in any legal proceedings that were expected, individually or in the aggregate, to have a material adverse effect on the Company.

Other obligations. We make and will continue to make substantial capital expenditures for the acquisition, development, exploration and production of oil and gas. In the past, we have funded our operations and capital expenditures primarily through cash flow from operations, sales of properties, sales of production payments and borrowings under our bank credit facilities and other sources. Given our high degree of operating control, the timing and incurrence of operating and capital expenditures is largely within our discretion.

Long-Term Indebtedness

Long-term debt consisted of the following:

		June 30, 2009		December 31, 2008
Partnership credit facility	$	123,675	$	125,600
Partnership subordinated credit agreement		40,000		40,000
Senior secured credit facility		5,924		—
Real estate lien note		5,306		5,369
		174,905		170,969
Less current maturities		(46,062)		(40,134)
	$	128,843	$	130,835

Abraxas Senior Secured Credit Facility

On June 27, 2007, Abraxas entered into a new senior secured revolving credit facility, which we refer to as the Credit Facility, which was amended on February 4, 2009 and May 13, 2009. The Credit Facility has a maximum commitment of $50.0 million. Availability under the Credit Facility is subject to a borrowing base. The borrowing base under the Credit Facility is determined semi-annually by the lenders based upon our reserve reports, one of which must be prepared by our independent petroleum engineers and one of which may be prepared internally. The amount of the borrowing base is calculated by the lenders based upon their valuation of our proved reserves utilizing these reserve reports and their own internal decisions. In addition, the lenders, in their sole discretion, may make one additional borrowing base redetermination during any six-month period between scheduled redeterminations and we may also request one redetermination during any six-month period between scheduled redeterminations. The lenders may also make a redetermination in connection with any sales of producing properties with a market value of 5% or more of our current borrowing base. Our borrowing base at June 30, 2009 of $6.5 million was determined based upon our reserves at December 31, 2008. Our borrowing base can never exceed the $50.0 million maximum commitment amount. Outstanding amounts under the Credit Facility bear interest at (a) the greater of the reference rate announced from time to time by Société Générale, and (b) the Federal Funds Rate plus 0.5% of 1%, plus in each case, (c) 0.5% - 1.5% depending on utilization of the borrowing base, or, if Abraxas elects, at the London Interbank Offered Rate plus 1.5% - 2.5%, depending on the utilization of the borrowing base. At August 7, 2009, the interest rate on the Credit Facility was 2.8%. Subject to earlier termination rights and events of default, the Credit Facility's stated maturity date is September 30, 2010. Interest is payable quarterly on reference rate advances and not less than quarterly on Eurodollar advances.

Abraxas is permitted to terminate the Credit Facility, and may, from time to time, permanently reduce the lenders' aggregate commitment under the Credit Facility in compliance with certain notice and dollar increment requirements.

Each of Abraxas' subsidiaries other than the Partnership, Abraxas General Partner, LLC, which we refer to as the GP, and Abraxas Energy Investments, LLC has guaranteed Abraxas' obligations under the Credit Facility on a senior secured basis. Obligations under the Credit Facility are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of Abraxas' and the subsidiary guarantors' material property and assets.

Under the Credit Facility, Abraxas is subject to customary covenants, including certain financial covenants and reporting requirements. The Credit Facility requires Abraxas to maintain a minimum current ratio as of the last day of each quarter of not less than 1.00 to 1.00 and an interest coverage ratio of not less than 2.50 to 1.00. The current ratio is the ratio of consolidated current assets to consolidated current liabilities. For purposes of this calculation, current assets include, as of the date of the calculation, the portion of the borrowing base which is undrawn but exclude, as of the date of calculation, any cash deposited with or at the request of a counterparty to any derivative contract, any assets representing a valuation account arising from the application of SFAS 133 (which relates to derivative instruments and hedging activities) and SFAS 143 (which relates to asset retirement obligations) and any distributions payable by the Partnership to the GP unless such distributions have been received by the GP in cash, and current liabilities exclude, as of the date of calculation, the current portion of long-term debt, any liabilities representing a valuation account arising from the application of SFAS 133 and SFAS 143 and any liabilities of the GP arising solely in its capacity as a general partner of the Partnership. The interest coverage ratio is the ratio of consolidated EBITDA for the four quarters then ended to consolidated interest for the four quarters then ended. For the purpose of this calculation, EBITDA is consolidated net income plus interest expense, taxes, depreciation, amortization, depletion and other non-cash charges including non-cash charges resulting from the application of SFAS 123R (which relates to stock-based compensation), SFAS 133 and SFAS 143 less all non-cash items of income which were included in determining consolidated net income, including non-cash items resulting from the application of SFAS 133 and SFAS 143. Interest expense includes total interest, letters of credit fees and other fees and expenses incurred in connection with any debt. For purposes of calculating both ratios, any amounts attributable to the Partnership are not included. At June 30, 2009, our current ratio was .85 to 1.00 and our interest coverage ratio was 9.64 to 1.00.

