

Use these links to rapidly review the document

[Table of Contents](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 1-13011

COMFORT SYSTEMS USA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	76-0526487
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

**675 Bering Drive
Suite 400**

Houston, Texas 77057

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(713) 830-9600**

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

Indicate by check mark whether the registrant has submitted electronically 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 No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

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

The number of shares outstanding of the issuer's common stock as of October 22, 2014 was 37,255,464 (excluding treasury shares of 3,867,901).

COMFORT SYSTEMS USA, INC.
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	<u>Page</u>
Part I—Financial Information	
Item 1—Financial Statements	
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statements of Stockholders' Equity	3
Consolidated Statements of Cash Flows	4
Condensed Notes to Consolidated Financial Statements	5
Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3—Quantitative and Qualitative Disclosures about Market Risk	33
Item 4—Controls and Procedures	34
Part II—Other Information	
Item 1—Legal Proceedings	35
Item 1A—Risk Factors	35
Item 2—Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 6—Exhibits	36
Signatures	37

COMFORT SYSTEMS USA, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 43,882	\$ 52,054
Accounts receivable, less allowance for doubtful accounts of \$4,232 and \$4,460, respectively	290,021	267,470
Other receivables	9,675	16,373
Inventories	8,937	8,430
Prepaid expenses and other	25,138	24,209
Costs and estimated earnings in excess of billings	32,069	28,122
Assets related to discontinued operations	278	339
Total current assets	410,000	396,997
PROPERTY AND EQUIPMENT, NET	55,708	46,861
GOODWILL	138,052	114,588
IDENTIFIABLE INTANGIBLE ASSETS, NET	46,259	37,383
OTHER NONCURRENT ASSETS	6,387	5,993
Total assets	<u>\$ 656,406</u>	<u>\$ 601,822</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of notes to former owners	\$ —	\$ 2,000
Current maturities of capital lease obligations	328	—
Accounts payable	99,232	100,825
Accrued compensation and benefits	45,845	44,093
Billings in excess of costs and estimated earnings	72,856	64,588
Accrued self-insurance expense	30,466	29,398
Other current liabilities	29,973	28,168
Liabilities related to discontinued operations	283	366
Total current liabilities	278,983	269,438
LONG-TERM DEBT	42,000	—
LONG-TERM CAPITAL LEASE OBLIGATIONS	606	—
DEFERRED INCOME TAX LIABILITIES	7,167	9,941
OTHER LONG-TERM LIABILITIES	10,898	8,421
Total liabilities	339,654	287,800
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par, 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.01 par, 102,969,912 shares authorized, 41,123,365 and 41,123,365 shares issued, respectively	411	411
Treasury stock, at cost, 3,750,619 and 3,488,438 shares, respectively	(42,127)	(37,468)
Additional paid-in capital	319,659	318,123
Retained earnings	20,937	14,768
Comfort Systems USA, Inc. stockholders' equity	298,880	295,834
Noncontrolling interests	17,872	18,188
Total stockholders' equity	316,752	314,022
Total liabilities and stockholders' equity	<u>\$ 656,406</u>	<u>\$ 601,822</u>

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

COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUE	\$ 370,145	\$ 349,989	\$ 1,054,327	\$ 1,026,932
COST OF SERVICES	303,686	282,968	873,860	848,477
Gross profit	66,459	67,021	180,467	178,455
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	52,200	49,404	153,158	141,623
GOODWILL IMPAIRMENT	—	—	727	—
GAIN ON SALE OF ASSETS	(526)	(117)	(748)	(367)
Operating income	14,785	17,734	27,330	37,199
OTHER INCOME (EXPENSE):				
Interest income	2	5	15	19
Interest expense	(561)	(347)	(1,359)	(1,032)
Changes in the fair value of contingent earn-out obligations	(210)	750	(210)	696
Other	12	83	104	184
Other income (expense)	(757)	491	(1,450)	(133)
INCOME BEFORE INCOME TAXES	14,028	18,225	25,880	37,066
INCOME TAX EXPENSE	4,649	6,588	9,087	14,366
INCOME FROM CONTINUING OPERATIONS	9,379	11,637	16,793	22,700
Loss from discontinued operations, net of income tax benefit of \$—, \$ (18), \$ (10) and \$ (57)	—	(25)	(15)	(79)
NET INCOME INCLUDING NONCONTROLLING INTERESTS	9,379	11,612	16,778	22,621
Less: Net income attributable to noncontrolling interests	1,774	233	4,397	948
NET INCOME ATTRIBUTABLE TO COMFORT SYSTEMS USA, INC.	\$ 7,605	\$ 11,379	\$ 12,381	\$ 21,673
INCOME PER SHARE ATTRIBUTABLE TO COMFORT SYSTEMS USA, INC.:				
Basic—				
Income from continuing operations	\$ 0.20	\$ 0.31	\$ 0.33	\$ 0.58
Loss from discontinued operations	—	—	—	—
Net income	\$ 0.20	\$ 0.31	\$ 0.33	\$ 0.58
Diluted—				
Income from continuing operations	\$ 0.20	\$ 0.30	\$ 0.33	\$ 0.58
Loss from discontinued operations	—	—	—	—
Net income	\$ 0.20	\$ 0.30	\$ 0.33	\$ 0.58
SHARES USED IN COMPUTING INCOME PER SHARE:				
Basic	37,637	37,293	37,642	37,184
Diluted	37,924	37,631	37,917	37,444
DIVIDENDS PER SHARE	\$ 0.055	\$ 0.055	\$ 0.165	\$ 0.155

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

COMFORT SYSTEMS USA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands, Except Share Amounts)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Non- Controlling Interests	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
BALANCE AT DECEMBER 31, 2012	41,123,365	\$ 411	(3,879,299)	\$ (41,012)	\$ 317,534	\$ (6,528)	\$ 16,901	\$ 287,306
Net income	—	—	—	—	—	27,269	1,287	28,556
Issuance of Stock:								
Issuance of shares for options exercised including tax benefit	—	—	439,762	4,711	522	—	—	5,233
Issuance of restricted stock	—	—	122,375	1,301	(1,301)	—	—	—
Shares received in lieu of tax withholding payment on vested restricted stock	—	—	(45,266)	(631)	—	—	—	(631)
Tax benefit from vesting of restricted stock	—	—	—	—	184	—	—	184
Forfeiture of unvested restricted stock	—	—	(469)	(5)	5	—	—	—
Stock-based compensation	—	—	—	—	3,041	—	—	3,041
Dividends	—	—	—	—	(1,862)	(5,973)	—	(7,835)
Share repurchase	—	—	(125,541)	(1,832)	—	—	—	(1,832)
BALANCE AT DECEMBER 31, 2013	41,123,365	411	(3,488,438)	(37,468)	318,123	14,768	18,188	314,022
Net income (unaudited)	—	—	—	—	—	12,381	4,397	16,778
Issuance of Stock:								
Issuance of shares for options exercised including tax benefit (unaudited)	—	—	84,119	911	158	—	—	1,069
Issuance of restricted stock (unaudited)	—	—	115,044	1,243	(1,243)	—	—	—
Shares received in lieu of tax withholding payment on vested restricted stock (unaudited)	—	—	(34,657)	(531)	—	—	—	(531)
Tax benefit from vesting of restricted stock (unaudited)	—	—	—	—	133	—	—	133
Stock-based compensation (unaudited)	—	—	—	—	2,488	—	—	2,488
Dividends (unaudited)	—	—	—	—	—	(6,212)	—	(6,212)
Distribution to noncontrolling interest (unaudited)	—	—	—	—	—	—	(4,713)	(4,713)
Share repurchase (unaudited)	—	—	(426,687)	(6,282)	—	—	—	(6,282)
BALANCE AT SEPTEMBER 30, 2014 (unaudited)	<u>41,123,365</u>	<u>\$ 411</u>	<u>(3,750,619)</u>	<u>\$ (42,127)</u>	<u>\$ 319,659</u>	<u>\$ 20,937</u>	<u>\$ 17,872</u>	<u>\$ 316,752</u>

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

COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income including noncontrolling interests	\$ 9,379	\$ 11,612	\$ 16,778	\$ 22,621
Adjustments to reconcile net income to net cash provided by (used in) operating activities—				
Amortization of identifiable intangible assets	2,060	1,739	5,445	5,408
Depreciation expense	3,648	2,866	9,917	8,511
Goodwill impairment	—	—	727	—
Bad debt expense	532	(60)	767	(378)
Deferred tax expense (benefit)	(2,276)	692	(3,899)	1,168
Amortization of debt financing costs	83	65	213	180
Gain on sale of assets	(526)	(117)	(748)	(367)
Changes in the fair value of contingent earn-out obligations	210	(750)	210	(696)
Stock-based compensation expense	622	523	3,492	3,243
Changes in operating assets and liabilities, net of effects of acquisitions—				
(Increase) decrease in—				
Receivables, net	47	23,944	(428)	(6,976)
Inventories	147	315	(111)	302
Prepaid expenses and other current assets	1,104	(122)	2,755	(11)
Costs and estimated earnings in excess of billings	6,283	(886)	(1,976)	(3,996)
Other noncurrent assets	(52)	(186)	46	63
Increase (decrease) in—				
Accounts payable and accrued liabilities	1,473	671	(529)	5,413
Billings in excess of costs and estimated earnings	(918)	(13,517)	2,955	(11,248)
Other long-term liabilities	2,065	644	1,868	545
Net cash provided by (used in) operating activities	<u>23,881</u>	<u>27,433</u>	<u>37,482</u>	<u>23,782</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(7,033)	(5,234)	(15,367)	(12,471)
Proceeds from sales of property and equipment	692	64	1,232	566
Proceeds from businesses sold	—	—	—	43
Cash paid for acquisitions, earn-outs and intangible assets, net of cash acquired	(2,845)	—	(54,204)	—
Net cash used in investing activities	<u>(9,186)</u>	<u>(5,170)</u>	<u>(68,339)</u>	<u>(11,862)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings (payments) on revolving line of credit	(10,000)	5,000	42,000	5,000
Payments on other long-term debt	—	(3,400)	(2,000)	(5,400)
Payments on capital lease obligations	(219)	—	(219)	—
Debt financing costs	(563)	—	(563)	(552)
Payments of dividends to shareholders	(2,070)	(2,052)	(6,209)	(5,818)
Share repurchase program	(5,777)	(1,177)	(6,282)	(1,832)
Shares received in lieu of tax withholding	—	8	(531)	(614)
Excess tax benefit of stock-based compensation	(7)	(17)	98	226
Proceeds from exercise of options	278	1,334	1,104	1,618
Distributions to noncontrolling interests	(2,214)	—	(4,713)	—
Net cash provided by (used in) financing activities	<u>(20,572)</u>	<u>(304)</u>	<u>22,685</u>	<u>(7,372)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(5,877)</u>	<u>21,959</u>	<u>(8,172)</u>	<u>4,548</u>
CASH AND CASH EQUIVALENTS, beginning of period	49,759	23,346	52,054	40,757
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 43,882</u>	<u>\$ 45,305</u>	<u>\$ 43,882</u>	<u>\$ 45,305</u>

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

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(Unaudited)

1. Business and Organization

Comfort Systems USA, Inc., a Delaware corporation, provides comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. We operate primarily in the commercial, industrial and institutional HVAC markets and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing. Approximately 43% of our consolidated 2014 revenue is attributable to installation of systems in newly constructed facilities, with the remaining 57% attributable to maintenance, repair and replacement services. The following service activities account for our consolidated 2014 revenue: HVAC 74%, plumbing 16%, building automation control systems 6% and other 4%. These service activities are within the mechanical services industry, which is the single industry segment we serve.

2. Summary of Significant Accounting Policies

Basis of Presentation

These interim statements should be read in conjunction with the historical Consolidated Financial Statements and related notes of Comfort Systems included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2013 (the "Form 10-K").

The accompanying unaudited consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X of the SEC. Accordingly, these financial statements do not include all the footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Form 10-K. We believe all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, revenue and expenses and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, self-insurance accruals, deferred tax assets, warranty accruals, fair value accounting for acquisitions and the quantification of fair value for reporting units in connection with our goodwill impairment testing. Our operation in Southern California recorded a revision in contract estimate on a project in a loss position resulting in a writedown to this individual project for \$2.2 million and \$4.4 million, on a pre-tax basis, for the three and nine months ended September 30, 2014, respectively.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

2. Summary of Significant Accounting Policies (Continued)

Cash Flow Information

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Cash paid (in thousands) for:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest	\$ 197	\$ 269	\$ 1,081	\$ 789
Income taxes	307	1,928	1,231	5,051
Total	<u>\$ 504</u>	<u>\$ 2,197</u>	<u>\$ 2,312</u>	<u>\$ 5,840</u>

Income Taxes

We are subject to income tax in the United States and Puerto Rico and we file a consolidated return for federal income tax purposes. Income taxes are provided for under the liability method, which takes into account differences between financial statement treatment and tax treatment of certain transactions.

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carry-forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation quarterly. In assessing the realizability of deferred tax assets, we must consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. We consider all available evidence, both positive and negative, in determining whether a valuation allowance is required. Such evidence includes the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years and tax planning strategies in making this assessment, and judgment is required in considering the relative weight of negative and positive evidence.

Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We establish reserves when, despite our belief that our tax return positions are supportable, we believe that certain positions may be challenged and potentially disallowed. When facts and circumstances change, we adjust these reserves through our provision for income taxes.

To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of income tax expense in our consolidated statements of operations.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

2. Summary of Significant Accounting Policies (Continued)

For the nine months ended September 30, 2014 our tax expense is \$9.1 million with an effective tax rate of 35.1% as compared to tax expense of \$14.4 million with an effective tax rate of 38.8% for the nine months ended September 30, 2013. The effective rate for 2014 is higher than the federal statutory rate of 35.0% primarily due to state income taxes (4.2%) and non-deductible expenses (1.7%) which were partially offset by the impact of the noncontrolling interest of EAS which for tax purposes is treated as a partnership (4.5%). The effective rate for 2013 is higher than the federal statutory rate of 35.0% primarily due to state income taxes (3.8%). Tax reserves are analyzed and adjusted quarterly as events occur to warrant such changes. Adjustments to tax reserves are a component of the effective tax rate.

Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, other receivables, accounts payable, notes to former owners and a revolving credit facility. We believe that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

Segment Disclosure

Our activities are within the mechanical services industry, which is the single industry segment we serve. Each operating subsidiary represents an operating segment and these segments have been aggregated, as the operating units meet all of the aggregation criteria.

Reclassifications

Certain reclassifications have been made in prior period financial statements to conform to current period presentation. These reclassifications are of a normal and recurring nature and have not resulted in any changes to previously reported net income for any periods.

Recent Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, "*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.*" ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We do not believe this pronouncement will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606).*" ASU 2014-09 provides a framework that replaces the existing revenue recognition guidance. It is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. We are currently reviewing the effect of ASU No. 2014-09 on our revenue recognition.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

3. Fair Value Measurements

We classify and disclose assets and liabilities carried at fair value in one of the following three categories:

- Level 1—quoted prices in active markets for identical assets and liabilities;
- Level 2—observable market based inputs or unobservable inputs that are corroborated by market data; and
- Level 3—significant unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table summarizes the fair values and levels within the fair value hierarchy in which the fair value measurements fall for assets and liabilities measured on a recurring basis as of September 30, 2014 (in thousands):

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 43,882	\$ 43,882	\$ —	\$ —
Life insurance—cash surrender value	\$ 3,034	\$ —	\$ 3,034	\$ —
Contingent earn-out obligations	\$ 635	\$ —	\$ —	\$ 635

Cash and cash equivalents consist primarily of highly rated money market funds at a variety of well-known institutions with original maturities of three months or less. The original cost of these assets approximates fair value due to their short term maturity.

One of our operations has life insurance policies covering 41 employees with a combined face value of \$38.9 million. The policy is invested in mutual funds and the fair value measurement is determined using level 2 inputs within the fair value hierarchy and will vary with investment performance. The cash surrender value of these policies is \$3.0 million as of September 30, 2014 and \$2.9 million as of December 31, 2013. These assets are included in "Other Noncurrent Assets" in our consolidated balance sheets.

The valuation of our contingent earn-out obligations is determined using a probability weighted discounted cash flow method. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy. This analysis reflects the contractual terms of the purchase agreements (e.g., minimum and maximum payments, length of earn-out periods, manner of calculating any amounts due, etc.) and utilizes assumptions with regard to future cash flows, probabilities of achieving such future cash flows and a discount rate. The contingent earn-out obligations are measured at fair value each reporting period and changes in estimates of fair value are recognized in earnings.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

3. Fair Value Measurements (Continued)

The table below presents a reconciliation of the fair value of our contingent earn-out obligations that use significant unobservable inputs (Level 3) (in thousands).

Balance at beginning of year	\$ 320
Issuances	200
Settlements	(95)
Adjustments to fair value	210
Balance at end of period	<u>\$ 635</u>

We measure certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the nine months ended September 30, 2014, we recorded a goodwill impairment charge of \$0.7 million based on Level 3 measurements. See Note 6 "Goodwill and Identifiable Intangible Assets, Net" for further discussion. We did not recognize any impairments, in the current quarter, on those assets required to be measured at fair value on a nonrecurring basis.

4. Acquisitions

No acquisitions were completed in the third quarter of 2014. We completed two acquisitions in the second quarter of 2014, one of which was "tucked-in" with existing operations and the second reports as a separate operating location in northern Texas. The acquisition date fair value of consideration transferred for the operation in northern Texas was \$40.2 million, of which \$30.4 million was allocated to goodwill and identifiable intangible assets. We completed one acquisition in the first quarter of 2014 which was "tucked-in" with existing operations. No acquisitions were completed in 2013. The completed acquisitions were not material, individually or in the aggregate. Our consolidated balance sheet includes preliminary allocations of the purchase price to the assets acquired and liabilities assumed based on estimates of fair value, pending completion of final valuation and purchase price adjustments. The results of operations of acquisitions are included in our consolidated financial statements from their respective acquisition dates. Additional contingent purchase price ("earn-out") has been or will be paid if certain acquisitions achieve predetermined profitability targets.

5. Discontinued Operations

During the fourth quarter of 2012, we substantially completed the shutdown of our operation located in Delaware. Discontinued operations were breakeven for the three months ended September 30, 2014. The after tax loss for the three months ended September 30, 2013 was less than \$0.1 million. The after tax loss for the nine months ended September 30, 2014 and 2013 was less than \$0.1 million and \$0.1 million, respectively. These results have been recorded in discontinued operations under "Loss from discontinued operations, net of income tax benefit."

Our consolidated statements of operations and the related earnings per share amounts have been restated to reflect the effects of the discontinued operations. No interest expense is allocated to discontinued operations.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

5. Discontinued Operations (Continued)

Revenue and pre-tax loss related to discontinued operations are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue	\$ (5)	\$ —	\$ 7	\$ 22
Pre-tax loss	\$ —	\$ (43)	\$ (25)	\$ (136)

6. Goodwill and Identifiable Intangible Assets, Net

Goodwill

The changes in the carrying amount of goodwill are as follows (in thousands):

	September 30, 2014	December 31, 2013
Balance at beginning of year	\$ 114,588	\$ 114,588
Additions	24,191	—
Impairment adjustment	(727)	—
Balance at end of period	\$ 138,052	\$ 114,588

We recorded a goodwill impairment charge of \$0.7 million during the second quarter of 2014. Based on market activity declines and write-downs incurred on several jobs, we determined that the operating environment, conditions and performance at our operating location based in California could no longer support the related goodwill balance. When the carrying value of a given reporting unit exceeds its fair value, an impairment loss is recorded to the extent that the implied fair value of the goodwill of the reporting unit is less than its carrying value. The fair value was estimated using a discounted cash flow model combined with market valuation approaches.

Identifiable Intangible Assets, Net

Identifiable intangible assets consist of the following (dollars in thousands):

	Estimated Useful Lives in Years	September 30, 2014		December 31, 2013	
		Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Customer relationships	1 - 15	\$ 48,825	\$ (24,829)	\$ 40,404	\$ (20,978)
Backlog	1 - 2	1,600	(473)	6,515	(6,515)
Noncompete agreements	2 - 7	2,890	(2,813)	2,890	(2,649)
Tradenames	2 - 25	27,995	(6,936)	23,695	(5,979)
Total		\$ 81,310	\$ (35,051)	\$ 73,504	\$ (36,121)

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

7. Long-Term Debt Obligations

Long-term debt obligations consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Revolving credit facility	\$ 42,000	\$ —
Notes to former owners	—	2,000
Total debt	42,000	2,000
Less—current portion	—	(2,000)
Total long-term portion of debt	\$ 42,000	\$ —

Revolving Credit Facility

On July 22, 2014, we amended our senior credit facility (the "Facility") provided by a syndicate of banks increasing our borrowing capacity from \$175.0 million to \$250.0 million. The Facility, which is available for borrowings and letters of credit, expires in October 2019 and is secured by a first lien on substantially all of our personal property except for assets related to projects subject to surety bonds and assets held by certain unrestricted subsidiaries and a second lien on our assets related to projects subject to surety bonds. The Facility provides that availability under the Facility will be limited to the lesser of the face amount of \$250.0 million, or indebtedness less certain exclusions equal to 2.5 times trailing twelve month Credit Facility Adjusted EBITDA, which calculates to availability of \$222.1 million as of September 30, 2014. We incurred approximately \$0.6 million in financing and professional costs in connection with the amendment to the Facility, which combined with the previous unamortized costs of \$1.0 million, will be amortized on a straight-line basis as a non-cash charge to interest expense over the remaining term of the Facility. As of September 30, 2014, we had \$42.0 million of outstanding borrowings, \$50.6 million in letters of credit outstanding and \$129.5 million of credit available.

There are two interest rate options for borrowings under the Facility, the Base Rate Loan Option and the Eurodollar Rate Loan Option. These rates are floating rates determined by the broad financial markets, meaning they can and do move up and down from time to time. Additional margins are then added to these two rates.

The following is a summary of the additional margins:

	Consolidated Total Indebtedness to Credit Facility Adjusted EBITDA			
	Less than 0.75	0.75 to 1.50	1.50 to 2.25	2.25 or greater
Additional Per Annum Interest Margin Added Under:				
Base Rate Loan Option	0.25%	0.50%	0.75%	1.00%
Eurodollar Rate Loan Option	1.25%	1.50%	1.75%	2.00%

The weighted average interest rate applicable to the borrowings under the Facility was approximately 1.4% as of September 30, 2014.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

7. Long-Term Debt Obligations (Continued)

We have used letters of credit to guarantee performance under our contracts and to ensure payment to our subcontractors and vendors under those contracts. Our lenders issue such letters of credit through the Facility for a fee. We have never had a claim made against a letter of credit that resulted in payments by a lender or by us and believe such claims are unlikely in the foreseeable future. The letter of credit fees range from 1.25% to 2.00% per annum, based on the ratio of Consolidated Total Indebtedness to Credit Facility Adjusted EBITDA, as defined in the credit agreement.

Commitment fees are payable on the portion of the revolving loan capacity not in use for borrowings or letters of credit at any given time. These fees range from 0.20% to 0.35% per annum, based on the ratio of Consolidated Total Indebtedness to Credit Facility Adjusted EBITDA, as defined in the credit agreement.

The Facility contains financial covenants defining various financial measures and the levels of these measures with which we must comply. Covenant compliance is assessed as of each quarter end.

The Facility's principal financial covenants include:

Leverage Ratio—The Facility requires that the ratio of our Consolidated Total Indebtedness to our Credit Facility Adjusted EBITDA not exceed 2.75 through maturity. The leverage ratio as of September 30, 2014 was 0.68.

Fixed Charge Coverage Ratio—The Facility requires that the ratio of Credit Facility Adjusted EBITDA, less non-financed capital expenditures, tax provision, dividends and amounts used to repurchase stock to the sum of interest expense and scheduled principal payments of indebtedness be at least 2.00; provided that the calculation of the fixed charge coverage ratio excludes stock repurchases and the payment of dividends at any time that the Company's Net Leverage Ratio does not exceed 1.50. The Facility also allows the fixed charge coverage ratio not to be reduced for stock repurchases through June 30, 2015 in an aggregate amount not to exceed \$25 million if at the time of and after giving effect to such repurchase the Company's Net Leverage Ratio was less than or equal to 1.50. Capital expenditures, tax provision, dividends and stock repurchase payments are defined under the Facility for purposes of this covenant to be amounts for the four quarters ending as of any given quarterly covenant compliance measurement date. The fixed charge coverage ratio as of September 30, 2014 was 18.15.

Other Restrictions—The Facility permits acquisitions of up to \$25.0 million per transaction, provided that the aggregate purchase price of such an acquisition and of acquisitions in the same fiscal year does not exceed \$60.0 million. However, these limitations only apply when the Company's Net Leverage Ratio is equal to or greater than 2.00.

While the Facility's financial covenants do not specifically govern capacity under the Facility, if our debt level under the Facility at a quarter-end covenant compliance measurement date were to cause us to violate the Facility's leverage ratio covenant, our borrowing capacity under the Facility and the favorable terms that we currently have could be negatively impacted by the lenders.

We are in compliance with all of our financial covenants as of September 30, 2014.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

7. Long-Term Debt Obligations (Continued)

Notes to Former Owners

We issued subordinated notes to the former owners of acquired companies as part of the consideration used to acquire these companies. These notes bear interest, payable annually, at a weighted average interest rate of 3.3%. In June 2014, we paid the outstanding balance of \$2.0 million.

Other Debt

Our majority owned subsidiary, EAS, has a revolving \$2.5 million credit line that is available for temporary working capital needs and expires July 31, 2015. As of September 30, 2014, we had no outstanding borrowings and, therefore, \$2.5 million of credit available. We estimate that the weighted average interest rate applicable to borrowings under this variable rate credit line would be approximately 2.7% as of September 30, 2014.

8. Commitments and Contingencies

Claims and Lawsuits

We are subject to certain legal and regulatory claims, including lawsuits arising in the normal course of business. We maintain various insurance coverages to minimize financial risk associated with these claims. We have estimated and provided accruals for probable losses and related legal fees associated with certain litigation in the accompanying consolidated financial statements. While we cannot predict the outcome of these proceedings, in management's opinion and based on reports of counsel, any liability arising from these matters individually and in the aggregate will not have a material effect on our operating results, cash flows or financial condition, after giving effect to provisions already recorded.

Surety

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a financial institution known as a surety. If we fail to perform under the terms of a contract or to pay subcontractors and vendors who provided goods or services under a contract, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs. To date, we are not aware of any losses to our sureties in connection with bonds the sureties have posted on our behalf, and do not expect such losses to be incurred in the foreseeable future.

Surety market conditions remain challenging as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. Further, under standard terms in the surety market, sureties issue bonds on a project-by-project basis, and can decline to issue bonds at any time. Historically, approximately 25% to 35% of our business has required bonds. While we have strong surety relationships to support our bonding needs, current market conditions as well as changes in the sureties' assessment of our operating and financial risk could cause the sureties to decline to issue bonds for our work. If that were

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

8. Commitments and Contingencies (Continued)

to occur, the alternatives include doing more business that does not require bonds, posting other forms of collateral for project performance such as letters of credit or cash, and seeking bonding capacity from other sureties. We would likely also encounter concerns from customers, suppliers and other market participants as to our creditworthiness. While we believe our general operating and financial characteristics, including a significant amount of cash on our balance sheet, would enable us to ultimately respond effectively to an interruption in the availability of bonding capacity, such an interruption would likely cause our revenue and profits to decline in the near term.

Self-Insurance

We are substantially self-insured for workers' compensation, employer's liability, auto liability, general liability and employee group health claims, in view of the relatively high per-incident deductibles we absorb under our insurance arrangements for these risks. Losses up to deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages. Loss estimates associated with the larger and longer-developing risks, such as workers' compensation, auto liability and general liability, are reviewed by a third-party actuary quarterly.

9. Stockholders' Equity

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed considering the dilutive effect of stock options, contingently issuable restricted stock and restricted stock units.

There were approximately 0.2 million anti-dilutive stock options excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2014. There were no anti-dilutive stock options for the three and nine months ended September 30, 2013.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2014

(Unaudited)

9. Stockholders' Equity (Continued)

The following table reconciles the number of shares outstanding with the number of shares used in computing basic and diluted earnings per share for each of the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Common shares outstanding, end of period(a)	37,373	37,296	37,373	37,296
Effect of using weighted average common shares outstanding	264	(3)	269	(112)
Shares used in computing earnings per share—basic	37,637	37,293	37,642	37,184
Effect of shares issuable under stock option plans based on the treasury stock method	129	245	153	153
Effect of contingently issuable restricted shares	158	93	122	107
Shares used in computing earnings per share—diluted	<u>37,924</u>	<u>37,631</u>	<u>37,917</u>	<u>37,444</u>

(a) Excludes 0.1 million shares of unvested contingently issuable restricted stock outstanding as of September 30, 2013.

Share Repurchase Program

On March 29, 2007, our Board of Directors (the "Board") approved a stock repurchase program to acquire up to 1.0 million shares of our outstanding common stock. Subsequently, the Board has from time to time approved extensions of the program to acquire additional shares. On October 24, 2014, the Board approved an extension to the program by increasing the shares authorized for repurchase by 1.0 million shares. Since the inception of the repurchase program, the Board has approved 7.6 million shares to be repurchased.

The share repurchases will be made from time to time at our discretion in the open market or privately negotiated transactions as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The Board may modify, suspend, extend or terminate the program at any time. During the nine months ended September 30, 2014, we repurchased 0.4 million shares for approximately \$6.3 million at an average price of \$14.73 per share. Since the inception of the program in 2007 and as of September 30, 2014, we have repurchased a cumulative total of 6.4 million shares at an average price of \$11.25 per share.

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

The following discussion should be read in conjunction with our historical Consolidated Financial Statements and related notes included elsewhere in this Form 10-Q and the Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2013 (the "Form 10-K"). This discussion contains "forward-looking statements" regarding our business and industry within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on our current plans and expectations and involve risks and uncertainties that could cause our actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual results to differ include risks set forth in "Item 1A. Risk Factors" included in our Form 10-K. The terms "Comfort Systems," "we," "us," or "the Company," refer to Comfort Systems USA, Inc. or Comfort Systems USA, Inc. and its consolidated subsidiaries, as appropriate in the context.

Introduction and Overview

We are a national provider of comprehensive HVAC installation, maintenance, repair and replacement services within the mechanical services industry. We operate primarily in the commercial, industrial and institutional HVAC markets and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing.

Nature and Economics of Our Business

Approximately 82% of our revenue is earned on a project basis for installation of HVAC systems in newly constructed facilities or for replacement of HVAC systems in existing facilities. Customers hire us to ensure such systems deliver specified or generally expected heating, cooling, conditioning and circulation of air in a facility. This entails installing core system equipment such as packaged heating and air conditioning units, or in the case of larger facilities, separate core components such as chillers, boilers, air handlers, and cooling towers. We also typically install connecting and distribution elements such as piping and ducting. Our responsibilities usually require conforming the systems to pre-established engineering drawings and equipment and performance specifications, which we frequently participate in establishing. Our project management responsibilities include staging equipment and materials to project sites, deploying labor to perform the work, and coordinating with other service providers on the project, including any subcontractors we might use to deliver our portion of the work.

When competing for project business, we usually estimate the costs we will incur on a project, and then propose a bid to the customer that includes a contract price and other performance and payment terms. Our bid price and terms are intended to cover our estimated costs on the project and provide a profit margin to us commensurate with the value of the installed system to the customer, the risk that project costs or duration will vary from estimate, the schedule on which we will be paid, the opportunities for other work that we might forego by committing capacity to this project, and other costs that we incur more broadly to support our operations but which are not specific to the project. Typically customers will seek bids from competitors for a given project. While the criteria on which customers select the winning bid vary widely and include factors such as quality, technical expertise, on-time performance, post-project support and service, and company history and financial strength, we believe that price is the most influential factor for most customers in choosing an HVAC installation and service provider.

After a customer accepts our bid, we generally enter into a contract with the customer that specifies what we will deliver on the project, what our related responsibilities are, and how much and when we will be paid. Our overall price for the project is typically set at a fixed amount in the contract, although changes in project specifications or work conditions that result in unexpected additional work are usually subject to additional payment from the customer via what are commonly known as change orders. Project contracts typically provide for periodic billings to the customer as we meet progress milestones or incur cost on the project. Project contracts in our industry also frequently allow for a small portion of progress billings or contract price to be withheld by the customer until after we have completed the work, typically for six months. Amounts withheld under this practice are known as retention or retainage.

Labor and overhead costs account for the majority of our cost of service. Accordingly, labor management and utilization have the most impact on our project performance. Given the fixed price nature of much of our project work, if our initial estimate of project costs is wrong or we incur cost overruns that cannot be recovered in change orders, we can experience reduced profits or even significant losses on fixed price project work. We also perform some project work on a cost-plus or a time and materials basis, under which we are paid our costs incurred plus an agreed-upon profit margin. These margins are typically less than fixed-price contract margins because there is less risk of unrecoverable cost overruns in cost-plus or time and materials work.

Our average project takes six to nine months to complete, with an average contract price of approximately \$491,000. We also perform larger HVAC projects. Generally, projects closer in size to \$1 million will be completed in one year or less. It is unusual for us to work on a project that exceeds two years in length. Our projects generally require working capital funding of equipment and labor costs. Customer payments on periodic billings generally do not recover these costs until late in the job. Our average project duration together with typical retention terms as discussed above generally allow us to complete the realization of revenue and earnings in cash within one year. We have what we believe is a well-diversified distribution of revenue across end-use sectors that we believe reduces our exposure to negative developments in any given sector. Because of the integral nature of HVAC and related controls systems to most buildings, we have the legal right in almost all cases to attach liens to buildings or related funding sources when we have not been fully paid for installing systems, except with respect to some government buildings. The service work that we do, which is discussed further below, usually does not give rise to lien rights.

A stratification of projects in progress as of September 30, 2014, by contract price, is as follows:

<u>Contract Price of Project</u>	<u>No. of Projects</u>	<u>Aggregate Contract Price Value (millions)</u>
Under \$1 million	3,798	\$ 404.7
\$1 million - \$5 million	317	741.3
\$5 million - \$10 million	58	408.2
\$10 million - \$15 million	16	194.8
Greater than \$15 million	16	313.8
Total	<u>4,205</u>	<u>\$ 2,062.8</u>

In addition to project work, approximately 18% of our revenue represents maintenance and repair service on already-installed HVAC and controls systems. This kind of work usually takes from a few hours to a few days to perform. Prices to the customer are usually based on the equipment and materials used in the service as well as technician labor time. We usually bill the customer for service work when it is complete, typically with payment terms of up to thirty days. We also provide maintenance and repair service under ongoing contracts. Under these contracts, we are paid regular

monthly or quarterly amounts and provide specified service based on customer requirements. These agreements typically cover periods ranging from one to three years with thirty- to sixty-day cancellation notice periods.

A relatively small portion of our revenue comes from national and regional account customers. These customers typically have multiple sites, and contract with us to perform maintenance and repair service. These contracts may also provide for us to perform new or replacement systems installation. We operate a national call center to dispatch technicians to sites requiring service. We perform the majority of this work with our own employees, with the balance being subcontracted to third parties that meet our performance qualifications. We will also typically use proprietary information systems to maintain information on the customer's sites and equipment, including performance and service records, and related cost data. These systems track the status of ongoing service and installation work, and may also monitor system performance data. Under these contractual relationships, we usually provide consolidated billing and credit payment terms to the customer.

Profile and Management of Our Operations

We manage our 37 operating units based on a variety of factors. Financial measures we emphasize include profitability, and use of capital as indicated by cash flow and by other measures of working capital principally involving project cost, billings and receivables. We also monitor selling, general, administrative and indirect project support expense, backlog, workforce size and mix, growth in revenue and profits, variation of actual project cost from original estimate, and overall financial performance in comparison to budget and updated forecasts. Operational factors we emphasize include project selection, estimating, pricing, management and execution practices, labor utilization, safety, training, and the make-up of both existing backlog as well as new business being pursued, in terms of project size, technical application and facility type, end-use customers and industries, and location of the work.

Most of our operations compete on a local or regional basis. Attracting and retaining effective operating unit managers is an important factor in our business, particularly in view of the relative uniqueness of each market and operation, the importance of relationships with customers and other market participants such as architects and consulting engineers, and the high degree of competition and low barriers to entry in most of our markets. Accordingly, we devote considerable attention to operating unit management quality, stability, and contingency planning, including related considerations of compensation, and non-competition protection where applicable.

Economic and Industry Factors

As an HVAC and building controls services provider, we operate in the broader nonresidential construction services industry and are affected by trends in this sector. While we do not have operations in all major cities of the United States, we believe our national presence is sufficiently large that we experience trends in demand for and pricing of our services that are consistent with trends in the national nonresidential construction sector. As a result, we monitor the views of major construction sector forecasters along with macroeconomic factors they believe drive the sector, including trends in gross domestic product, interest rates, business investment, employment, demographics, and the general fiscal condition of federal, state and local governments.