In addition to the foregoing and other customary covenants, the Credit Facility contains a number of covenants that, among other things, will restrict Abraxas' ability to:

- incur or guarantee additional indebtedness;
- transfer or sell assets;
- create liens on assets;
- engage in transactions with affiliates other than on an "arms-length" basis;
- make any change in the principal nature of its business; and
- permit a change of control.

The Credit Facility also contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness, bankruptcy and material judgments and liabilities.

The Company was in compliance with all covenants as of June 30, 2009 or has obtained a waiver for noncompliance. As a result of continued non-compliance with the current ratio covenant, the outstanding amount of this facility has been classified as current liability.

Amended and Restated Partnership Credit Facility

On May 25, 2007, the Partnership entered into a senior secured revolving credit facility which was amended and restated on January 31, 2008 and further amended on January 16, 2009, April 30, 2009, May 7, 2009, June 30, 2009 and July 22, 2009, which we refer to as the Partnership Credit Facility. The Partnership Credit Facility has a maximum commitment of $300.0 million. Availability under the Partnership Credit Facility is subject to a borrowing base. The borrowing base under the Partnership Credit Facility, which at August 7, 2009, was $95.0 million, is determined semi-annually by the lenders based upon the Partnership's reserve reports, one of which must be prepared by the Partnership's independent petroleum engineers and one of which may be prepared internally. The amount of the borrowing base is calculated by the lenders based upon their valuation of the Partnership's proved reserves utilizing these reserve reports and their own internal decisions. In addition, the lenders, in their sole discretion, may make one additional borrowing base redetermination during any six-month period between scheduled redeterminations. The lenders may also make a redetermination in connection with any sales of producing properties with a market value of 5% or more of the Partnership's then current borrowing base.

The Partnership's borrowing base at June 30, 2009 of $128.1 million was determined based upon its reserves at December 31, 2008. The borrowing base can never exceed the $300.0 million maximum commitment amount. At June 30, 2009, the Partnership had a total of $123.7 million outstanding under the Partnership Credit Facility. On July 31, 2009, the Partnership repaid $28.7 million of indebtedness after which, the Partnership had $95.0 million outstanding under the Partnership Credit Facility. Simultaneously, the borrowing base under the Partnership Credit Facility was reduced to $95.0 million.

Outstanding amounts under the Partnership Credit Facility bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5%, and (3) a rate determined by Société Générale as the daily one-month LIBOR rate plus, in each case, 1.5% - 2.5%, depending on the utilization of the borrowing base, or, if the Partnership elects, at the greater of (a) 2.0% and (b) the London Interbank Offered Rate plus in each case, 2.5% - 3.5% depending on the utilization of the borrowing base. At August 7, 2009 the interest rate on the Partnership Credit Facility was 5.5%. Subject to earlier termination rights and events of default, the Partnership Credit Facility's stated maturity date is January 31, 2012. Interest is payable quarterly on reference rate advances and not less than quarterly on Eurodollar advances. The Partnership is permitted to terminate the Partnership Credit Facility, and under certain circumstances, may be required, from time to time, to permanently reduce the lenders' aggregate commitment under the Partnership Credit Facility.