Spending decisions for building construction, renovation and system replacement are generally made on a project basis, usually with some degree of discretion as to when and if projects proceed. With larger amounts of capital, time, and discretion involved, spending decisions are affected to a significant degree by uncertainty, particularly concerns about economic and financial conditions and trends. We have experienced periods of time when economic weakness caused a significant slowdown in decisions to proceed with installation and replacement project work.

Operating Environment and Management Emphasis

Nonresidential building construction and renovation activity, as reported by the federal government, declined over the three year period of 2001 to 2003, expanded moderately during 2004 and 2005, and was strong over the three year period from 2006 to 2008. We experienced significant industry activity declines over the four year period from 2009 to 2012, with 2013 and 2014 activity levels stable at the low levels of the preceding years. During the periods of decline, we responded to market challenges by pursuing work in sectors less affected by the downturn, such as government, educational, and healthcare facilities, and by establishing marketing initiatives that take advantage of our size and range of expertise. We also responded to declining gross profits over those years by reducing our selling, general, and administrative expenses, and our indirect project and service overhead costs. We believe our efforts in these areas partially offset the decline in our profitability over that period.

As a result of our continued strong emphasis on cash flow, we currently have modest indebtedness under our revolving credit facility and we have uncommitted cash balances, as discussed further in "Liquidity and Capital Resources" below. We have a credit facility in place with considerably less restrictive terms than those of our previous facilities; this facility does not expire until October 2019. We have strong surety relationships to support our bonding needs, and we believe our relationships with the surety markets are positive in light of our strong current results and financial position. We have generated positive free cash flow in each of the last fifteen calendar years and will continue our emphasis in this area. We believe that the relative size and strength of our balance sheet and surety support as compared to most companies in our industry represent competitive advantages for us.

As discussed at greater length in "Results of Operations" below, we have seen declining and lower activity levels in our industry since late 2008 and we expect price competition to continue to be strong, as local and regional competitors respond cautiously to changing conditions. We will continue our efforts to find the more active sectors in our markets, and to increase our regional and national account business. Our primary emphasis for the remainder of 2014 will be on execution and cost control, and on maintaining activity levels that will permit us to earn reasonable profits while preserving our core workforce. We have increased our focus on project qualification, estimating, pricing and management; and we are investing in service growth and improved performance.

Cyclicality and Seasonality

Historically, the construction industry has been highly cyclical. As a result, our volume of business may be adversely affected by declines in new installation and replacement projects in various geographic regions of the United States during periods of economic weakness.

The HVAC industry is subject to seasonal variations. Specifically, the demand for new installation and replacement is generally lower during the winter months (the first quarter of the year) due to reduced construction activity during inclement weather and less use of air conditioning during the colder months. Demand for HVAC services is generally higher in the second and third calendar quarters due to increased construction activity and increased use of air conditioning during the warmer months. Accordingly, we expect our revenue and operating results generally will be lower in the first and fourth calendar quarters.

Critical Accounting Policies

Our critical accounting policies are based upon the significance of the accounting policy to our overall financial statement presentation, as well as the complexity of the accounting policy and our use of estimates and subjective assessments. Our most critical accounting policy is revenue recognition. As discussed elsewhere in this quarterly report on Form 10-Q, our business has two service functions: (i) installation, which we account for under the percentage of completion method, and (ii) maintenance, repair and replacement, which we account for as the services are performed, or in the

case of replacement, under the percentage of completion method. In addition, we identified other critical accounting policies related to our allowance for doubtful accounts receivable, the recording of our self-insurance liabilities, valuation of deferred tax assets, accounting for acquisitions and the recoverability of goodwill and identifiable intangible assets. These accounting policies, as well as others, are described as follows and in Note 2 to the Consolidated Financial Statements included elsewhere in this quarterly report on Form 10-Q.

Percentage of Completion Method of Accounting

Approximately 82% of our revenue was earned on a project basis and recognized through the percentage of completion method of accounting. Under this method contract revenue recognizable at any time during the life of a contract is determined by multiplying expected total contract revenue by the percentage of contract costs incurred at any time to total estimated contract costs. More specifically, as part of the negotiation and bidding process in which we engage in connection with obtaining installation contracts, we estimate our contract costs, which include all direct materials (exclusive of rebates), labor and subcontract costs and indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. These contract costs are included in our results of operations under the caption "Cost of Services." Then, as we perform under those contracts, we measure costs incurred, compare them to total estimated costs to complete the contract, and recognize a corresponding proportion of contract revenue. Labor costs are considered to be incurred as the work is performed. Subcontractor labor is recognized as the work is performed, but is generally subjected to approval as to milestones or other evidence of completion. Non-labor project costs consist of purchased equipment, prefabricated materials and other materials. Purchased equipment on our projects is substantially produced to job specifications and is a value added element to our work. The costs are considered to be incurred when title is transferred to us, which typically is upon delivery to the worksite. Prefabricated materials, such as ductwork and piping, are generally performed at our shops and recognized as contract costs when fabricated for the unique specifications of the job. Other materials cost are not significant and are generally recorded when delivered to the worksite. This measurement and comparison process requires updates to the estimate of total costs to complete the contract, and these updates may include subjective assessments.

We generally do not incur significant costs prior to receiving a contract, and therefore, these costs are expensed as incurred. In limited circumstances, when significant pre-contract costs are incurred, they are deferred if the costs can be directly associated with a specific contract and if their recoverability from the contract is probable. Upon receiving the contract, these costs are included in contract costs. Deferred costs associated with unsuccessful contract bids are written off in the period that we are informed that we will not be awarded the contract.

Project contracts typically provide for a schedule of billings or invoices to the customer based on reaching agreed-upon milestones or as we incur costs. The schedules for such billings usually do not precisely match the schedule on which costs are incurred. As a result, contract revenue recognized in the statement of operations can and usually do differ from amounts that can be billed or invoiced to the customer at any point during the contract. Amounts by which cumulative contract revenue recognized on a contract as of a given date exceed cumulative billings to the customer under the contract are reflected as a current asset in our balance sheet under the caption "Costs and estimated earnings in excess of billings." Amounts by which cumulative billings to the customer under a contract as of a given date exceed cumulative contract revenue recognized on the contract are reflected as a current liability in our balance sheet under the caption "Billings in excess of costs and estimated earnings."

The percentage of completion method of accounting is also affected by changes in job performance, job conditions, and final contract settlements. These factors may result in revisions to estimated costs and, therefore, revenue. Such revisions are frequently based on further estimates and

subjective assessments. The effects of these revisions are recognized in the period in which revisions are determined. When such revisions lead to a conclusion that a loss will be recognized on a contract, the full amount of the estimated ultimate loss is recognized in the period such conclusion is reached, regardless of the percentage of completion of the contract.

Revisions to project costs and conditions can give rise to change orders under which the customer agrees to pay additional contract price. Revisions can also result in claims we might make against the customer to recover project variances that have not been satisfactorily addressed through change orders with the customer. Except in certain circumstances, we do not recognize revenue or margin based on change orders or claims until they have been agreed upon with the customer. The amount of revenue associated with unapproved change orders and claims is currently immaterial. Variations from estimated project costs could have a significant impact on our operating results, depending on project size, and the recoverability of the variation via additional customer payments.

Accounting for Allowance for Doubtful Accounts

We are required to estimate the collectability of accounts receivable and provide an allowance for doubtful accounts for receivable amounts we believe we will not ultimately collect. This requires us to make certain judgments and estimates involving, among others, the creditworthiness of our customers, prior collection history with our customers, ongoing relationships with our customers, the aging of past due balances, our lien rights, if any, in the property where we performed the work, and the availability, if any, of payment bonds applicable to the contract. These estimates are evaluated and adjusted as needed when additional information is received.

Accounting for Self-Insurance Liabilities

We are substantially self-insured for workers' compensation, employer's liability, auto liability, general liability and employee group health claims in view of the relatively high per-incident deductibles we absorb under our insurance arrangements for these risks. Losses up to deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages. Loss estimates associated with the larger and longer-developing risks—workers' compensation, auto liability and general liability—are reviewed by a third party actuary quarterly. We believe these accruals are adequate. However, insurance liabilities are difficult to estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, timely reporting of occurrences, ongoing treatment or loss mitigation, general trends in litigation recovery outcomes and the effectiveness of safety and risk management programs. Therefore, if actual experience differs from the assumptions and estimates used for recording the liabilities, adjustments may be required and would be recorded in the period that such experience becomes known.

Our self-insurance arrangements currently are as follows:

Workers' Compensation— The per-incident deductible for workers' compensation is \$500,000. Losses above \$500,000 are determined by statutory rules on a state-by-state basis, and are fully covered by excess workers' compensation insurance.

Employer's Liability— For employer's liability, the per incident deductible is \$500,000. We are fully insured for the next \$500,000 of each loss, and then have several layers of excess loss insurance policies that cover losses up to \$100 million in aggregate across this risk area (as well as general liability and auto liability noted below).

General Liability— For general liability, the per incident deductible is \$500,000. We are fully insured for the next \$1.5 million of each loss, and then have several layers of excess loss insurance policies that cover losses up to \$100 million in aggregate across this risk area (as well as employer's liability noted above and auto liability noted below).

Auto Liability— For auto liability, the per incident deductible is \$500,000. We are fully insured for the next \$1.5 million of each loss, and then have several layers of excess loss insurance policies that cover losses up to \$100 million in aggregate across this risk area (as well as employer's liability and general liability noted above).

Employee Medical— We have two medical plans. The deductible for employee group health claims is \$350,000 per person, per policy (calendar) year for each plan. Insurance then covers any responsibility for medical claims in excess of the deductible amount.

Our \$100 million of aggregate excess loss coverage above applicable per-incident deductibles represents one policy limit that applies to all lines of risk; we do not have a separate \$100 million of excess loss coverage for each of general liability, employer's liability and auto liability.

Accounting for Deferred Tax Assets

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation quarterly. In assessing the realizability of deferred tax assets, we must consider whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. We consider all available evidence, both positive and negative, in determining whether a valuation allowance is required. Such evidence includes the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in prior carryback years and tax planning strategies in making this assessment, and judgment is required in considering the relative weight of negative and positive evidence.

Acquisitions

We generally recognize assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities, based on fair value estimates as of the date of acquisition.

Contingent Consideration—In certain acquisitions, we agree to pay additional amounts to sellers contingent upon achievement by the acquired businesses of certain predetermined profitability targets. We have recognized liabilities for these contingent obligations based on their estimated fair value at the date of acquisition with any differences between the acquisition date fair value and the ultimate settlement of the obligations being recognized in income from operations.

Contingent Assets and Liabilities—Assets and liabilities arising from contingencies are recognized at their acquisition date fair value when their respective fair values can be determined. If the fair values of such contingencies cannot be determined, they are recognized at the acquisition date if the contingencies are probable and an amount can be reasonably estimated. Acquisition date fair value estimates are revised as necessary if, and when, additional information regarding these contingencies becomes available to further define and quantify assets acquired and liabilities assumed.

Recoverability of Goodwill and Identifiable Intangible Assets

Goodwill is the excess of purchase price over the fair value of the net assets of acquired businesses. We assess goodwill for impairment each year, and more frequently if circumstances suggest an impairment may have occurred.

When the carrying value of a given reporting unit exceeds its fair value, an impairment loss is recorded to the extent that the implied fair value of the goodwill of the reporting unit is less than its carrying value. If other reporting units have had increases in fair value, such increases may not be recorded. Accordingly, such increases may not be netted against impairments at other reporting units. The requirements for assessing whether goodwill has been impaired involve market-based information. This information, and its use in assessing goodwill, entails some degree of subjective assessment.

We currently perform our annual impairment assessment as of October 1 and any impairment charges resulting from this process are reported in the fourth quarter. We segregate our operations into reporting units based on the degree of operating and financial independence of each unit and our related management of them. We perform our annual goodwill impairment assessment at the reporting unit level.

In the evaluation of goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of one of our reporting units is greater than its carrying value. If, after completing such assessment, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then there is no need to perform any further testing. If we conclude otherwise, then we perform the first step of a two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying value of the reporting unit.

We estimate the fair value of the reporting unit based on two market approaches and an income approach, which utilizes discounted future cash flows. Assumptions critical to the fair value estimates under the discounted cash flow model include discount rates, cash flow projections, projected long-term growth rates and the determination of terminal values. The market approaches utilized market multiples of invested capital from comparable publicly traded companies ("public company approach") and comparable transactions ("transaction approach"). The market multiples from invested capital include revenue, book equity plus debt and earnings before interest, taxes, depreciation and amortization ("EBITDA").

There are significant inherent uncertainties and management judgment involved in estimating the fair value of each reporting unit. While we believe we have made reasonable estimates and assumptions to estimate the fair value of our reporting units, it is possible that a material change could occur. If actual results are not consistent with our current estimates and assumptions, or the current economic downturn worsens or the projected recovery is significantly delayed beyond our projections, goodwill impairment charges may be recorded in future periods.

We amortize identifiable intangible assets with finite lives over their useful lives. Changes in strategy and/or market condition may result in adjustments to recorded intangible asset balances or their useful lives.

Results of Operations (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	%	2013	%	2014	%	2013	%
Revenue	\$ 370,145	100.0%	\$ 349,989	100.0%	\$ 1,054,327	100.0%	\$ 1,026,932	100.0%
Cost of services	303,686	82.0%	282,968	80.9%	873,860	82.9%	848,477	82.6%
Gross profit	66,459	18.0%	67,021	19.1%	180,467	17.1%	178,455	17.4%
Selling, general and administrative expenses	52,200	14.1%	49,404	14.1%	153,158	14.5%	141,623	13.8%
Goodwill impairment	—	—	—	—	727	0.1%	—	—
Gain on sale of assets	(526)	(0.1)%	(117)	—	(748)	(0.1)%	(367)	—
Operating income	14,785	4.0%	17,734	5.1%	27,330	2.6%	37,199	3.6%
Interest income	2	—	5	—	15	—	19	—
Interest expense	(561)	(0.2)%	(347)	(0.1)%	(1,359)	(0.1)%	(1,032)	(0.1)%
Changes in the fair value of contingent earn-out obligations	(210)	(0.1)%	750	0.2%	(210)	—	696	0.1%
Other income (expense)	12	—	83	—	104	—	184	—
Income before income taxes	14,028	3.8%	18,225	5.2%	25,880	2.5%	37,066	3.6%
Income tax expense	4,649	—	6,588	—	9,087	—	14,366	—
Income from continuing operations	9,379	—	11,637	—	16,793	—	22,700	—
Loss from discontinued operations, net of tax	—	—	(25)	—	(15)	—	(79)	—
Net income including noncontrolling interests	9,379	2.5%	11,612	3.3%	16,778	1.6%	22,621	2.2%
Less: Net income attributable to noncontrolling interests	1,774	0.5%	233	0.1%	4,397	0.4%	948	0.1%
Net income attributable to Comfort Systems USA, Inc.	<u>\$ 7,605</u>	—	<u>\$ 11,379</u>	—	<u>\$ 12,381</u>	—	<u>\$ 21,673</u>	—

We had 36 operating locations as of December 31, 2013. We completed one acquisition in the first quarter of 2014. This acquisition was not material and was "tucked-in" with existing operations. We completed two acquisitions in the second quarter of 2014, one of which was "tucked-in" with existing operations and the second reports as a separate operating location in Northern Texas. No acquisitions were completed in the third quarter of 2014. As of September 30, 2014, we had 37 operating locations. Acquisitions are included in our results of operations from the respective acquisition date. The same-store comparison from 2014 to 2013, as described below, excludes five months of results for our Northern Texas operation, which was acquired in May 2014. An operating location is included in the same-store comparison on the first day it has comparable prior year operating data. An operating location is excluded from the same-store comparison in the current year and comparable prior years when it is properly characterized as a discontinued operation under applicable accounting standards.

Revenue—Revenue increased \$20.2 million, or 5.8%, to \$370.1 million for the third quarter of 2014 compared to the same period in 2013. The increase included a 0.7% increase in revenue related to same-store activity and a 5.1% increase related to the acquisition of our Northern Texas operation. The same-store revenue increase is primarily due to our Arkansas operations (\$6.5 million), one of our Virginia operations (\$4.2 million) and our Central Texas operations (\$4.0 million) which performed a significant amount of project work for the institutional sector during the current quarter. This increase was partially offset by lower revenues at our Arizona operation (\$11.2 million) as a result of less projects in progress in the current quarter compared to the same period in 2013.

Revenue increased \$27.4 million, or 2.7%, to \$1,054.3 million for the first nine months of 2014 compared to the same period in 2013. Same-store activity remained flat while the 2.7% increase was driven by the acquisition of our Northern Texas operation. The same-store revenue increased primarily due to one of our Florida operations (\$12.5 million) and one of our Virginia operations (\$10.4 million) which both performed a significant amount of project work during the current year. This increase was offset primarily due to our Arizona operation (\$22.4 million) which performed a significant amount of project work during the first nine months of 2013 which has not reoccurred in 2014 due to its completion.

Backlog reflects revenue still to be recognized under contracted or committed installation and replacement project work. Project work generally lasts less than one year. Service agreement revenue and service work and short duration projects which are generally billed as performed do not flow through backlog. Accordingly, backlog represents only a portion of our revenue for any given future period, and it represents revenue that is likely to be reflected in our operating results over the next six to twelve months. As a result, we believe the predictive value of backlog information is limited to indications of general revenue direction over the near term, and should not be interpreted as indicative of ongoing revenue performance over several quarters.

Backlog as of September 30, 2014 was \$656.8 million, a 2.5% decrease from June 30, 2014 backlog of \$673.7 million, and a 15.0% increase from September 30, 2013 backlog of \$570.9 million. Sequential backlog decreased primarily due to our Wisconsin operation (\$9.6 million), one of our Florida operations (\$6.7 million) and our large operation headquartered in Virginia (\$5.5 million) which had decreased project bookings during the current quarter. This was partially offset by increased bookings at our Colorado operation (\$13.4 million). Our year-over-year backlog increased primarily due to the aforementioned acquisition (\$38.3 million). In addition, a same-store increase of 8.3% was primarily due to increased project bookings at our Arkansas operation (\$24.7 million) and our EAS operation (\$17.9 million) during the current year.

Following the three year period of industry activity declines from 2001 through 2003, we saw modest year-over-year revenue increases at our ongoing operations beginning in mid-2003 and continuing throughout 2008. We experienced significant industry activity declines in 2009 through 2012 with activity levels stabilizing in 2013. Based on our backlog and forecasts from industry construction analysts, we expect that activity levels in our industry are likely to remain flat over the next twelve months, particularly in the area of new construction.

Gross Profit—Gross profit decreased \$0.6 million, or 0.8%, to \$66.5 million for the third quarter of 2014 as compared to the same period in 2013. The decrease included a \$3.0 million, or 4.4% decrease related to same-store activity. This was partially offset by a \$2.4 million, or 3.6%, increase related to the acquisition of our Northern Texas operation. The third quarter of 2013 included additional gross profit of \$2.5 million related to a prior period accounting adjustment. The remaining same-store decrease related to lower level of construction projects at our Arizona operation (\$2.0 million) and job underperformance at our Southern California operation (\$1.9 million) which included a revision in contract estimate on a project in a loss position resulting in a \$2.2 million writedown. Our EAS operation had increased gross profit of \$4.0 million related to improved execution on its projects. As a percentage of revenue, gross profit decreased from 19.1% in the third quarter of 2013 to 18.0% in the third quarter of 2014 primarily due to the factors discussed above. Excluding the prior period adjustment, our gross profit percentage for the third quarter of 2013 would have been 18.6%.

Gross profit increased \$2.0 million, or 1.1%, to \$180.5 million for the first nine months of 2014 as compared to the same period in 2013. The increase included a \$3.6 million, or 2.0%, increase related to the acquisition of our Northern Texas operation and a \$1.6 million, or 0.9%, decrease on a same-store basis. The same-store decrease in gross profit was primarily due to a decrease in project volume at our Arizona operation (\$3.7 million) and job underperformance at our Southern California

operation (\$5.8 million) which included a revision in contract estimate on a project in a loss position resulting in a \$4.4 million writedown. This was partially offset by an \$8.0 million increase in profitability in 2014 at our EAS operation due to improved project execution. As a percentage of revenue, gross profit decreased from 17.4% in 2013 to 17.1% in 2014 primarily due to the factors discussed above.

Selling, General and Administrative Expenses ("SG&A")—SG&A increased \$2.8 million, or 5.7%, to \$52.2 million for the third quarter of 2014 as compared to the same period in 2013. On a same-store basis, excluding amortization expense, SG&A increased \$1.0 million, or 2.1%. This increase is primarily due to higher compensation expense (\$1.2 million) as a result of our increased investment in service growth and information technology. Amortization expense remained relatively flat. As a percentage of revenue, SG&A remained flat at 14.1% in both 2013 and 2014 primarily due to the factors discussed above.

SG&A increased \$11.5 million, or 8.1%, to \$153.2 million for the first nine months of 2014 as compared to the same period in 2013. On a same-store basis, excluding amortization expense, SG&A increased \$8.9 million, or 6.5%. This increase is primarily due to higher compensation expense (\$5.4 million) primarily as a result of our increased investment in service growth and information technology, higher training costs (\$2.4 million) and a \$1.1 million increase in bad debt expense as a result of a \$0.8 million gain recorded in the prior year as a result of a receivable settlement. Amortization expense decreased \$0.3 million, or 5.6%. As a percentage of revenue, SG&A increased from 13.8% in 2013 to 14.5% in 2014 primarily due to the factors discussed above.

We have included same-store SG&A, excluding amortization, because we believe it is an effective measure of comparative results of operations. However, same-store SG&A, excluding amortization, is not considered under generally accepted accounting principles to be a primary measure of an entity's financial results, and accordingly, should not be considered an alternative to SG&A as shown in our consolidated statements of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
SG&A	\$ 52,200	\$ 49,404	\$ 153,158	\$ 141,623
Less: SG&A from companies acquired	(1,825)	—	(2,904)	—
Less: Amortization expense	(1,703)	(1,739)	(4,971)	(5,268)
Same-store SG&A, excluding amortization expense	<u>\$ 48,672</u>	<u>\$ 47,665</u>	<u>\$ 145,283</u>	<u>\$ 136,355</u>

Goodwill Impairment—We recorded a goodwill impairment charge of \$0.7 million during the second quarter of 2014. Based on market activity declines and write-downs incurred on several jobs, we determined that the operating environment, conditions and performance at our operating location based in Southern California could no longer support the related goodwill balance. No goodwill impairment was recorded in 2013.

Changes in the Fair Value of Contingent Earn-out Obligations—The contingent earn-out obligations are measured at fair value each reporting period and changes in estimates of fair value are recognized in earnings. Income from changes in the fair value of contingent earn-out obligations decreased \$1.0 million for the third quarter of 2014 as compared to the same period in 2013. The primary reason for the decrease was an overall reduction of estimated future cash flows in the third quarter of 2013 related to the 2010 acquisition of ColonialWebb. This change in estimate was the result of a writedown of \$0.8 million in 2013 which did not reoccur in the current quarter. In addition, based on updated measurements of estimated future cash flows for our EAS location in the current quarter, this change in estimate resulted in a \$0.2 million increase of the fair value of the liability.

Income from changes in the fair value of contingent earn-out obligations decreased \$0.9 million for the first nine months of 2014 as compared to the same period in 2013. The primary reason for the decrease relates to third quarter activity which is discussed above. In addition, based on updated measurements for ColonialWebb in the first quarter of 2014, this change in estimate resulted in a writedown of \$0.1 million. This was offset in the second quarter of 2014, by changes to estimated future cash flows in 2014 related to the 2011 acquisition of EAS. This change in estimate resulted in an increase of \$0.1 million to the EAS earn-out obligation.

Income Tax Expense—We perform work throughout the United States in virtually all of the fifty states as well as in Puerto Rico. Our effective tax rate varies based upon our relative profitability, or lack of profitability, in states with varying state tax rates and rules. In addition, discrete events, judgments and legal structures can affect our effective tax rate. These items can include the tax treatment for impairment of goodwill and other intangible assets and changes in fair value of acquisition related assets and liabilities, tax reserves associated with regulatory audits, accounting for losses associated with underperforming operations and the partial ownership of consolidated entities.

For the nine months ended September 30, 2014 our tax expense is \$9.1 million with an effective tax rate of 35.1% as compared to tax expense of \$14.4 million with an effective tax rate of 38.8% for the nine months ended September 30, 2013. The effective rate for 2014 is higher than the federal statutory rate of 35.0% primarily due to state income taxes (4.2%) and non-deductible expenses (1.7%) which were partially offset by the impact of the noncontrolling interest of EAS which for tax purposes is treated as a partnership (4.5%). The effective rate for 2013 is higher than the federal statutory rate of 35.0% primarily due to state income taxes (3.8%). Tax reserves are analyzed and adjusted quarterly as events occur to warrant such changes. Adjustments to tax reserves are a component of the effective tax rate. We currently estimate our effective tax rate for 2014 will be between 35% and 40%.

Discontinued Operations—During the fourth quarter of 2012, we substantially completed the shutdown of our operation located in Delaware. Discontinued operations were breakeven for the three months ended September 30, 2014. The after tax loss for the three months ended September 30, 2013 was less than \$0.1 million. The after tax loss for the nine months ended September 30, 2014 and 2013 was less than \$0.1 million and \$0.1 million, respectively. These results have been recorded in discontinued operations under "Loss from discontinued operations, net of income tax benefit."

Net Income Attributable to Noncontrolling Interests—Net income attributable to noncontrolling interests increased \$1.5 million to \$1.8 million for the third quarter of 2014 as compared to the same quarter in 2013. This increase reflects the impact of higher earnings at EAS, our non-wholly owned consolidated subsidiary, which was due primarily to increased margins on jobs performed in the current quarter.

Net income attributable to noncontrolling interests increased \$3.4 million to \$4.4 million for the first nine months of 2014 as compared to the same period in 2013. The increase was primarily due to higher earnings at EAS in the current year caused by increased margins on jobs performed in 2014.

Outlook

We expect that weakness in the underlying environment for nonresidential construction activity will continue to affect our industry in 2014 and early 2015, with the overall activity remaining at levels similar to recent years. Our backlog is steady, remaining at solid levels in light of ongoing industry conditions. Our primary emphasis for the remainder of 2014 will be on execution, including a focus on cost discipline and efficient project performance, and we are investing in service growth. Based on our backlog, and in light of economic conditions for our industry, we expect that revenues will continue at the levels that we have experienced in recent years. We expect that we will be solidly profitable for 2014, although our net profitability will be lower than we reported for 2013.

Liquidity and Capital Resources (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities	\$ 23,881	\$ 27,433	\$ 37,482	\$ 23,782
Investing activities	(9,186)	(5,170)	(68,339)	(11,862)
Financing activities	(20,572)	(304)	22,685	(7,372)
Net increase (decrease) in cash and cash equivalents	<u>\$ (5,877)</u>	<u>\$ 21,959</u>	<u>\$ (8,172)</u>	<u>\$ 4,548</u>
Free cash flow:				
Cash provided by (used in) operating activities	\$ 23,881	\$ 27,433	\$ 37,482	\$ 23,782
Purchases of property and equipment	(7,033)	(5,234)	(15,367)	(12,471)
Proceeds from sales of property and equipment	692	64	1,232	566
Free cash flow	<u>\$ 17,540</u>	<u>\$ 22,263</u>	<u>\$ 23,347</u>	<u>\$ 11,877</u>

Cash Flow

Our business does not require significant amounts of investment in long-term fixed assets. The substantial majority of the capital used in our business is working capital that funds our costs of labor and installed equipment deployed in project work until our customer pays us. Customary terms in our industry allow customers to withhold a small portion of the contract price until after we have completed the work, typically for six months. Amounts withheld under this practice are known as retention or retainage. Our average project duration together with typical retention terms generally allow us to complete the realization of revenue and earnings in cash within one year.

Cash Provided by Operating Activities—Cash flow from operations is primarily influenced by demand for our services and operating margins, but can also be influenced by working capital needs associated with the various types of services that we provide. In particular, working capital needs may increase when we commence large volumes of work under circumstances where project costs, primarily associated with labor, equipment and subcontractors, are required to be paid before the receivables resulting from the work performed are billed and collected. Working capital needs are generally higher during the late winter and spring months as we prepare and plan for the increased project demand when favorable weather conditions exist in the summer and fall months. Conversely, working capital assets are typically converted to cash during the late summer and fall months as project completion is underway. These seasonal trends are sometimes offset by changes in the timing of major projects which can be impacted by the weather, project delays or accelerations and other economic factors that may affect customer spending.

Cash provided by operating activities during the third quarter of 2014 was \$23.9 million compared with \$27.4 million during 2013. The \$3.5 million decrease in cash provided by operations is primarily due to receivables which had a negative impact of \$23.9 million on the comparison of cash flows due to collections from ongoing project work. This was partially offset by a \$12.6 million positive impact on the comparison of cash flows in billings in excess of costs and estimated earnings and a \$7.2 million positive impact on costs and estimated earnings in excess of billings due to the timing of customer billings and payments.

Cash provided by operating activities during the first nine months of 2014 was \$37.5 million compared with \$23.8 million during 2013. The \$13.7 million increase in cash provided by operations primarily relates to billings in excess of costs and estimated earnings which had a positive impact of \$14.2 million on the comparison of cash flows due to the timing of customer billings and payments. In

addition, receivables which had a positive impact of \$6.5 million on the comparison of cash flows due to collections from ongoing project work. This was partially offset by a \$6.8 million negative impact due to lower profitability in the current year.

Cash Used in Investing Activities—During the third quarter of 2014, cash used in investing activities was \$9.2 million compared with the third quarter of 2013 at \$5.2 million. The \$4.0 million increase in cash used primarily relates to deferred purchase price costs related to previous acquisitions which were completed in 2012 and 2011 (\$2.8 million). In addition, capital expenditures increased due to vehicle purchases (\$1.8 million).

Cash used in investing activities was \$68.3 million for the first nine months of 2014 compared to \$11.9 million during 2013. The \$56.4 million increase in cash used primarily relates to cash paid for the three acquisitions that were completed in the first nine months of 2014. No acquisitions were completed in 2013.

Cash Provided by (Used in) Financing Activities—Cash used in financing activities was \$20.6 million for the third quarter of 2014 compared to cash used in financing activities of \$0.3 million during 2013. The most significant items affecting the comparison of our financing cash flows for these periods primarily relates to a net payment on the revolving line of credit in 2014 of \$10.0 million compared to a net borrowing on the revolving line of credit in 2013 of \$5.0 million and a \$4.6 million increase in share repurchases in the current quarter.

Cash provided by financing activities was \$22.7 million for the first nine months of 2014 compared to cash used in financing activities of \$7.4 million during 2013. The \$30.1 million increase in cash provided by financing activities primarily relates to \$42.0 million of net borrowings on the revolving line of credit in 2014 compared to \$5.0 million of net borrowings in 2013. This was partially offset by cumulative cash distributions of \$4.7 to our noncontrolling partners.

Free Cash Flow—We define free cash flow as cash provided by operating activities, less customary capital expenditures, plus the proceeds from asset sales. We believe free cash flow, by encompassing both profit margins and the use of working capital over our approximately one year working capital cycle, is an effective measure of operating effectiveness and efficiency. We have included free cash flow information here for this reason, and because we are often asked about it by third parties evaluating us. However, free cash flow is not considered under generally accepted accounting principles to be a primary measure of an entity's financial results, and accordingly free cash flow should not be considered an alternative to operating income, net income, or amounts shown in our consolidated statements of cash flows as determined under generally accepted accounting principles. Free cash flow may be defined differently by other companies.

Share Repurchase Program

On March 29, 2007, our Board of Directors (the "Board") approved a stock repurchase program to acquire up to 1.0 million shares of our outstanding common stock. Subsequently, the Board has from time to time approved extensions of the program to acquire additional shares. On October 24, 2014, the Board approved an extension to the program by increasing the shares authorized for repurchase by 1.0 million shares. Since the inception of the repurchase program, the Board has approved 7.6 million shares to be repurchased.

The share repurchases will be made from time to time at our discretion in the open market or privately negotiated transactions as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The Board may modify, suspend, extend or terminate the program at any time. During the nine months ended September 30, 2014, we repurchased 0.4 million shares for approximately \$6.3 million at an average price of \$14.73 per share. Since the

inception of the program in 2007 and as of September 30, 2014, we have repurchased a cumulative total of 6.4 million shares at an average price of \$11.25 per share.

Debt

Revolving Credit Facility

On July 22, 2014, we amended our senior credit facility (the "Facility") provided by a syndicate of banks increasing our borrowing capacity from \$175.0 million to \$250.0 million. The Facility, which is available for borrowings and letters of credit, expires in October 2019 and is secured by a first lien on substantially all of our personal property except for assets related to projects subject to surety bonds and assets held by certain unrestricted subsidiaries and a second lien on our assets related to projects subject to surety bonds. The Facility provides that availability under the Facility will be limited to the lesser of the face amount of \$250.0 million, or indebtedness less certain exclusions equal to 2.5 times trailing twelve month Credit Facility Adjusted EBITDA, which calculates to availability of \$222.1 million as of September 30, 2014. We incurred approximately \$0.6 million in financing and professional costs in connection with the amendment to the Facility, which combined with the previous unamortized costs of \$1.0 million, will be amortized on a straight-line basis as a non-cash charge to interest expense over the remaining term of the Facility. As of September 30, 2014, we had \$42.0 million of outstanding borrowings, \$50.6 million in letters of credit outstanding and \$129.5 million of credit available.

There are two interest rate options for borrowings under the Facility, the Base Rate Loan Option and the Eurodollar Rate Loan Option. These rates are floating rates determined by the broad financial markets, meaning they can and do move up and down from time to time. Additional margins are then added to these two rates.

The following is a summary of the additional margins:

	Consolidated Total Indebtedness to Credit Facility Adjusted EBITDA			
	Less than 0.75	0.75 to 1.50	1.50 to 2.25	2.25 or greater
Additional Per Annum Interest Margin Added Under:				
Base Rate Loan Option	0.25%	0.50%	0.75%	1.00%
Eurodollar Rate Loan Option	1.25%	1.50%	1.75%	2.00%

The weighted average interest rate applicable to the borrowings under the Facility was approximately 1.4% as of September 30, 2014.

We have used letters of credit to guarantee performance under our contracts and to ensure payment to our subcontractors and vendors under those contracts. Our lenders issue such letters of credit through the Facility for a fee. We have never had a claim made against a letter of credit that resulted in payments by a lender or by us and believe such claims are unlikely in the foreseeable future. The letter of credit fees range from 1.25% to 2.00% per annum, based on the ratio of Consolidated Total Indebtedness to Credit Facility Adjusted EBITDA, as defined in the credit agreement.

Commitment fees are payable on the portion of the revolving loan capacity not in use for borrowings or letters of credit at any given time. These fees range from 0.20% to 0.35% per annum, based on the ratio of Consolidated Total Indebtedness to Credit Facility Adjusted EBITDA, as defined in the credit agreement.

The Facility contains financial covenants defining various financial measures and the levels of these measures with which we must comply. Covenant compliance is assessed as of each quarter end.

The Facility's principal financial covenants include:

Leverage Ratio—The Facility requires that the ratio of our Consolidated Total Indebtedness to our Credit Facility Adjusted EBITDA not exceed 2.75 through maturity. The leverage ratio as of September 30, 2014 was 0.68.

Fixed Charge Coverage Ratio—The Facility requires that the ratio of Credit Facility Adjusted EBITDA, less non-financed capital expenditures, tax provision, dividends and amounts used to repurchase stock to the sum of interest expense and scheduled principal payments of indebtedness be at least 2.00; provided that the calculation of the fixed charge coverage ratio excludes stock repurchases and the payment of dividends at any time that the Company's Net Leverage Ratio does not exceed 1.50. The Facility also allows the fixed charge coverage ratio not to be reduced for stock repurchases through June 30, 2015 in an aggregate amount not to exceed \$25 million if at the time of and after giving effect to such repurchase the Company's Net Leverage Ratio was less than or equal to 1.50. Capital expenditures, tax provision, dividends and stock repurchase payments are defined under the Facility for purposes of this covenant to be amounts for the four quarters ending as of any given quarterly covenant compliance measurement date. The fixed charge coverage ratio as of September 30, 2014 was 18.15.

Other Restrictions—The Facility permits acquisitions of up to \$25.0 million per transaction, provided that the aggregate purchase price of such an acquisition and of acquisitions in the same fiscal year does not exceed \$60.0 million. However, these limitations only apply when the Company's Net Leverage Ratio is equal to or greater than 2.00.

While the Facility's financial covenants do not specifically govern capacity under the Facility, if our debt level under the Facility at a quarter-end covenant compliance measurement date were to cause us to violate the Facility's leverage ratio covenant, our borrowing capacity under the Facility and the favorable terms that we currently have could be negatively impacted by the lenders.

We are in compliance with all of our financial covenants as of September 30, 2014.