The Partnership, GP, which is a wholly-owned subsidiary of Abraxas, and Abraxas Operating, LLC, which is a wholly-owned subsidiary of the Partnership and which we refer to as Abraxas Operating, have guaranteed the Partnership's obligations under the Partnership Credit Facility on a senior secured basis. Obligations under the Partnership Credit Facility are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of the property and assets of the GP, the Partnership and Abraxas Operating, other than the GP's general partner units in the Partnership.

Under the Partnership Credit Facility, the Partnership is subject to customary covenants, including certain financial covenants and reporting requirements. The Partnership Credit Facility requires the Partnership to maintain a minimum current ratio as of the last day of each quarter of 1.00 to 1.00 and an interest coverage ratio as of the last day of each quarter of not less than 2.50 to 1.00. Current ratio is defined as the ratio of consolidated current assets to consolidated current liabilities. For purposes of this calculation, current assets include, as of the date of the calculation, the portion of the borrowing base which is undrawn but exclude, as of the date of calculation, any cash deposited with or at the request of a counterparty to any derivative contract and any assets representing a valuation account arising from the application of SFAS 133 and SFAS 143 and current liabilities exclude, as of the date of calculation, the current portion of long-term debt and any liabilities representing a valuation account arising from the application of SFAS 133 and SFAS 143 . The interest coverage ratio is the ratio of consolidated EBITDA for the four quarters then ended to consolidated interest for the four quarters then ended. For the purpose of this calculation, EBITDA is consolidated net income plus interest expense, taxes, depreciation, amortization, depletion and other non-cash charges including non-cash charges resulting from the application of SFAS 123R, SFAS 133 and SFAS 143 less all non-cash items of income which were included in determining consolidated net income, including non-cash items resulting from the application of SFAS 133 and SFAS 143. Interest expense includes total interest, letters of credit fees and other fees and expenses incurred in connection with any debt. At June 30, 2009, the Partnership's current ratio was 23.74 to 1.00 and its interest coverage ratio was 3.85 to 1.00.

The Partnership Credit Facility required the Partnership to enter into derivative contracts for specific volumes, which equated to approximately 85% of the estimated oil and gas production from its net proved developed producing reserves through December 31, 2011. The Partnership entered into NYMEX-based fixed price commodity swaps on approximately 85% of its estimated oil and gas production from its estimated net proved developed producing reserves through December 31, 2011. The second amendment to the Partnership Credit Facility required additional derivative contracts for volumes equating to approximately 60% of the estimated oil and gas production from net proved developed producing reserves for the year 2012. As a result, the Partnership entered into NYMEX-based fixed price swaps on 670 barrels of oil per day at $67.60 and 3,000 MMBbtu of gas per day at $6.88 for 2012. On July 29, 2009, the Partnership monetized all of its "in-the-money" commodity swaps for $26.7 million and together with the July 2009 settlement of its commodity swaps of $2.0 million, the Partnership repaid $28.7 million of indebtedness under the Partnership Credit Agreement on July 31, 2009. In connection with the monetization and repayment, the Partnership's borrowing base was reduced to $95.0 million and the Partnership was required to enter into new commodity swaps on approximately 85% of its estimated oil and gas production from its net proved developed producing reserves through December 31, 2012 and on 70% for the calendar year 2013.

Under the terms of the Partnership Credit Facility, the Partnership may make cash distributions if, after giving effect to such distributions, the Partnership is not in default under the Partnership Credit Facility, there is no borrowing base deficiency and provided that (a) no such distribution shall be made using the proceeds of any advance unless the unused portion of the amount then available under the Partnership Credit Facility is greater than or equal to 10% of the lesser of the Partnership's borrowing base (which at July 31, 2009 was $95.0 million) or the total commitment amount of the Partnership Credit Facility (which at July 31, 2009 was $300.0 million) at such time, (b) with respect to the cash distribution scheduled to be made on or about May 15, 2009 attributable to the first quarter of 2009, no such distribution shall be made unless (i) the sum of unrestricted cash and the unused portion of the amount then available under the Partnership Credit Facility after giving effect to such distribution exceeds $20.0 million, or (ii) the Subordinated Credit Agreement shall have terminated and (c) no cash distribution shall exceed $0.44 per unit per quarter while the Subordinated Credit Agreement is outstanding. The declaration of the cash distribution to be made by the Partnership on or about May 15, 2009 attributable to the first quarter of 2009 was deferred. Furthermore, in accordance with the terms of the Merger Agreement, the Partnership is precluded from declaring or paying any future cash distributions. While the Subordinated Credit Agreement is outstanding, the Partnership's capital expenditures are limited to $12.5 million per year.

In addition to the foregoing and other customary covenants, the Partnership Credit Facility contains a number of covenants that, among other things, will restrict the Partnership's ability to:

- incur or guarantee additional indebtedness;
- transfer or sell assets;
- create liens on assets;
- engage in transactions with affiliates;
- make any change in the principal nature of its business; and
- permit a change of control.

The Partnership Credit Facility also contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness including the

Subordinated Credit Agreement described below, bankruptcy and material judgments and liabilities. If the indebtedness under the Subordinated Credit Agreement was not repaid on or before July 1, 2009, the Partnership was required to pay the lenders a consent fee of $2.4 million. This fee was paid by the Partnership on June 30, 2009 and capitalized as deferred financing fees.

The Partnership was in compliance with all covenants as of June 30, 2009.

Subordinated Credit Agreement

On January 31, 2008, the Partnership entered into a subordinated credit agreement which was amended on January 16, 2009 and further amended on April 30, 2009, May 7, 2009, June 30, 2009 and July 22, 2009, which we refer to as the Subordinated Credit Agreement. The Subordinated Credit Agreement has a maximum commitment of $40.0 million. Outstanding amounts under the Subordinated Credit Agreement bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5% and (3) a rate determined by Société Générale as the daily one-month LIBOR Offered Rate, plus in each case (b) 12.0% or, if the Partnership elects, at the greater of (a) 2.0% and (b) the London Interbank Offered Rate, in each case, plus 13.0%. At August 7, 2009, the interest rate on the Subordinated Credit Agreement was 15.0%. For any interest payment due on or after July 2, 2009, 3% per annum of the accrued interest payable shall be capitalized and added to the principal amount of the loan. Interest is payable quarterly on reference rate advances and not less than quarterly on Eurodollar advances. The Partnership is permitted to terminate the Subordinated Credit Agreement, and under certain circumstances, may be required, from time to time, to make prepayments under the Subordinated Credit Agreement.

Each of the GP and Abraxas Operating has guaranteed the Partnership’s obligations under the Subordinated Credit Agreement on a subordinated secured basis. Obligations under the Subordinated Credit Agreement are secured by subordinated security interests, subject to certain permitted encumbrances, in all of the property and assets of the Partnership, GP, and Abraxas Operating, other than the GP’s general partner units in the Partnership.

Under the Subordinated Credit Agreement, the Partnership is subject to customary covenants, including certain financial covenants and reporting requirements. The Subordinated Credit Agreement requires the Partnership to maintain a minimum current ratio as of the last day of each quarter of 1.00 to 1.00 and an interest coverage ratio (defined as the ratio of consolidated EBITDA to consolidated interest expense) as of the last day of each quarter of not less than 2.50 to 1.00. Current ratio is defined as the ratio of consolidated current assets to consolidated current liabilities. For purposes of this calculation, current assets include, as of the date of the calculation, the portion of the borrowing base which is undrawn but exclude, as of the date of calculation, any cash deposited with or at the request of a counterparty to any derivative contract and any assets representing a valuation account arising from the application of SFAS 133 and 143, and current liabilities exclude, as of the date of calculation, the current portion of long-term debt and any liabilities representing a valuation account arising from the application of SFAS 133 and 143. The interest coverage ratio is the ratio of consolidated EBITDA for the four quarters then ended to consolidated interest for the four quarters then ended. For the purpose of this calculation, EBITDA is consolidated net income plus interest expense, taxes, depreciation, amortization, depletion and other non-cash charges including non-cash charges resulting from the application of SFAS 123R (which relates to stock-based compensation), SFAS 133 and SFAS 143 less all non-cash items of income which were included in determining consolidated net income, including non-cash items resulting from the application of SFAS 133 and SFAS 143. Interest expense includes total interest, letters of credit fees and other fees and expenses incurred in connection with any debt. At June 30, 2009, the Partnerships current ratio was 23.74 to 1.00 and its interest coverage ratio was 3.85 to 1.00.