Notes to Former Owners

We issued subordinated notes to the former owners of acquired companies as part of the consideration used to acquire these companies. These notes bear interest, payable annually, at a weighted average interest rate of 3.3%. In June 2014, we paid the outstanding balance of \$2.0 million.

Other Debt

Our majority owned subsidiary, EAS, has a revolving \$2.5 million credit line that is available for temporary working capital needs and expires July 31, 2015. As of September 30, 2014, we had no outstanding borrowings and, therefore, \$2.5 million of credit available. We estimate that the weighted average interest rate applicable to borrowings under this variable rate credit line would be approximately 2.7% as of September 30, 2014.

Outlook

We have generated positive net free cash flow for the last fifteen calendar years, much of which occurred during challenging economic and industry conditions. We also continue to have significant borrowing capacity under our credit facility, and we maintain what we feel are reasonable cash balances. We believe these factors will provide us with sufficient liquidity to fund our operations for the foreseeable future.

Off-Balance Sheet Arrangements and Other Commitments

As is common in our industry, we have entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in our balance sheets. Our most significant off-balance sheet transactions include liabilities associated with noncancelable operating leases. We also have other off-balance sheet obligations involving letters of credit and surety guarantees.

We enter into noncancelable operating leases for many of our facility, vehicle and equipment needs. These leases allow us to conserve cash by paying a monthly lease rental fee for use of facilities, vehicles and equipment rather than purchasing them. At the end of the lease, we have no further obligation to the lessor. If we decide to cancel or terminate a lease before the end of its term, we would typically owe the lessor the remaining lease payments under the term of the lease.

Certain of our vendors require letters of credit to ensure reimbursement for amounts they are disbursing on our behalf, such as to beneficiaries under our self-funded insurance programs. We have also occasionally used letters of credit to guarantee performance under our contracts and to ensure payment to our subcontractors and vendors under those contracts. The letters of credit we provide are actually issued by our lenders through the Facility as described above. A letter of credit commits the lenders to pay specified amounts to the holder of the letter of credit if the holder demonstrates that we have failed to perform specified actions. If this were to occur, we would be required to reimburse the lenders. Depending on the circumstances of such a reimbursement, we may also have to record a charge to earnings for the reimbursement. Absent a claim, there is no payment or reserving of funds by us in connection with a letter of credit. However, because a claim on a letter of credit would require immediate reimbursement by us to our lenders, letters of credit are treated as a use of the Facility's capacity just the same as actual borrowings. Claims against letters of credit are rare in our industry. To date we have not had a claim made against a letter of credit that resulted in payments by a lender or by us. We believe that it is unlikely that we will have to fund claims under a letter of credit in the foreseeable future.

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a financial institution known as a surety. If we fail to perform under the terms of a contract or to pay subcontractors and vendors who provided goods or services under a contract, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the sureties for any expenses or outlays they incur. To date, we are not aware of any losses to our sureties in connection with bonds the sureties have posted on our behalf, and we do not expect such losses to be incurred in the foreseeable future.

Surety market conditions are currently challenging as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. Further, under standard terms in the surety market, sureties issue bonds on a project-by-project basis, and can decline to issue bonds at any time. Historically, approximately 25% to 35% of our business has required bonds. While we have strong surety relationships to support our bonding needs, current market conditions as well as changes in our sureties' assessment of our operating and financial risk could cause our sureties to decline to issue bonds for our work. If that were to occur, our alternatives include doing more business that does not require bonds, posting other forms of collateral for project performance such as letters of credit or cash, and seeking bonding capacity from other sureties. We would likely also encounter concerns from customers, suppliers and other market participants as to our creditworthiness. While we believe our general operating and financial characteristics, including a significant amount of cash on our balance sheet, would enable us to ultimately respond effectively to an interruption in the availability of bonding capacity, such an interruption would likely cause our revenue and profits to decline in the near term.

Contractual Obligations

The following recaps the future maturities of our contractual obligations as of September 30, 2014 (in thousands):

	Twelve Months Ended September 30,					Thereafter	Total
	2015	2016	2017	2018	2019		
Revolving credit facility	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 42,000	\$ 42,000
Capital lease obligations	328	273	199	95	39	—	934
Interest payable	1,470	1,470	1,470	1,470	1,470	—	7,350
Operating lease obligations	11,190	9,887	8,824	7,261	4,822	9,013	50,997
Total	\$ 12,988	\$ 11,630	\$ 10,493	\$ 8,826	\$ 6,331	\$ 51,013	\$ 101,281

As of September 30, 2014, we had \$50.6 million in letter of credit commitments, of which \$24.6 million will expire in 2014 and \$26.0 million will expire in 2015. The substantial majority of these letters of credit are posted with insurers who disburse funds on our behalf in connection with our workers' compensation, auto liability and general liability insurance program. These letters of credit provide additional security to the insurers that sufficient financial resources will be available to fund claims on our behalf, many of which develop over long periods of time, should we ever encounter financial duress. Posting of letters of credit for this purpose is a common practice for entities that manage their self-insurance programs through third-party insurers as we do. While many of these letter of credit commitments expire in 2014, we expect nearly all of them, particularly those supporting our insurance programs, will be renewed annually.

Other than the operating and capital lease obligations noted above, we have no significant purchase or operating commitments outside of commitments to deliver equipment and provide labor in the ordinary course of performing project work.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk primarily related to potential adverse changes in interest rates as discussed below. We are actively involved in monitoring exposure to market risk and continue to develop and utilize appropriate risk management techniques. We are not exposed to any other significant financial market risks including commodity price risk, foreign currency exchange risk or interest rate risks from the use of derivative financial instruments. We do not use derivative financial instruments.

We have limited exposure to changes in interest rates under our revolving credit facility and the EAS credit line. We have a debt facility under which we may borrow additional funds in the future.

The following table presents principal amounts (stated in thousands) and related average interest rates by year of maturity for our debt obligations and their indicated fair market value at September 30, 2014:

	Twelve Months Ended September 30,					Thereafter	Fair Value
	2015	2016	2017	2018	2019		
Variable Rate Debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 42,000	\$ 42,000

The weighted average interest rate applicable to borrowings under the Facility was approximately 1.4% as of September 30, 2014.

We measure certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the quarter ended June 30,

2014, we recorded a goodwill impairment charge of \$0.7 million based on Level 3 measurements. We did not recognize any other impairments, in the current quarter, on those assets required to be measured at fair value on a nonrecurring basis.

The valuation of our contingent earn-out payments is determined using a probability weighted discounted cash flow method. This analysis reflects the contractual terms of the purchase agreements (e.g., minimum and maximum payment, length of earn-out periods, manner of calculating any amounts due, etc.) and utilizes assumptions with regard to future cash flows, probabilities of achieving such future cash flows and a discount rate.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our executive management is responsible for ensuring the effectiveness of the design and operation of our disclosure controls and procedures. We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

COMFORT SYSTEMS USA, INC.
PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to certain claims and lawsuits arising in the normal course of business. We maintain various insurance coverages to minimize financial risk associated with these claims. We have estimated and provided accruals for probable losses and related legal fees associated with certain of our litigation in our consolidated financial statements. Although management currently believes that resolving claims against us, individually or in aggregate, will not have a material adverse impact on our operating results, cash flows or financial condition, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition, or future results. 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, or future results.

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

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

On March 29, 2007, our Board of Directors (the "Board") approved a stock repurchase program to acquire up to 1.0 million shares of our outstanding common stock. Subsequently, the Board has from time to time approved extensions of the program to acquire additional shares. On October 24, 2014, the Board approved an extension to the program by increasing the shares authorized for repurchase by 1.0 million shares. Since the inception of the repurchase program, the Board has approved 7.6 million shares to be repurchased.

The share repurchases will be made from time to time at our discretion in the open market or privately negotiated transactions as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The Board may modify, suspend, extend or terminate the program at any time. During the nine months ended September 30, 2014, we repurchased 0.4 million shares for approximately \$6.3 million at an average price of \$14.73 per share. Since the inception of the program in 2007 and as of September 30, 2014, we have repurchased a cumulative total of 6.4 million shares at an average price of \$11.25 per share.

During the quarter ended September 30, 2014, we purchased our common shares in the following amounts at the following average prices:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
July 1 - July 31	—	\$ —	6,048,251	552,286
August 1 - August 31	191,222	\$ 14.69	6,239,473	361,064
September 1 - September 30	204,428	\$ 14.52	6,443,901	156,636
	<u>395,650</u>	<u>\$ 14.60</u>	<u>6,443,901</u>	<u>156,636</u>

Under our restricted share plan, employees may elect to have us withhold common shares to satisfy minimum statutory federal, state and local tax withholding obligations arising on the vesting of restricted stock awards and exercise of options. When we withhold these shares, we are required to remit to the appropriate taxing authorities the market price of the shares withheld, which could be deemed a purchase of the common shares by us on the date of withholding.

Item 6. Exhibits

- 10.1 Amendment No. 3 to Second Amended and Restated Credit Agreement and Amendment to Other Loan Documents.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith, but not filed.)
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith, but not filed.)

- *101.INS XBRL Instance Document
- *101.SCH XBRL Taxonomy Extension Schema Document
- *101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- *101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- *101.LAB XBRL Taxonomy Extension Label Linkbase Document
- *101.PRE XBRL Taxonomy Extension Presentation Linkbase

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

**AMENDMENT NO. 3 TO
SECOND AMENDED AND RESTATED CREDIT AGREEMENT
AND
AMENDMENT TO OTHER LOAN DOCUMENTS**

THIS AMENDMENT NO. 3 TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT AND AMENDMENT TO OTHER LOAN DOCUMENTS (this "Amendment") dated as of July 22, 2014, is among COMFORT SYSTEMS USA, INC., a Delaware corporation (the "Borrower"), the other entities identified as Guarantors on the signature pages hereto (the "Guarantors"), the several banks and other financial institutions signatories hereto (the "Lenders") and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as Agent for the Lenders (the "Agent").

RECITALS

- A. The Borrower, the Lenders and the Agent are parties to a Second Amended and Restated Credit Agreement dated as of July 16, 2010 (as amended, modified and supplemented prior to the date hereof, the "Credit Agreement").
- B. The Borrower, the Guarantors, and the Agent are parties to a Second Amended and Restated Security Agreement dated as of July 16, 2010 (as amended, modified and supplemented prior to the date hereof, the "Security Agreement").
- C. The Borrower, the Guarantors and the Agent are parties to a Second Amended and Restated Pledge Agreement dated as of July 16, 2010 (as amended, modified and supplemented prior to the date hereof, the "Pledge Agreement").
- D. The Borrower and the Guarantors have requested that the Lenders approve this Amendment to amend certain terms and provisions of the Credit Agreement, Security Agreement and Pledge Agreement, as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth in this Amendment, the Borrower, the Guarantors, the Agent and the Lenders agree as follows:

1. **Defined Terms.** Unless otherwise defined in this Amendment, capitalized terms used in this Amendment have the meanings assigned to those terms in the Credit Agreement.
2. **Amendments to Credit Agreement.** The Credit Agreement is hereby amended as follows:
 - (a) The dollar amount set forth on the cover page of the Credit Agreement is hereby amended to be shown as \$250,000,000.
 - (b) Section 1.1 of the Credit Agreement is hereby amended by deleting the second sentence of the definition of "Aggregate Commitment" in its entirety and substituting therefor the following:

"As of the Amendment No. 3 Effective Date, the Aggregate Commitment is equal to \$250,000,000."

- (c) Section 1.1 of the Credit Agreement is hereby amended by adding the following definition in alphabetical order:

"Amendment No. 3 Effective Date" means July 22, 2014.

- (d) Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Excluded Assets" in its entirety and substituting the following definition therefor:

"Excluded Assets" means, collectively, (a) equity interests in any Unrestricted Subsidiary (including the Southeast Acquisition Entity), so long as a pledge or transfer of such equity interests would be prohibited or restricted under, or would require consent of a third party that is not an Affiliate pursuant to, the governing documents of such Unrestricted Subsidiary or any other agreement binding on the Restricted Persons or their assets; provided that (except with respect to the equity interests in the Southeast Acquisition Entity) in the event such pledge or transfer is not prohibited but is so restricted or would require such consent of a third party that is not an Affiliate, Borrower shall have used commercially reasonable efforts to satisfy such restriction or obtain such consent, (b) assets, a security interest in which would be prohibited by contract or applicable Law unless such prohibition is not effective under applicable Law and (c) assets as to which the Agent has determined in its sole discretion that the costs of obtaining a lien or security interest therein are excessive in relation to the value of the security to be afforded thereby.

- (e) Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Guarantors" in its entirety and substituting the following definition therefor:

"Guarantors" means, collectively, (a) each Subsidiary of the Borrower existing on the Amendment No. 3 Effective Date, other than an Immaterial Subsidiary or an Unrestricted Subsidiary, and (b) any Subsidiary of the Borrower that executes and delivers a Guaranty to the Agent after the Amendment No. 3 Effective Date, pursuant to Section 6.15.

- (f) Section 1.1 of the Credit Agreement is hereby amended by deleting clauses (b), (i) and (j) of the definition of "Indebtedness" and substituting the following therefor:

"(b) an obligation to pay the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business);

(i) obligations to purchase or redeem securities or other property, if such obligations arise out of or in connection with the sale or issuance of the same or similar securities or property (for example, repurchase agreements, mandatorily redeemable preferred stock and sale/leaseback agreements), except to the extent such purchase or redemption is to be made with the proceeds of a substantially concurrent issuance of Equity of such Person;

(j) obligations with respect to letters of credit or applications or reimbursement agreements therefor (but, for the avoidance of doubt, excluding any obligations with respect to (i) letters of credit to the extent they support other obligations constituting Indebtedness of a Restricted Person under this definition and (ii) letters of credit that support performance obligations); or”.

(g) Section 1.1 of the Credit Agreement is hereby amended by deleting the proviso at the end of the definition of “Indebtedness” and substituting the following therefor:

“provided, however, that the “Indebtedness” of any Person shall not include (i) obligations incurred by such Person in the ordinary course of its business under purchasing cards or similar arrangements, or (ii) obligations under operating leases as defined under GAAP on the date of this Agreement.”

(h) Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of “Intercreditor Agreement” and substituting the following definition therefor:

“Intercreditor Agreement” means (i) that certain Intercreditor Agreement dated as of June 24, 2009 among Zurich American Insurance Company, a New York corporation, and Wachovia Bank, N.A., a national banking association, as predecessor to Lender Agent (as therein defined), as amended from time to time, and (ii) any other agreement to which Borrower, the Agent and any surety are parties that establishes the priorities of the parties with respect to the Bonded Receivables.

(i) Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of “Maturity Date” in its entirety and substituting the following definition therefor:

“Maturity Date” means October 1, 2019.

(j) Section 1.1 of the Credit Agreement is hereby amended by deleting clause (d) of the definition of “Permitted Liens” and substituting the following therefor:

“(d) pledges or deposits of cash or securities to secure (i) the performance of bids, trade contracts, leases, statutory obligations and other obligations of a like nature (excluding appeal bonds

incurred in the ordinary course of business); (ii) obligations under worker’s compensation, unemployment insurance, social security or public Laws or similar legislation (excluding Liens arising under ERISA); or (iii) letters of credit that support obligations described in clause (i) or (ii) above;”.

(k) Section 1.1 of the Credit Agreement is hereby amended by (i) deleting the word “and” at the end of clause (l) of the definition of “Permitted Liens”, (ii) deleting the period at the end of clause (m) thereof and substituting a semicolon in its place, and (iii) adding the following new clauses (n) and (o) to the end of said definition:

“(n) Liens securing Indebtedness permitted by Section 7.1(i), provided that (i) such Liens existed at the time such Person became a Subsidiary of the Borrower or at the time such assets were acquired, as the case may be, and were not created in anticipation thereof, (ii) such Liens do not apply to any property or assets of the Borrower or its Subsidiaries, as the case may be, other than (A) the assets of such Person that has become a Subsidiary of the Borrower and such Person’s Subsidiaries or (B) such acquired assets and their proceeds, and (iii) such Liens secure only those obligations that they secured on the date such Person became a Subsidiary of the Borrower or at the time such assets were acquired, as the case may be; and

(o) Liens securing Indebtedness permitted by Section 7.1(k).”

(l) Section 2.17(b) of the Credit Agreement is hereby amended by deleting clause (v) thereof in its entirety and substituting therefor the following:

“(v) the cumulative increase in the Revolving Loan Commitments pursuant to this Section 2.17 shall not exceed \$100,000,000;”.

(m) Section 2.17(b) of the Credit Agreement is hereby further amended by deleting clause (viii) thereof in its entirety and substituting therefor the following:

“(viii) the aggregate amount of the Lenders’ Revolving Loan Commitments shall not exceed \$350,000,000 without the approval of all Lenders; and”.

(n) Section 3.2 of the Credit Agreement is hereby amended by inserting the phrase “or liquidity” immediately after the first instance of the word “capital”.

following: (o) Section 4.2 of the Credit Agreement is hereby amended by deleting clause (d) thereof in its entirety and substituting therefor the

“(d) No Material Adverse Change shall have occurred since December 31, 2013.”

4

(p) Section 5.13 of the Credit Agreement is hereby amended to replace each reference therein to “Amendment No. 2 Effective Date” with a reference to “Amendment No. 3 Effective Date” and to insert the word “or” after the phrase “Disclosure Schedule” in the last sentence thereof.

(q) Section 7.1 of the Credit Agreement is hereby amended by deleting clauses (b), (c), (d) and (k) thereof in their entirety and substituting therefor the following:

“(b) unsecured Indebtedness among Borrower and the Guarantors;

(c) purchase money Indebtedness and Capital Lease Obligations in an aggregate principal amount not to exceed \$15,000,000 at any time, provided that the original principal amount of any such Indebtedness shall not be in excess of the purchase price of the assets acquired with the proceeds thereof and such Indebtedness shall be secured only by the acquired assets;

(d) Indebtedness existing on the Amendment No. 3 Effective Date and listed on Schedule 7.1, and renewals and extensions thereof;

(k) any other Indebtedness not to exceed \$10,000,000 in the aggregate at any time outstanding.”

(r) Section 7.6 of the Credit Agreement is hereby amended by deleting subsection (a) thereof in its entirety and substituting therefor the following:

“(a) No Restricted Person will declare or make any Distribution except, in each case, so long as no Default or Event of Default exists at the time thereof or would result therefrom:

(i) Distributions made at any time when the Net Leverage Ratio is less than or equal to 1.00 to 1.00;

(ii) regularly scheduled dividends in an amount per share paid in any Fiscal Quarter not to exceed 125% of the amount per share paid during the immediately preceding Fiscal Quarter; provided that all such increases paid in any Fiscal Year shall not exceed \$1,300,000; and

(iii) repurchases of the Borrower’s common stock made on or prior to September 30, 2015, in an aggregate amount not to exceed \$25,000,000.”