The Subordinated Credit Agreement required the Partnership to enter into derivative contracts for specific volumes, which equated to approximately 85% of the estimated oil and gas production from its net proved developed producing reserves through December 31, 2011. The Partnership entered into NYMEX-based fixed price commodity swaps on approximately 85% of its estimated oil and gas production from its estimated net proved developed producing reserves through December 31, 2011. The second amendment to the Partnership Credit Facility required additional derivative contracts for volumes equating to approximately 60% of the estimated oil and gas production from net proved developed producing reserves for the year 2012. As a result, the Partnership entered into NYMEX-based fixed price swaps on 670 barrels of oil per day at $67.60 and 3,000 MMBbtu of gas per day at $6.88 for 2012. On July 29, 2009, the Partnership monetized all of its “in-the-money” commodity swaps for $26.7 million and together with the July 2009 settlement of its commodity swaps of $2.0 million, the Partnership repaid $28.7 million of indebtedness under the Partnership Credit Agreement on July 31, 2009. In connection with the monetization and repayment, the

Partnership's borrowing base was reduced to $95.0 million and the Partnership was required to enter into new commodity swaps on approximately 85% of its estimated oil and gas production from its net proved developed producing reserves through December 31, 2012 and on 70% for the calendar year 2013.

In addition to the foregoing and other customary covenants, the Subordinated Credit Agreement contains a number of covenants that, among other things, will restrict the Partnership's ability to:

- incur or guarantee additional indebtedness;
- transfer or sell assets;
- create liens on assets;
- engage in transactions with affiliates;
- make any change in the principal nature of its business; and
- permit a change of control.

The Subordinated Credit Agreement also contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness including the Partnership Credit Facility, bankruptcy and material judgments and liabilities. An event of default would also occur if the Partnership fails to receive $20.0 million of proceeds from an equity issuance on or before August 14, 2009. In addition, if the indebtedness under the Subordinated Credit Agreement has not been repaid on or before August 14, 2009, the Partnership is required to issue warrants to purchase 2.5% of the then outstanding units to the lenders at an exercise price of $0.01 per unit. The Subordinated Credit Agreement currently matures on August 14, 2009. The Partnership has entered into discussions with the lenders under the Partnership Credit Facility and the Subordinated Credit Agreement to extend the maturity date and the requirement for proceeds from an equity issuance and the warrant issuance to September 14, 2009. The Partnership had intended to repay the Subordinated Credit Agreement with proceeds from its initial public offering. Under the terms of the Voting Agreement, the Partnership agreed to not file any further amendments to the registration statement for its initial public offering or take any actions intended to consummate the initial public offering and, as a result of executing the Merger Agreement, we and the Partnership are no longer pursuing the refinancing of the Partnership's Subordinated Credit Agreement other than in connection with the new credit facility which is subject to the completion of the Merger. In connection with the Merger, we have received a non-binding term sheet for a new senior secured revolving credit facility of up to $300.0 million, of which $155.0 million is expected to be available to us at closing. If the Merger is not consummated, the Partnership would be in default under its Subordinated Credit Agreement and under the Partnership Credit Facility. We cannot assure you that the new credit facility will be consummated. If an event of default were to occur under the Subordinated Credit Agreement or the Partnership Credit Facility, the lenders could foreclose on the Partnership's assets and exercise other customary remedies, all of which would have a material adverse effect on us.

The Partnership was in compliance with all covenants as of June 30, 2009.