(s) Section 7.7(a) of the Credit Agreement is hereby amended by deleting clause (ii) thereof in its entirety and substituting therefor the following:

5

(ii) investments in Unrestricted Subsidiaries not in excess of \$10,000,000 during any Fiscal Year, and”.

(t) Section 7.7(c) of the Credit Agreement is hereby amended by deleting clause (iii) thereof in its entirety and substituting therefor the following:

“(iii) either (A) the Total Leverage Ratio is less than or equal to 2.00 to 1.00 after giving pro forma effect to the Acquisition or (B) the purchase price for such Acquisition is less than or equal to \$25,000,000 and the aggregate purchase price for such Acquisition and all prior Acquisitions made during the Fiscal Year when such Acquisition is consummated is less than or equal to \$60,000,000; or”.

(u) Section 7.11 of the Credit Agreement is hereby amended by deleting paragraph (c) in its entirety and substituting therefor the following:

“(c) Total Leverage Ratio. The Borrower will not permit its Total Leverage Ratio, determined as of the end of each of its Fiscal Quarters, for the then most-recently ended four Fiscal Quarters, to be greater than 2.75 to 1.00.”

(v) Section 10.4(a) of the Credit Agreement is hereby amended by deleting the word “and” immediately before clause (iii) thereof and by deleting clause (iii) thereof in its entirety and substituting therefor the following:

“(iii) all reasonable costs and expenses incurred by the Agent on behalf of any Lender Party (including without limitation reasonable attorneys’ fees, reasonable consultants’ fees and reasonable accounting fees) in connection with the conduct of an annual field audit and (iv) all reasonable costs and expenses incurred by the Agent and any Lender Party in connection with the enforcement of its rights (A) in connection with this Agreement (including its rights under this Section) or any of the Loan Documents, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such reasonable out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect such Loans or Letters of Credit.”

(w) The Credit Agreement is hereby amended such that reference to “Amendment No. 2 Effective Date” in the “Pricing Schedule” attached thereto is hereby replaced with a reference to “Amendment No. 3 Effective Date”.

(x) Schedule 3.1 to the Credit Agreement and Sections 5.13 and 5.14 of Schedule 5 to the Credit Agreement and Schedule 7.1 to the Credit Agreement are hereby replaced in their entirety with Schedule 3.1 and Sections 5.13 and 5.14 of Schedule 5 and Schedule 7.1 attached to this

3. **Amendments to Security Agreement.**

(a) Section 2(a) of the Security Agreement is hereby amended by deleting the proviso at the end of said Section and substituting therefor the following:

“provided that, notwithstanding the foregoing, the Collateral in which a security interest is granted pursuant to this Security Agreement specifically excludes the Excluded Assets.”

(b) Schedules I and III to the Security Agreement are hereby replaced in their entirety with Schedules I and III to the Second Amended and Restated Security Agreement attached to this Amendment.

4. **Amendment to Pledge Agreement.** Schedule I to the Pledge Agreement is hereby replaced in its entirety with Schedule I to the Second Amended and Restated Pledge Agreement attached to this Amendment.

5. **Conditions to Effectiveness.** This Amendment will become effective on the date that the following conditions have been satisfied or waived:

- (a) the Agent shall have received counterparts of this Amendment, executed and delivered by the Borrower, the Guarantors, the Agent and the Lenders;
- (b) the Agent shall have received a Revolving Note for each Lender substantially in the form of Exhibit 2.1 to the Credit Agreement in the principal amount of each such Lender’s Revolving Loan Commitment as set forth on Schedule 3.1 attached hereto;
- (c) the representations and warranties of the Borrower and the Guarantors in Section 6 of this Amendment shall be true and correct;
- (d) the Agent shall have received, or shall concurrently receive, payment of all fees payable in connection with this Amendment including, without limitation, the fees payable to pursuant to that certain Fee Letter dated June 25, 2014;
- (e) the Agent shall have received the following certificates of Borrower and, as appropriate, the Guarantors:
 - (i) an “Omnibus Certificate” of the Secretary or Assistant Secretary of the Borrower and each Guarantor, which shall (i) contain the names and signatures of the officers of Borrower and each Guarantor authorized to execute Loan Documents, (ii) certify that there have been no changes to the charter documents or bylaws of the Borrower and each Guarantor previously delivered to the Agent (or, to the extent any such documents have changed, attach and certify to the truth, correctness and completeness of such documents) and (iii) attach and certify to the truth, correctness and completeness of a copy of resolutions duly adopted by the Board of Directors of Borrower and each Guarantor and in full force and effect at the time this Amendment is entered into, authorizing the execution of this

Amendment and the other Loan Documents delivered or to be delivered in connection herewith and the consummation of the transactions contemplated herein and therein; and

- (ii) a “Closing Certificate” of the chief financial officer of Borrower, as of the date of this Amendment, certifying that (A) the conditions set out in subsections (a), (b), and (c) of Section 4.2 of the Credit Agreement have been satisfied and (B) the financial information of Borrower most recently delivered to the Agent pursuant to Section 6.2(b) of the Credit Agreement fairly present the Consolidated financial position of Borrower for the periods covered thereby;
- (f) a certificate of existence and good standing for Borrower issued by the Secretary of State of Delaware, a certificate of due qualification to do business for the Borrower issued by the Secretary of State of Texas and evidence that the Borrower’s authority to transact business in the State of Texas is active;
- (g) a favorable opinion of (i) Bracewell & Giuliani LLP, counsel for Restricted Persons, in form and substance reasonably satisfactory to the Agent; and (ii) Trent McKenna, in-house counsel for Restricted Persons, in form and substance reasonably satisfactory to the Agent; and
- (h) the Agent shall have received, in form and substance reasonably satisfactory to the Agent, projections prepared by management of balance sheets, income statements and cashflow statements of the Borrower and its Subsidiaries for the term of the Credit Agreement, as amended hereby.

Representations and Warranties. The Borrower and the Guarantors hereby represent and warrant to the Agent and each of the Lenders as follows:

- (i) This Amendment has been duly authorized by all necessary corporate or other action and constitutes the binding obligation of the Borrower and the Guarantors.
- (j) Each of the representations and warranties made by the Borrower and the Guarantors in or pursuant to the Credit Agreement and the other Loan Documents is true and correct in all material respects as of the date hereof, as if made (after giving effect to this Amendment) on and as of such date, except for any representations and warranties made as of a specified date, which were true and correct in all material respects as of such specified date.

- (k) After giving effect to this Amendment, no Default or Event of Default has occurred and is continuing as of the date hereof.
- (l) Since December 31, 2013, there has occurred no Material Adverse Change.

6. **New Lenders.**

(a) By its execution of this Amendment, each of U.S. Bank National Association and Cadence Bank, N.A. (each, a "New Lender") agrees to become a Lender for all purposes and to the same extent as if originally a party to the Credit Agreement and agrees to be bound by and entitled to the benefits of the Credit Agreement.

(b) Each New Lender, severally and not jointly, hereby (i) represents and warrants that it is legally authorized to enter into this Amendment and become a "Lender" under the Credit Agreement; (ii) confirms that it has received a copy of the Credit Agreement, together with the copies of the most recent financial statements delivered pursuant to Section 6.2 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Amendment and become a "Lender" under the Credit Agreement; (iii) agrees that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iv) appoints and authorizes the Agent to take any action as agent on its behalf and to exercise any powers under the Loan Documents that are delegated to the Agent by the terms of the Loan Documents, together with all powers that are reasonably incidental thereto; and (v) agrees that it shall perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender.

7. **Continuing Effect of the Credit Agreement and Other Loan Documents.** This Amendment does not constitute a waiver of any provision of the Credit Agreement or any other Loan Document and, except as expressly provided herein, is not to be construed as a consent to any action on the part of the Borrower or the Guarantors that would require a waiver or consent of the Lenders or an amendment or modification to any term of the Loan Documents. The Borrower and the Guarantors hereby confirm and ratify the Credit Agreement as amended hereby and each of the other Loan Documents to which it is a party and acknowledges and agrees that the same continue in full force and effect as amended hereby (as applicable).

8. **Reference to the Credit Agreement, Security Agreement or Pledge Agreement.** Upon the effectiveness of this Amendment, each reference in the Credit Agreement, Security Agreement or Pledge Agreement to "this Agreement", "this Security Agreement", "hereunder", "herein" or words of like import refer to the Credit Agreement, Security Agreement or Pledge Agreement, as applicable, as amended and affected hereby.

9. **Designation as Loan Document.** This Amendment is a Loan Document.

10. **Counterparts.** This Amendment may be executed by all parties hereto in any number of separate counterparts each of which may be delivered in original, facsimile or other electronic (e.g., ".pdf") form and all of such counterparts taken together constitute one instrument.

11. **References.** The words "hereby," "herein," "hereinabove," "hereinafter," "hereinbelow," "hereof," "hereunder" and words of similar import when used in this Amendment refer to this Amendment as a whole and not to any particular article, section or provision of this

Amendment. References in this Amendment to a section number are to such sections of the Credit Agreement unless otherwise specified.

12. **Headings Descriptive.** The headings of the several sections of this Amendment are inserted for convenience only and do not in any way affect the meaning or construction of any provision of this Amendment.

13. **Governing Law.** This Amendment is governed by and will be construed in accordance with the law of the State of Texas.

14. **Payment of Expenses.** The Borrower shall pay or reimburse the Agent for all of its reasonable out-of-pocket costs and reasonable expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent.

15. **Final Agreement of the Parties.** THIS AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties are signing this Amendment as of the date first above written.

COMFORT SYSTEMS USA, INC.,
Borrower

By: /s/ Trent McKenna

Address:

Comfort Systems USA, Inc.
675 Bering, Suite 400
Houston, Texas 77057
Attention: William George III
Telephone: (713) 830-9650
Fax: (713) 830-9659

Signature Page to Amendment No. 3

ACKNOWLEDGMENT OF GUARANTORS

Each of the undersigned Guarantors hereby executes this Amendment to evidence its agreement to the modification of the Loan Documents to which it is a party and to confirm that each Loan Document (as the same may be amended or amended and restated, as the case may be, pursuant to and in connection with this Amendment) to which it is a party or otherwise bound remains in full force and effect and that all Collateral encumbered thereby will continue to secure, to the fullest extent possible, the payment and performance of all "Obligations", "Secured Obligations" and "Guaranteed Obligations" (in each case as such term is defined in the applicable Loan Document), including without limitation the payment and performance of all such "Obligations", "Secured Obligations" and "Guaranteed Obligations" in respect of the Obligations now or hereafter existing under or in respect of the Credit Agreement and the other Loan Documents. The Guarantors specifically reaffirm and extend their obligations under each of their applicable Guaranties to cover all indebtedness evidenced by the Credit Agreement as same has been created, amended and/or restated by or in connection with this Amendment. The Guaranties and all the terms thereof shall remain in full force and effect and the Guarantors hereby acknowledge and agree that same are valid and existing and that each of the Guarantors' obligations thereunder shall not be impaired or limited by the execution or effectiveness of this Amendment, except as expressly provided herein. Each Guarantor hereby represents and warrants that all representations and warranties contained in this Amendment and the other Loan Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the dated of this Amendment, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date. The Agent on behalf of the Lenders hereby preserves all its rights against each Guarantor under its applicable Guaranty and the other Loan Documents to which each applicable Guarantor is a party.

Each Guarantor acknowledges and agrees that (i) notwithstanding the conditions to the effectiveness set forth in this Amendment, such Guarantor is not required by the terms of the Credit Agreement, this Amendment or any other Loan Document to consent to the amendments of the Credit Agreement effected pursuant to this Amendment; and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Guarantor to any future amendments to the Credit Agreement.

ACCU-TEMP GP, INC.
ACCU-TEMP LP, INC.
ACI MECHANICAL, INC.
ACORN INDUSTRIAL, LLC, by Comfort Systems USA (MidAtlantic), LLC,
as Sole Managing Member
AIR SYSTEMS ENGINEERING, INC.
AIRTEMP, INC.
ARC COMFORT SYSTEMS USA, INC.
ATLAS-ACCURATE HOLDINGS, L.L.C., by CS53 Acquisition Corp., as
Sole Managing Member
ATLAS COMFORT SYSTEMS USA, L.L.C., by Hess Mechanical
Corporation, as Sole Managing Member

Signature Page to Amendment No. 3

BACHELOR'S MECHANICAL CONTRACTORS, LLC, by H & M
Mechanical, Inc., as Sole Managing Member
BCM CONTROLS CORPORATION
COLONIALWEBB CONTRACTORS COMPANY
CALIFORNIA COMFORT SYSTEMS USA, INC.
COMFORT SYSTEMS USA (ARKANSAS), INC.
COMFORT SYSTEMS USA (BALTIMORE), LLC, by Hess Mechanical
Corporation, as Sole Managing Member
COMFORT SYSTEMS USA (BRISTOL), INC.
COMFORT SYSTEMS USA ENERGY SERVICES, INC.
COMFORT SYSTEMS USA G.P., INC.
COMFORT SYSTEMS USA (INTERMOUNTAIN), INC.
COMFORT SYSTEMS USA (KENTUCKY), INC.
COMFORT SYSTEMS USA (MIDATLANTIC), LLC, by Riddleberger
Brothers, Inc., as Sole Managing Member
COMFORT SYSTEMS USA (MIDWEST), LLC, by Plant Services

Incorporated, as Sole Managing Member
COMFORT SYSTEMS USA NATIONAL ACCOUNTS, LLC, by Accu-Temp
LP, Inc., as Managing Member
COMFORT SYSTEMS USA (OHIO), INC.
COMFORT SYSTEMS USA PUERTO RICO, INC.
COMFORT SYSTEMS USA (SOUTH CENTRAL), INC.
COMFORT SYSTEMS USA (SOUTHEAST), INC.
COMFORT SYSTEMS USA (SOUTHWEST), INC.
COMFORT SYSTEMS USA (SYRACUSE), INC.
COMFORT SYSTEMS USA (TEXAS), L.P., by Comfort Systems USA
G.P., Inc., as general partner
COMFORT SYSTEMS USA (TWIN CITIES), INC.
COMFORT SYSTEMS USA (WESTERN MICHIGAN), INC.
CONTROL CONCEPTS, LLC, by Comfort Systems USA (Southeast), Inc., as
Sole Managing Member
CONTROL CONCEPTS MECHANICAL SERVICES, LLC, by Comfort
Systems USA (Southeast), Inc., as Sole Managing Member
CS53 ACQUISITION CORP.
DELCARD ASSOCIATES, LLC, by Seasonair, Inc., as Sole Managing
Member
DESIGN MECHANICAL INCORPORATED
DILLINGHAM & SMITH MECHANICAL AND SHEET METAL
CONTRACTORS, LLC, by S.M. Lawrence Company, Inc., as Sole
Managing Member
DYNA TEN CORPORATION
DYNA TEN MAINTENANCE SERVICES, LLC
EASTERN HEATING & COOLING, INC.
EASTERN REFRIGERATION CO., INC.
GRANITE STATE HOLDINGS COMPANY, INC.

Signature Page to Amendment No. 3

GRANITE STATE PLUMBING & HEATING, LLC, by Granite State
Holdings Company, Inc., as Sole Managing Member
H&M MECHANICAL, INC.
HELM CORPORATION
HESS MECHANICAL CORPORATION
HUDSON RIVER HEATING AND COOLING, INC.
H-VAC SUPPLY, L.L.C., by Comfort Systems USA Puerto Rico, Inc., as Sole
Managing Member
MECHANICAL TECHNICAL SERVICES, INC.
MERIT MECHANICAL, INC.
MJ MECHANICAL SERVICES, INC.
NORTH AMERICAN MECHANICAL, INC.
PLANT SERVICES INCORPORATED
QUALITY AIR HEATING & COOLING, INC.
RIDDLEBERGER BROTHERS, INC.
S.I. GOLDMAN COMPANY, INC.
S.M. LAWRENCE COMPANY, INC.
SA ASSOCIATES, INC.
SALMON & ALDER, L.L.C., by SA Associates, Inc., as Sole Managing
Member
SEASONAIR, INC.
TEMP RIGHT SERVICE, INC.
THE CAPITAL REFRIGERATION COMPANY

By: /s/ Trent McKenna
Trent McKenna
Senior Vice President, General Counsel, and Secretary

Signature Page to Amendment No. 3

WELLS FARGO BANK, NATIONAL ASSOCIATION,
Agent and a Lender

By: /s/ Gregory C. Crowe
Gregory C. Crowe

Senior Vice President

Address:

Wells Fargo Bank, National Association
1000 Louisiana, 3rd Floor
Houston, Texas 77002
Attention: Gregory C. Crowe
Telephone: 713-319-1630
Fax: 713-739-1086

Signature Page to Amendment No. 3

CAPITAL ONE, N.A.,
Lender

By: /s/ Yasmin Elhatib
Name: Yasmin Elkhatib
Title: Vice President

Address:

Capital One, N.A.
5718 Westheimer, Suite 600
Houston, Texas 77057
Attention: Yasmin Elkhatib
Telephone: 713-435-5265
Fax: 713-706-5499

Signature Page to Amendment No. 3

BOKF, NA dba Bank of Texas,
Lender

By: /s/ H. Mike Sultanic
Name: H. Mike Sultanic
Title: Senior Vice President

Address:

BOKF, NA dba Bank of Texas
5 Houston Center
1401 McKinney, Suite 1650
Houston, Texas 77010
Attention: Mike Sultanic
Telephone: 713-289-5886
Fax: 713-289-5825

Signature Page to Amendment No. 3

REGIONS BANK,
Lender

By: /s/ Joey Powell
Name: Joey Powell
Title: Senior Vice President

Address:

Regions Bank
5005 Woodway Drive, Suite 110
Houston, Texas 77479
Attention: Joey Powell
Telephone: 713-426-7236
Fax: 713-426-7180

Signature Page to Amendment No. 3

BRANCH BANK AND TRUST COMPANY,
Lender

By: /s/ Elizabeth Willis
Name: Elizabeth Willis
Title: Vice President

Address:

Branch Bank and Trust Company
200 West Second Street, 16th Floor
Winston-Salem, North Carolina 27101
Attention: Eric Searls
Telephone: 336-733-2741
Fax: 336-733-2740

Signature Page to Amendment No. 3

U.S. BANK NATIONAL ASSOCIATION,
Lender

By: /s/ Michael E Temnick
Name: Michael E Temnick
Title: Vice President

Address:

U.S. Bank National Association
425 Walnut St.
CN-OH-W8
Cincinnati, Ohio 45202
Attention: Michael Temnick
Telephone: 513-632-4133
Fax: 513-632-4894

Signature Page to Amendment No. 3

CADENCE BANK, N.A.,
Lender

By: /s/ H. Gale Smith, Jr.
Name: H. Gale Smith, Jr.
Title: Executive Vice President

Address:

Cadence Bank, N.A.
2800 Post Oak Boulevard, Suite 3800
Houston, Texas 77056
Attention: Gale Smith
Telephone: 713-871-3941
Fax: 713-634-4963

PRICING SCHEDULE

The applicable Eurodollar Margin, Base Rate Margin, Commitment Fee Rate and Letter of Credit Fee Rate shall be determined by the Agent in accordance with the following tables:

APPLICABLE MARGIN FOR REVOLVING LOAN ADVANCES	LEVEL I STATUS	LEVEL II STATUS	LEVEL III STATUS	LEVEL IV STATUS
Eurodollar Rate Margin	1.25%	1.50%	1.75%	2.00%
Base Rate Margin	0.25%	0.50%	0.75%	1.00%

APPLICABLE COMMITMENT FEE RATE	LEVEL I STATUS	LEVEL II STATUS	LEVEL III STATUS	LEVEL IV STATUS
Commitment Fee Rate	0.20%	0.25%	0.30%	0.35%

LETTER OF CREDIT FEE RATE	LEVEL I STATUS	LEVEL II STATUS	LEVEL III STATUS	LEVEL IV STATUS
LC Fee Rate	1.25%	1.50%	1.75%	2.00%

For the period beginning on the Amendment No. 3 Effective Date and continuing to the date on which the financial statements and certificates are first delivered by the Borrower thereafter pursuant to Section 6.2(a) and Section 6.2(b), as applicable, Level I Status shall apply. Notwithstanding the foregoing if the Borrower has failed to deliver the financial statements and certificates required by Section 6.2(a) and Section 6.2(b) then Level IV Status will be deemed to exist after two Business Days' notice from the Agent to the Borrower.

For the purposes of this Pricing Schedule, the following terms have the following meanings, subject to the final paragraph of this Pricing Schedule:

“Level I Status” exists for any day that the Total Leverage Ratio is less than 0.75 to 1.00.

“Level II Status” exists for any day that the Total Leverage Ratio is greater than or equal to 0.75 to 1.00 but is less than 1.50 to 1.00.

1

“Level III Status” exists for any day that the Total Leverage Ratio is greater than or equal to 1.50 to 1.00 but is less than 2.25 to 1.00.

“Level IV Status” exists for any day that the Total Leverage Ratio is greater than or equal to 2.25 to 1.00.

“Status” means either Level I Status, Level II Status, Level III Status or Level IV Status.

In the event that any financial statement delivered pursuant to this Agreement is shown to be inaccurate (regardless of whether this Agreement or the Commitments are in effect when such inaccuracy is discovered), and such inaccuracy, if corrected, would have led to the application of a higher Eurodollar Rate Margin or Base Rate Margin, as applicable, for any period (an “Applicable Period”) than the Eurodollar Rate Margin or Base Rate Margin, as applicable, applied for such Applicable Period, and only in such case, then the Borrower shall immediately (i) deliver to the Agent a corrected financial statement for such Applicable Period, (ii) determine the Eurodollar Rate Margin or Base Rate Margin, as applicable, for such Applicable Period based upon the corrected financial statement, and (iii) immediately pay to the Agent the accrued additional interest owing as a result of such increased Eurodollar Rate Margin or Base Rate Margin, as applicable for such Applicable Period, which payment shall be promptly applied by the Agent in accordance with the terms of this Agreement. This provision is in addition to rights of the Agent and Lenders with respect to Sections 2.5, 2.11, 6.10 and 8.1 and other of their respective rights under this Agreement.

2

SCHEDULE 3.1**LENDERS SCHEDULE**

Domestic Lending Office	Eurodollar Lending Office	Percentage Share	Revolving Loan Commitment
Wells Fargo Bank, N.A. 1000 Louisiana, 3rd Floor Houston, TX 77002 Telephone: (713) 319-1630 Fax: (713) 739-1086	Same	28.0%	\$ 70,000,000.00
BOKF, NA dba Bank of Texas 5 Houston Center	Same	14.0%	\$ 35,000,000.00

1401 McKinney, Suite 1650
Houston, Texas 77010
Telephone: (713) 289-5855
Fax: (713) 289-5825

Capital One, N.A. 5718 Westheimer, Suite 600 Houston, Texas 77057 Telephone: (713) 435-5024 Fax: (713) 706-5499	Same	14.0% \$	35,000,000.00
---	------	----------	---------------

Regions Bank 5005 Woodway Houston, Texas 77056 Telephone: (713) 426-7157 Fax: (713) 426-7180	Same	12.0% \$	30,000,000.00
--	------	----------	---------------

Branch Bank and Trust Company 200 W. 2 nd St., 16 th Floor Winston-Salem, North Carolina 27101 Telephone: (336) 733-2741 Fax: (336) 733-2740	Same	12.0% \$	30,000,000.00
--	------	----------	---------------

U.S. Bank National Association 425 Walnut St. CN-OH-W8 Cincinnati, Ohio 45202 Telephone: (513) 632-4133 Fax: (513) 632-4894	Same	10.0% \$	25,000,000.00
---	------	----------	---------------

Cadence Bank, N.A. 3500 Colonnade Pkwy, Suite 600 Birmingham, AL 35243 Telephone: (205) 488-3367 Fax: (205) 488-3320	Same	10.0% \$	25,000,000.00
--	------	----------	---------------

SECTION 5.13 to SCHEDULE 5

NAMES AND PLACES OF BUSINESS

<u>ENTITY NAME</u>	<u>ADDRESS TYPE</u>	<u>ADDRESS</u>	<u>PRIOR ADDRESSES</u>	<u>PRIOR NAMES & TRADE NAMES</u>
Comfort Systems USA, Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd Suite 500, Houston, Texas 77056	
ACI Mechanical, Inc.	Principal Place of Business	2182 231 st Lane Ames, Iowa 50014	3116 S. Duff Avenue, Ames, Iowa 50010	
ARC Comfort Systems USA, Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd., Suite 500, Houston, TX 77056	
Accu-Temp GP, Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd Suite 500, Houston, Texas 77056	
Accu-Temp LP, Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd Suite 500, Houston, Texas 77056	
Acorn Industrial, LLC	Principal Place of Business	7311 ACC Boulevard, Raleigh, North Carolina 27617		Acorn Industrial, Inc.
Air Systems Engineering, Inc.	Principal Place of Business	3602 South Pine Street, Tacoma, Washington 98409		
AirTemp, Inc.	Principal Place of Business	11 Wallace Avenue, South Portland, Maine 04106		
Atlas-Accurate Holdings, L.L.C.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd. Suite 500, Houston, Texas 77056	

<u>ENTITY NAME</u>	<u>ADDRESS TYPE</u>	<u>ADDRESS</u>	<u>PRIOR ADDRESSES</u>	<u>PRIOR NAMES & TRADE NAMES</u>
Atlas Comfort Systems USA, L.L.C.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	9745 Bent Oak Drive, Houston, Texas 77040	Atlas Air Conditioning Company, L.P.

			4133 Southerland, Houston, Texas 77092	Atlas Comfort Systems USA, L.P.
Batchelor's Mechanical Contractors, LLC	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	3110 Old Shell Road, Mobile, Alabama 36607	Atlas Comfort Systems USA Batchelor's Mechanical Contractors, Inc.
BCM Controls Corporation	Principal Place of Business	30 Commerce Way, Woburn, Massachusetts 01801	15444 Industrial Drive, Loxley, Alabama 36551	
California Comfort Systems USA, Inc.	Principal Place of Business	7740 Kenamar Court, San Diego, California 92121	9750 Distribution Avenue, San Diego, CA 92121	TCP Company
			650 Alpine Way, Escondido, CA 92029	
			4660 Viewridge Ave., San Diego, CA 92123	
ColonialWebb Contractors Company	Principal Place of Business	2820 Ackley Avenue, Richmond, Virginia 23228		Comfort Systems USA (Carolinas)
	Satellite	1600 Crossbeam Drive, Charlotte, North Carolina 28217		
	Satellite	1 Marcus Drive, Greenville, South Carolina 29615		
	Satellite	811 Pleasant Valley Road, Harrisonburg, Virginia 22801		
	Satellite	8509 Phoenix Drive, Manassas, Virginia 20110		

2

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
	Satellite	740C Bluecrab Road, Newport News, Virginia 23606		
	Satellite	3719 E. Virginia Beach Blvd., Norfolk, Virginia 23502	3302 Croft Street, Norfolk, Virginia 23513	
	Satellite	5171 Glenwood Avenue, Raleigh, North Carolina 27612		
	Satellite	1977 Snow Pointe Lane Bldg 7B Charlottesville, Virginia 22902	6450-E Merriman Road, Roanoke, Virginia 24018	
Comfort Systems USA (Arkansas), Inc.	Principal Place of Business	4806 Rixey Road, North Little Rock, Arkansas 72117		
	Satellite	116 Commercial Drive, Lowell, Arkansas 72745	1915 North Shiloh, Fayetteville, Arkansas 72704	
Comfort Systems USA (Baltimore), LLC	Principal Place of Business	675 Bering Drive, Suite 400 Houston, Texas 77057	3601 Commerce Drive, Suite 114, Baltimore, Maryland 21227	Comfort Systems USA (Baltimore), Inc.
			2105 Emmorton Park Road, Suite 104, Edgewood, Maryland 21040	Comfort Systems USA Federal Services, LLC
Comfort Systems USA (Bristol), Inc.	Principal Place of Business	294 Blevins Blvd., Bristol, Virginia 24203-0757		Fred Hayes Heating & Air Conditioning Service Co.
				Comfort Systems USA New River (Bristol)
	Satellite	6450 Merriman Road, Suite E Roanoke, Virginia 24018	106 St. John Road, Salem, Virginia 24153	
	Satellite	90 Old Shoals Road, Suite 108 Arden, North Carolina 28704		

3

<u>ENTITY NAME</u>	<u>ADDRESS TYPE</u>	<u>ADDRESS</u>	<u>PRIOR ADDRESSES</u>	<u>PRIOR NAMES & TRADE NAMES</u>
Comfort Systems USA Energy Services, Inc.	Principal Place of Business	7 Waterside Crossing, Windsor, Connecticut 06095	50 Baker Hollow Road Ste. A, Windsor, Connecticut 06095	Comfort Systems USA (Hartford), Inc.
	Satellite	650 S. Shackleford Road, #224, Little Rock, Arkansas 72211		
Comfort Systems USA G.P., Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd. Suite 500, Houston, Texas 77056	
Comfort Systems USA (Intermountain), Inc.	Principal Place of Business	2035 S. Milestone Drive, Salt Lake City, Utah 84104		Contract Services
				Salmon & Alder, LLC
				SA Associates, Inc.
				Martin Heating & Cooling Rademaker Corporation MELCO
Comfort Systems USA (Kentucky), Inc.	Principal Place of Business	3405 Robards Court, Louisville, Kentucky 40218		
Comfort Systems USA (MidAtlantic), LLC	Principal Place of Business	1057 Bill Tuck Highway, So Boston, Virginia 24592	5171 Glenwood Avenue, Suite 480, Raleigh, North Carolina 27612	Comfort Systems USA (Carolinas), Inc.
				Climate Control, Inc.
			6600 Northpark Blvd, Charlotte, North Carolina 28216	Climate Control, LLC
				CCI Systems, Inc.
Comfort Systems USA (Midwest), LLC	Principal Place of Business	2181 231 st Lane, Suite 1 Ames, Iowa 50014	1450 SE 69 th St. #57, Ankeny, Iowa 50021	
				3116 S. Duff Ave., Ames, Iowa 50010
				9103 Swanson Blvd., Suite 7, Clive, Iowa 50325
	Satellite	731 North Frontier Drive, Suite 8 Papillion, Nebraska 68046		

<u>ENTITY NAME</u>	<u>ADDRESS TYPE</u>	<u>ADDRESS</u>	<u>PRIOR ADDRESSES</u>	<u>PRIOR NAMES & TRADE NAMES</u>
Comfort Systems USA National Accounts, LLC	Principal Place of Business	2655 Fortune Circle West, Suite E-F, Indianapolis, Indiana 46241		Accu-Temp, LLC
Comfort Systems USA (Ohio), Inc.	Principal Place of Business	7401 First Place, Oakwood Village, Ohio 44146	30300 Bruce Industrial Parkway, Solon, Ohio 44139	
	Satellite	2874 E. Kemper Road, Sharonville, Ohio 45241		
	Satellite	3080 South Tech Blvd, Miamisburg, Ohio 45342		
	Satellite	690 A Lakeview Plaza Blvd., Worthington, Oh 43085	670 K Lakeview Plaza Blvd., Worthington, Oh 43085	
Comfort Systems USA Puerto Rico, Inc.	Principal Place of Business	P.O. Box 4956 Ste 1134, Caguas, Puerto Rico 00726-4956 Road #1, KM 27.5; Int. Sector El Barranco; B. Rio Canas; Caguas, Puerto Rico 00725	Caguas, PR 00726-4956 Carr #1KM -23 HM.O B.O. , Rio Guaynababo, PR 00970	James Air Conditioning Enterprises, Inc.
Comfort Systems USA (South Central), Inc.	Principal Place of Business	9745 Bent Oak Drive, Houston, Texas 77040		Accurate Air Systems, Inc.
				Atlas Comfort Systems USA
				Accurate Air Systems, L.P.

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
Comfort Systems USA (Southeast), Inc.	Principal Place of Business	435 Corday Street, Pensacola, Florida 32503		Comfort Systems USA (Atlanta), Inc. H & M Mechanical, Inc. Gulfside Mechanical, Inc. Neel Mechanical Contractors, Inc. Neel Mechanical, Inc. Batchelor's Mechanical Contractors
	Satellite	250 Commercial Drive, Thomasville, Georgia 31757		
	Satellite	13040 W. US Hwy 84, Newton, Alabama 36352	255 Southgate Road, Dothan, Alabama 36301	
	Satellite	3835 Gordon John Drive, Mobile, Alabama 36693	4251 Alden Drive, Mobile, Alabama 36693	
	Satellite	4518 Val North Drive, Valdosta, Georgia 31602		
	Satellite	1965 Vaughn Road, Suite B Kennesaw, Georgia 30144	2275 Northwest Parkway Rd., Suite 105, Bldg.3, Marietta, Georgia 30067	
	Satellite	8633 Elm Fair Blvd, Tampa, Florida 33610		
	Satellite	7826 McElvey Road, Panama City Beach, Florida 32408	3000 Highway 77, Ste B, Lynn Haven, Florida 32444	

6

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
Comfort Systems USA (Southwest), Inc.	Satellite	6074 Business Park Drive, Suite G, Columbus, Georgia 31909	3175 Williams Rd., Suite B, Columbus, Georgia 31909 2734 Ledo Road, Suite 10E, Albany, Georgia 31707	
	Satellite	309 James E. Williams Dr., #1, Byron, Georgia 31008		
	Principal Place of Business	6875 W. Galveston, Chandler, Arizona 85226		Conditioned Air Mechanical Services, Inc. The Bengtsson Group, Inc. Madera Mechanical Company Tri-City Mechanical, Inc. Air Management Services, Inc.
	Satellite	3275 West Ali Baba Lane, Suite 502, Las Vegas, Nevada 89118		
	Satellite	5046 Commercial Circle, Suite E, Concord, California 94520		
Satellite	1830 W. Copper St., Tucson, Arizona 85745	4925 E. 29 th , Tucson, Arizona 85711 3450 S. Broadmont Blvd., Suite 100, Tucson, AZ 85713 3250 S. Dodge Blvd #7, Tucson, Arizona 85713		

7

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
	Satellite	4516 Anaheim NE Albuquerque, New Mexico 87113	3733 E. Atlanta Avenue, Phoenix, Arizona 85040	
	Satellite	4189 Santa Anna Avenue, Suite C, Ontario, California 91761		
Comfort Systems USA (Syracuse), Inc.	Principal Place of Business	6500 New Venture Gear Drive, East Syracuse, New York 13057		Armani Plumbing & Mechanical ABJ Fire Protection Company Woodcock & Associates, Inc. Woodcock & Armani Billone Mechanical Contractors
	Satellite	3543 Winton Place, Suite 6 Rochester, New York 14623	375 Averill Ave, Rochester, New York 14620	
Comfort Systems USA (Texas), L.P.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd. Suite 500, Houston, Texas 77056	
Comfort Systems USA (Twin Cities), Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd, Suite 500, Houston, TX 77056 2611 Hamiline Avenue North, Suite 150, Roseville, MN 55113	
Comfort Systems USA (Western Michigan), Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd. Suite 500, Houston, Texas 77056 421 North Lafayette St., Greenville, MI 48838	

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
Control Concepts, LLC	Principal Place of Business	3550 North Parkway, Suite 100 Cumming, Georgia 30040		Control Concepts, Inc.
Control Concepts Mechanical Services, LLC	Principal Place of Business	3550 North Parkway, Suite 100 Cumming, Georgia 30040		Control Concepts Mechanical Services, Inc.
CS53 Acquisition Corp.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd. Suite 500, Houston, Texas 77056	
Delcard Associates, LLC	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	31 Blevins Drive, Suite A, Airport Industrial Park, New Castle, Delaware 19720	Delcard Heating & Air Conditioning, Inc.
Design Mechanical Incorporated	Principal Place of Business	168 CTC Blvd. Suite D, Louisville, Colorado 80027		Western Building Services, Inc. Breckenridge Mechanical, Inc.
	Satellite	0068 Continental Court Spaces B-7 and B-8 Breckenridge, Colorado 80424	112 Huron Road, Breckenridge, Colorado 80424	
Dillingham & Smith Mechanical and Sheet Metal Contractors, LLC	Principal Place of Business	2311 Kline Avenue, Nashville, Tennessee 37211		
Dyna Ten Corporation	Principal Place of Business	4375 Diplomacy Road, Fort Worth, Texas 76155		
Dyna Ten Maintenance Services, LLC	Principal Place of Business	4375 Diplomacy Road, Fort Worth, Texas 76155		
Eastern Heating & Cooling, Inc.	Principal Place of Business	880 Broadway, Albany, New York 12207-1316		

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
Eastern Refrigeration Co., Inc.	Principal Place of Business	880 Broadway, Albany, New York 12207-1316		
Granite State Holdings Company, Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd, Suite 500, Houston, Texas 77056	
Granite State Plumbing & Heating LLC	Principal Place of Business	10 N. Riverdale Road, Weare, New Hampshire 03281	26 Waterford Place, Gilford, New Hampshire 03249	
H&M Mechanical, Inc.	Principal Place of Business	3100 Richard Arrington Jr. Blvd. North Birmingham, Alabama 35203	135 Belcher Drive, Pelham, Alabama 35124 P.O. Box 36397 Birmingham, AL 35236 3977 Valley East Industrial Drive, Birmingham, Alabama 35217	Comfort Systems USA (Atlanta), Inc. Helm Corporation MidSouth Controls LLC
Helm Corporation	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	168 CTC Blvd. Suite D, Louisville, Colorado 80027	
Hess Mechanical Corporation	Principal Place of Business	9600 Fallard Court, Upper Marlboro, Maryland 20772-6703		
Hudson River Heating and Cooling, Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	10 Airline Drive Suite 205, Albany, New York 12205	
H-VAC Supply, L.L.C.	Principal Place of Business	P.O. Box 4956, Suite 1134, Caguas, Puerto Rico 00726-4956		
Mechanical Technical Services, Inc.	Principal Place of Business	1720 Royston Lane, Round Rock, Texas 78664	9601 Dessau Road, Bldg 3, Suite 303, Austin, Texas 78754	Mechanical Technical Services, L.P. MTECH

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
Merit Mechanical, Inc.	Principal Place of Business	9630 153 rd Ave NE, Redmond, Washington 98052		
MJ Mechanical Services, Inc.	Principal Place of Business	2040 Military Road, Tonawanda, New York 14150	300 Fire Tower Drive, Tonawanda, New York 14150	JM State Refrigeration Vastola Heating & Air Conditioning
North American Mechanical, Inc.	Principal Place of Business	4401 State Road 19 Windsor, Wisconsin 53598	6135 North American Lane, De Forest, Wisconsin 53532	Masterson Plumbing
	Satellite	2600 W. College Avenue, Ste 4, Appleton, Wisconsin 54914		
	Satellite	2524A Alpine Road Eau Claire, Wisconsin 54703		
Plant Services Incorporated	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd Suite 500, Houston, Texas 77056	
Quality Air Heating and Cooling, Inc.	Principal Place of Business	3395 Kraft Avenue, SE, Grand Rapids, Michigan 49512		Control Logic
	Satellite	2306 Winters Drive, Portage, Michigan 49002		
Riddleberger Brothers, Inc.	Principal Place of Business	6127 S. Valley Pike, Mount Crawford, Virginia 22841		
S.I. Goldman Company, Inc.	Principal Place of Business	799 Bennett Drive, Longwood, Florida 32750		Comfort Systems USA (Florida), Inc.
	Satellite	320 Melody Lane, Casselberry, Florida 32707		
S.M. Lawrence Company, Inc.	Principal Place of Business	245 Preston Street, Jackson, Tennessee 38301		Comfort Systems USA (Tennessee), Inc.