Real Estate Lien Note

On May 9, 2008 the Company entered into an advancing line of credit in the amount of $5.4 million for the purchase and finish out of a new building to serve as its corporate headquarters. This note was refinanced in November 2008. The new note bears interest at a fixed rate of 6.375%, and is payable in monthly installments of principal and interest of $39,754 based on a twenty year amortization. The note matures in May 2015 at which time the outstanding balance becomes due. The note is secured by a first lien deed of trust on the property and improvements. As of June 30, 2009, $5.3 million was outstanding on the note.

Hedging Activities.

Our results of operations are significantly affected by fluctuations in commodity prices and we seek to reduce our exposure to price volatility by hedging our production through swaps, options and other commodity derivative instruments. Under the terms of the Partnership Credit Facility, Abraxas Energy Partners was required to enter into derivative contracts, which we sometimes refer to as hedging arrangements for specified volumes, which equated to approximately 80% of the estimated oil and gas production through December 31, 2012 from its net proved developed producing reserves. On July 29, 2009, the Partnership monetized all of its "in-the-money" commodity swaps for \$26.7 million and together with the July 2009 settlement of its commodity swaps of \$2.0 million, the Partnership repaid \$28.7 million of indebtedness under the Partnership Credit Agreement on July 31, 2009. In connection with the monetization and repayment, the Partnership's borrowing base was reduced to $95.0 million and the Partnership was required to enter into new commodity swaps on approximately 85% of its estimated oil and gas production from its net proved developed producing reserves through December 31, 2012 and on 70% for the calendar year 2013.

The following table sets forth the consolidated weighted average derivative contract position as of July 29, 2009 for Abraxas Petroleum and the Partnership:

	Fixed-Price Swaps			
	Oil		Gas	
Contract Period	Daily Volume (Bbl)	Swap Price	Daily Volume (Mmbtu)	Swap Price
Q4 2009	1,355	$68.90	13,981	$4.50
2010	1,158	73.28	11,258	5.73
2011	1,035	76.61	9,580	6.52
2012	946	70.89	8,303	6.77
2013	705	80.79	5,962	6.84

Our new credit facility will require us to enter into new hedging arrangements for specified volumes which are expected to equate to approximately 85% of the estimated oil and gas production from our net proved developed reserves through December 31, 2012. We expect that the derivative contracts that we entered into on July 29, 2009 will satisfy this requirement. These new hedging arrangements will be priced at then-current market prices and may be significantly lower than the existing derivative contracts we currently have in place. By removing a significant portion of price volatility on our future oil and gas production, we believe that we will mitigate, but not eliminate, the potential effects of changing commodity prices on our cash flow from operations. However, when prevailing market prices are higher than our contract prices, we will not realize increased cash flow on the portion of the production that has been hedged. We have sustained, and in the future will sustain, realized and unrealized losses on our derivative contracts if market prices are higher than our contract prices. Conversely, when prevailing market prices are lower than our contract prices, we will sustain realized and unrealized gains on our derivative contracts. For example, in 2007, Abraxas Energy sustained an unrealized loss of $6.3 million and a realized gain of $1.9 million and in 2008, Abraxas Energy incurred a realized loss of $9.3 million and an unrealized gain of $40.5 million. During the first six months of 2009, Abraxas Energy incurred a realized gain of approximately $16.2 million and an unrealized loss of approximately $14.5 million. If a disparity between our new contract prices and market prices develops, we will sustain realized and unrealized gains or losses on our derivative contracts. While unrealized gains and losses do not impact our cash flow from operations, realized gains and losses do impact our cash flow from operations. In addition as our derivative contracts expire over time, we expect to enter into new derivative contracts at then-current market prices. If the prices at which we hedge future production are significantly lower than the derivative contracts we enter into at the closing of the new credit facility, our future cash flow from operations would likely be materially lower. In addition, the borrowings under our new credit facility will bear interest at floating rates. If interest expense increases as a result of higher interest rates or increased borrowings, more cash flow from operations would be used to meet debt service requirements. As a result, we would need to increase our cash flow from operations in order to fund the development of our numerous drilling opportunities which, in turn, will be dependent upon the level of our production volumes and commodity prices.

Net Operating Loss Carryforwards.

At December 31, 2008, we had, subject to the limitation discussed below, $194.4 million of net operating loss carryforwards for U.S. tax purposes. These loss carryforwards will expire through 2028 if not utilized.

Uncertainties exist as to the future utilization of the operating loss carryforwards under the criteria set forth under FASB Statement No. 109. Therefore, we have established a valuation allowance of $60.8 million for deferred tax assets at December 31, 2008.

We account for uncertain tax positions under provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 did not have any effect on the

Company's financial position or results of operations as of January 1, 2007 or for the three and six month periods ended June 30, 2009. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2009, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years from 1999 through 2008 remain open to examination by the tax jurisdictions to which the Company is subject.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Commodity Price Risk

As an independent oil and gas producer, our revenue, cash flow from operations, other income and profitability, reserve values, access to capital and future rate of growth are substantially dependent upon the prevailing prices of oil and gas. Declines in commodity prices will materially adversely affect our financial condition, liquidity, ability to obtain financing and operating results. Lower commodity prices may reduce the amount of oil and gas that we can produce economically. Prevailing prices for such commodities are subject to wide fluctuation in response to relatively minor changes in supply and demand and a variety of additional factors beyond our control, such as global, political and economic conditions. Historically, prices received for oil and gas production have been volatile and unpredictable, and such volatility is expected to continue. Most of our production is sold at market prices. Generally, if the commodity indexes fall, the price that we receive for our production will also decline. Therefore, the amount of revenue that we realize is partially determined by factors beyond our control. Assuming the production levels we attained during the quarter ended June 30, 2009, a 10% decline in oil and gas prices would have reduced our operating revenue, cash flow and net income by approximately $2.3 million for the six months ended June 30, 2009, however, due to the derivative contracts that the Partnership has in place, it is unlikely that a10% decline in commodity prices from their current levels would significantly impact our operating revenue, cash flow and net income.

Derivative Instrument Sensitivity

The Partnership accounts for its derivative instruments in accordance with SFAS 133 as amended by SFAS 137 and SFAS 138. Under SFAS 133, all derivative instruments are recorded on the balance sheet at fair value. In 2003 we elected not to designate derivative instruments as hedges. Accordingly the instruments are recorded on the balance sheet at fair value with changes in the market value of the derivatives being recorded in current derivative income (loss).

Under the terms of the Partnership Credit Facility, Abraxas Energy Partners was required to enter into derivative contracts for specified volumes, which equated to approximately 85% of the estimated oil and gas production through December 31, 2011 from its net proved developed producing reserves. The Partnership intends to enter into hedging arrangements in the future to reduce the impact of price volatility on its cash flow. By removing a significant portion of price volatility on its future oil and gas production, the Partnership believes it will mitigate, but not eliminate, the potential effects of changing commodity gas prices on its cash flow from operations for those periods.

The following table sets forth the Partnership's derivative contract position at June 30, 2009:

Period Covered	Product	Volume (Production per day)	Fixed Price
Year 2009	Gas	10,595 Mmbtu	$8.45
Year 2009	Oil	1,000 Bbl	$83.80
Year 2010	Gas	9,130 Mmbtu	$8.22
Year 2010	Oil	895 Bbl	$83.26
Year 2011	Gas	8,010 Mmbtu	$8.10
Year 2011	Oil	810 Bbl	$86.45

Year 2012	Gas	3,000 Mmbtu	$6.88
Year 2012	Oil	670 Bbl	$67.60

At June 30, 2009, the aggregate fair market value of our commodity derivative contracts was approximately $24.3 million.

On July 29, 2009, the derivative contracts for the periods 2009 through 2011 were monetized for $26.7 million. These funds, together with $2.0 million from the July 2009 settlement of its commodity swaps, were used by the Partnership to repay $28.7 million of outstanding indebtedness under the Partnership Credit Facility. In connection with the monetization and repayment, the Partnership was required to enter into new commodity swaps. The following table sets forth the consolidated weighted average derivative contract position as of July 29, 2009 for Abraxas Petroleum and the Partnership:

	Fixed-Price Swaps			
	Oil		Gas	
Contract Period	Daily Volume (Bbl)	Swap Price	Daily Volume (Mmbtu)	Swap Price
Q4 2009	1,355	$68.90	13,981	$4.50
2010	1,158	73.28	11,258	5.73
2011	1,035	76.61	9,580	6.52
2012	946	70.89	8,303	6.77
2013	705	80.79	5,962	6.84

For the six months ended June 30, 2009 we recognized a realized gain of $14.0 million and an unrealized loss of $14.8 million.

Interest Rate Risk

The Partnership is subject to interest rate risk associated with borrowings under the Partnership Credit Facility and the Subordinated Credit Agreement. At June 30, 2009, the Partnership had $123.7 million in outstanding indebtedness under the Partnership Credit Facility. Outstanding amounts under the Partnership Credit Facility bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5%, and (3) a rate determined by Société Générale as the daily one-month LIBOR rate plus, in each case, 1.5% - 2.5%, depending on the utilization of the borrowing base, or, if the Partnership elects, at the greater of (a) 2.0% and (b) the London Interbank Offered Rate plus, in each case 2.5% - 3.5% depending on the utilization of the borrowing base. At August 7, 2009, the interest rate on the facility was 5.5%. For every percentage point that the LIBOR rate rises, our interest expense would increase by approximately $1.2 million on an annual basis. In addition the Partnership had $40.0 million in outstanding indebtedness under the Subordinated Credit Agreement. Outstanding amounts under the Subordinated Credit Agreement bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5% and (3) a rate determined by Société Générale as the daily one-month LIBOR Offered Rate, plus in each case (b) 9.0% or, if the Partnership elects, at the greater of (a) 2.0% and (b) the London Interbank Offered Rate, in each case, plus 10.0%. At August 7, 2009 the interest rate on the facility was 12.0%. For every percentage point that the rate rises, our interest expense would increase by approximately $400,000 on an annual basis. In order to mitigate our interest rate exposure, we entered into an interest rate swap, effective August 12, 2008, to fix our floating LIBOR based debt. The arrangement expires on August 12, 2010. The interest rate swap was amended in February 2009 lowering the Partnership's fixed rate from 3.367% to 2.95%.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of Abraxas' "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e)and 15d-15(e)) and concluded that the disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting during the three month period ended June 30, 2009 covered by this report that could materially affect, or are reasonably likely to materially affect, our financial reporting.

ABRAXAS PETROLEUM CORPORATION

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no changes in legal proceedings from that described in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, and in Note 6 in the Notes to Condensed Consolidated Financial Statements contained in Part I of this report on Form 10-Q.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Abraxas. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

At the Annual Meeting of Shareholders held on May 21, 2009, the following proposals were adopted by the margins indicated:

1. Election of two directors for a term of three years, to hold office until the expiration of his term in 2012 or until a successor shall have been elected and qualified.

	Number of Shares	
	For	Withheld
Franklin A. Burke	42,681,634	1,706,447
Paul A. Powell, Jr.	42,596,610	1,791,471

In addition, the terms of office of C. Scott Bartlett, Harold D. Carter, Ralph F. Cox, Dennis E. Logue, and Robert L.G. Watson continued.

2. Approval of the appointment of BDO Seidman, LLP as the Company's independent registered public accountants.

Number of Shares

For	Against	Abstain
43,257,973	912,487	217,619

Item 5. Other Information.

None

Item 6. Exhibits.

(a) Exhibits

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Exhibit 31.1 Certification - Robert L.G. Watson, CEO
Exhibit 31.2 Certification – Chris E. Williford, CFO
Exhibit 32.1 Certification pursuant to 18 U.S.C. Section 1350 – Robert L.G. Watson, CEO
Exhibit 32.2 Certification pursuant to 18 U.S.C. Section 1350 – Chris E. Williford, CFO

ABRAXAS PETROLEUM CORPORATION

SIGNATURES

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

Date: August 10, 2009	By:/s/ Robert L.G. Watson
ROBERT L.G. WATSON, President and Chief Executive Officer	
Date: August 10, 2009	By:/s/ Chris E. Williford
CHRIS E. WILLIFORD, Executive Vice President and Principal Accounting Officer	

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