ENTITY NAME	ADDRESS TYPE	ADDRESS	PRIOR ADDRESSES	PRIOR NAMES & TRADE NAMES
	Satellite	156 Main St., Collierville, Tennessee 38017	667 Chaney Drive, Collierville, Tennessee 38017	
			1187 Vultee Blvd., Nashville, Tennessee 37217	
SA Associates, Inc.	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd., Suite 500, Houston, TX 77056	Salmon & Alder Associates
Salmon & Alder, LLC	Principal Place of Business	675 Bering Drive, Suite 400, Houston, Texas 77057	777 Post Oak Blvd., Suite 500, Houston, TX 77056	
Seasonair, Inc.	Principal Place of Business	16001-A Industrial Drive, Gaithersburg, Maryland 20877		
Temp Right Service, Inc.	Principal Place of Business	101 North Catlin, Missoula, Montana 59801		Carson Brothers
	Satellite	1639 MT Highway 35, Kalispell, Montana 59901		
The Capital Refrigeration Company	Principal Place of Business	619 E. Jefferson Street, Montgomery, Alabama 36104		
	Satellite	480 North Dean Road-Unit G-3, Auburn, Alabama 36830		

12

SECTION 5.14 to SCHEDULE 5

SUBSIDIARIES

ENTITY NAME	JURISDICTION OF ORGANIZATION	FORMATION DATE
ACI Mechanical, Inc.	Delaware	06/26/1998
ARC Comfort Systems USA, Inc.	Delaware	03/17/1998
Accu-Temp GP, Inc.	Delaware	05/21/1998
Accu-Temp LP, Inc.	Delaware	05/20/1998
Acorn Industrial, LLC	North Carolina	01/03/1997
Air Systems Engineering, Inc.	Washington	05/18/1973
AirTemp, Inc.	Maine	10/15/1998
Atlas-Accurate Holdings, L.L.C.	Delaware	12/28/1998
Atlas Comfort Systems USA, L.L.C.	Delaware	06/08/2007
Batchelor's Mechanical Contractors, LLC	Alabama	03/16/1981
BCM Controls Corporation	Massachusetts	10/03/1984
California Comfort Systems USA, Inc.	California	05/18/1983
ColonialWebb Contractors Company	Virginia	2/18/1977
Comfort Systems USA (Arkansas), Inc.	Delaware	03/17/1998
Comfort Systems USA (Baltimore), LLC	Delaware	10/15/1998
Comfort Systems USA (Bristol), Inc.	Delaware	08/25/1997
Comfort Systems USA Energy Services, Inc.	Delaware	08/25/1997
Comfort Systems USA G.P., Inc.	Delaware	08/12/1998
Comfort Systems USA (Intermountain), Inc.	Utah	05/06/1969
Comfort Systems USA (Kentucky), Inc.	Kentucky	02/10/1981
Comfort Systems USA (MidAtlantic), LLC	Virginia	01/01/2010
Comfort Systems USA (Midwest), LLC	Iowa	10/13/2009
Comfort Systems USA National Accounts, LLC	Indiana	07/28/1998
Comfort Systems USA (Ohio), Inc.	Ohio	10/10/1979
Comfort Systems USA Puerto Rico, Inc.	Puerto Rico	08/09/1991
Comfort Systems USA (South Central), Inc.	Texas	5/24/2007
Comfort Systems USA (Southeast), Inc.	Delaware	03/24/1998
Comfort Systems USA (Southwest), Inc.	Arizona	12/23/1997
Comfort Systems USA (Syracuse), Inc.	New York	03/08/1965
Comfort Systems USA (Texas), L.P.	Texas	08/14/1998

1

ENTITY NAME	JURISDICTION OF ORGANIZATION	FORMATION DATE
Comfort Systems USA (Twin Cities), Inc.	Minnesota	08/01/2001

Comfort Systems USA (Western Michigan), Inc.	Michigan	07/21/1989
Control Concepts, LLC	Georgia	12/16/1996
Control Concepts Mechanical Services, LLC	Georgia	01/17/2008
CS53 Acquisition Corp.	Delaware	01/26/1999
Delcard Associates, LLC	Delaware	06/23/2000
Design Mechanical Incorporated	Delaware	10/30/1997
Dillingham & Smith Mechanical and Sheet Metal Contractors, LLC	Tennessee	12/31/2003
Dyna Ten Corporation	Texas	06/26/1980
Dyna Ten Maintenance Services, LLC	Texas	08/07/2006
Eastern Heating & Cooling, Inc.	New York	12/19/1988
Eastern Refrigeration Co., Inc.	New York	01/30/1990
Granite State Holdings Company, Inc.	Delaware	11/02/2005
Granite State Plumbing & Heating, LLC	Delaware	07/31/2001
H & M Mechanical, Inc.	Delaware	06/25/1998
Helm Corporation	Colorado	10/26/1972
Hess Mechanical Corporation	Delaware	03/17/1998
Hudson River Heating and Cooling, Inc.	Delaware	08/19/2005
H-VAC Supply, L.L.C.	Puerto Rico	10/18/2006
Mechanical Technical Services, Inc.	Texas	05/24/2007
Merit Mechanical, Inc.	Washington	02/14/1984
MJ Mechanical Services, Inc.	Delaware	12/12/1997
North American Mechanical, Inc.	Delaware	03/17/1998
Plant Services Incorporated	Iowa	07/02/1986
Quality Air Heating and Cooling, Inc.	Michigan	09/10/1980
Riddleberger Brothers, Inc.	Virginia	12/22/1958
S.I. Goldman Company, Inc.	Florida	10/04/1976
S.M. Lawrence Company, Inc.	Tennessee	03/08/1973
SA Associates, Inc.	Utah	03/27/1984
Salmon & Alder, LLC	Utah	07/08/1996
Seasonair, Inc.	Maryland	10/28/1966
Temp Right Service, Inc.	Delaware	09/25/1997
The Capital Refrigeration Company	Delaware	08/06/1998

2

SCHEDULE 7.1

EXISTING INDEBTEDNESS

NONE.

1

SCHEDULE I

to

SECOND AMENDED AND RESTATED SECURITY AGREEMENT

Filing Jurisdictions

COMFORT SYSTEMS USA, INC. — SUBSIDIARIES

ENTITY NAME	DOMESTIC JURISDICTION	FORMATION DATE
Accu-Temp GP, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	05/21/1998
Accu-Temp LP, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	05/20/1998
ACI Mechanical, Inc. 2182 231st Lane Ames, IA 50014	Delaware	06/26/1998
Acorn Industrial, LLC 7311 ACC Boulevard Raleigh, NC 27617	North Carolina	01/03/1997
Air Systems Engineering, Inc. 3602 South Pine Street Tacoma, WA 98409	Washington	05/18/1973

AIRTEMP, INC. 11 Wallace Avenue South Portland, ME 04106	Maine	10/15/1998
ARC Comfort Systems USA, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	03/17/1998
Atlas-Accurate Holdings, L.L.C. 675 Bering, Suite 400 Houston, TX 77057	Delaware	12/28/1998
Atlas Comfort Systems USA, L.L.C. 675 Bering, Suite 400 Houston, TX 77057	Delaware	06/08/2007
Batchelor's Mechanical Contractors, LLC 675 Bering, Suite 400 Houston, TX 77057	Alabama	03/16/1981
BCM Controls Corporation 30 Commerce Way Woburn, MA 01801	Massachusetts	10/03/1984
California Comfort Systems USA, Inc. 7740 Kenamar Court San Diego, CA 92121	California	05/18/1983
ColonialWebb Contractors Company 2820 Ackley Avenue Richmond, VA 23228	Virginia	02/18/1977

ENTITY NAME	DOMESTIC JURISDICTION	FORMATION DATE
Comfort Systems USA (Arkansas), Inc. 4806 Rixey Road North Little Rock, AR 72117	Delaware	03/17/1998
Comfort Systems USA (Baltimore), LLC 675 Bering Drive, Suite 400 Houston, TX 77057	Delaware	10/15/1998
Comfort Systems USA (Bristol), Inc. 294 Blevins Blvd. Bristol, VA 24202	Delaware	08/25/1997
Comfort Systems USA Energy Services, Inc. 7 Waterside Crossing Windsor, CT 06095	Delaware	08/25/1997
Comfort Systems USA G.P., Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	08/12/1998
Comfort Systems USA (Intermountain), Inc. 2035 S. Milestone Drive Salt Lake City, UT 84104	Utah	05/06/1969
Comfort Systems USA (Kentucky), Inc. 3405 Robards Court Louisville, KY 40218	Kentucky	02/10/1981
Comfort Systems USA (MidAtlantic), LLC 1057 Bill Tuck Highway South Boston, VA 24592	Virginia	01/01/2010
Comfort Systems USA (Midwest), LLC 2182 231st Lane Ames, IA 50014	Iowa	10/13/2009
Comfort Systems USA National Accounts, LLC	Indiana	07/28/1998

2655 Fortune Circle West, Suite E & F Indianapolis, IN 46241		
Comfort Systems USA (Ohio), Inc. 7401 First Place Oakwood Village, OH 44146	Ohio	10/10/1979
Comfort Systems USA Puerto Rico, Inc. P.O. Box 4956, Suite 1134 Caguas, PR 00726	Puerto Rico	07/02/1991
Comfort Systems USA (South Central), Inc. 9745 Bent Oak Drive Houston, TX 77040	Texas	05/24/2007
Comfort Systems USA (Southeast), Inc. 435 Corday Street Pensacola, FL 32503	Delaware	03/24/1998
Comfort Systems USA (Southwest), Inc. 6875 W. Galveston Chandler, AZ 85226	Arizona	12/23/1977
Comfort Systems USA (Syracuse), Inc. 6500 New Venture Gear Drive East Syracuse, NY 13057	New York	03/08/1965

ENTITY NAME	DOMESTIC JURISDICTION	FORMATION DATE
Comfort Systems USA (Texas), L.P. 675 Bering, Suite 400 Houston, TX 77057	Texas	08/14/1998
Comfort Systems USA (Twin Cities), Inc. 675 Bering, Suite 400 Houston, TX 77057	Minnesota	08/01/2001
Comfort Systems USA (Western Michigan), Inc. 675 Bering, Suite 400 Houston, TX 77057	Michigan	07/21/1989
Control Concepts, LLC 3550 North Parkway, Suite 100 Cumming, GA 30040	Georgia	12/16/1996
Control Concepts Mechanical Services, LLC 3550 North Parkway, Suite 100 Cumming, GA 30040	Georgia	01/17/2008
CS53 Acquisition Corporation 675 Bering, Suite 400 Houston, TX 77057	Delaware	01/26/1999
Delcard Associates, LLC 675 Bering, Suite 400 Houston, TX 77057	Delaware	06/23/2000
Design Mechanical Incorporated 168 CTC Blvd., Suite #D Louisville, CO 80027	Delaware	10/30/1997
Dillingham & Smith Mechanical and Sheet Metal Contractors, LLC 2311 Kline Avenue Nashville, TN 37211	Tennessee	12/31/2003
Dyna Ten Corporation 4375 Diplomacy Road Fort Worth, TX 76155	Texas	06/26/1980
Dyna Ten Maintenance Services, LLC	Texas	08/07/2006

4375 Diplomacy Road Fort Worth, TX 76155		
Eastern Heating & Cooling, Inc. 880 Broadway Albany, NY 12207-1316	New York	12/19/1988
Eastern Refrigeration Co., Inc. 880 Broadway Albany, NY 12207-1316	New York	01/30/1990
Granite State Holdings Company, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	11/02/2005
Granite State Plumbing & Heating, LLC 10 N. Riverdale Road Weare, NH 03281	Delaware	07/31/2001

<u>ENTITY NAME</u>	<u>DOMESTIC JURISDICTION</u>	<u>FORMATION DATE</u>
H & M Mechanical, Inc. 3100 Richard Arrington Jr. Blvd. North Birmingham, AL 35203	Delaware	06/25/1998
Helm Corporation 675 Bering, Suite 400 Houston, TX 77057	Colorado	10/26/1972
Hess Mechanical Corporation 9600 Fallard Court Upper Marlboro, MD 20772-6703	Delaware	03/17/1998
Hudson River Heating and Cooling, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	08/19/2005
H-VAC Supply, L.L.C. P.O. Box 4956, Suite 1134 Caguas, PR 00726	Puerto Rico	10/18/06
Mechanical Technical Services, Inc. 1720 Royston Lane Round Rock, TX 78664	Texas	05/24/2007
Merit Mechanical, Inc. 9630 153 rd Ave NE Redmond, WA 98052	Washington	02/14/1984
MJ Mechanical Services, Inc. 2040 Military Road Tonawanda, NY 14150	Delaware	12/12/1997
North American Mechanical, Inc. 4401 State Road 19 Windsor, WI 53598	Delaware	03/17/1998
Plant Services Incorporated 675 Bering, Suite 400 Houston, TX 77057	Iowa	07/02/1986
Quality Air Heating & Cooling, Inc. 3395 Kraft Avenue, SE Grand Rapids, MI 49512	Michigan	09/10/1980
Riddleberger Brothers, Inc. 6127 S. Valley Pike Mount Crawford, VA 22841	Virginia	12/22/1958
S.I. Goldman Company, Inc. 799 Bennett Drive	Florida	10/04/1976

Longwood, FL 32750		
S.M. Lawrence Company, Inc. 245 Preston Street Jackson, TN 38301	Tennessee	03/08/1973
SA Associates, Inc. 675 Bering, Suite 400 Houston, TX 77057	Utah	03/27/1984
Salmon & Alder, L.L.C. 675 Bering, Suite 400 Houston, TX 77057	Utah	07/08/1996

4

<u>ENTITY NAME</u>	<u>DOMESTIC JURISDICTION</u>	<u>FORMATION DATE</u>
Seasonair, Inc. 16001-A Industrial Drive Gaithersburg, MD 20877	Maryland	10/28/1966
Temp Right Service, Inc. 101 North Catlin Missoula, MT 59801	Delaware	09/25/1997
The Capital Refrigeration Company 619 E. Jefferson Street Montgomery, AL 36104	Delaware	08/06/1998

5

SCHEDULE III
to
SECOND AMENDED AND RESTATED SECURITY AGREEMENT

Schedule of Organizational Identification, Offices, Locations of Collateral and Records Concerning Collateral

<u>Grantor Official Name, Address of Principal Place of Business and Location of Records of Collateral</u>	<u>State of Organization</u>	<u>Entity Type</u>	<u>Charter/ID Number</u>	<u>Prior Names & Trade Names</u>
Accu-Temp GP, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Corporation	2898499	
Accu-Temp LP, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Corporation	2898748	
ACI Mechanical, Inc. 2182 231 st Lane Ames, IA 50014	Delaware	Corporation	2913899	
Acorn Industrial, LLC 7311 ACC Boulevard Raleigh, NC 27617	North Carolina	Limited Liability Company	0414387	Acorn Industrial, Inc.
Air Systems Engineering, Inc. 3602 South Pine Street Tacoma, WA 98409	Washington	Corporation	600099211	
AIRTEMP, INC. 11 Wallace Avenue South Portland, ME 04106	Maine	Corporation	20130432D	
ARC Comfort Systems USA, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Corporation	2872674	
Atlas-Accurate Holdings, L.L.C. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Limited Liability Company	2985409	
Atlas Comfort Systems USA, L.L.C. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Limited Liability Company	4367814	Atlas Air Conditioning Company, L.P.; Atlas Comfort Systems USA, L.P.; Atlas Comfort Systems USA; Atlas Comfort Systems Nevada; Comfort Systems USA Las Vegas

1

Grantor Official Name, Address of Principal Place of Business and Location of Records of Collateral	State of Organization	Entity Type	Charter/ID Number	Prior Names & Trade Names
Batchelor's Mechanical Contractors, LLC 675 Bering, Suite 400 Houston, TX 77057	Alabama	Limited Liability Company	D/C 081 557	Batchelor's Mechanical Contractors, Inc.
BCM Controls Corporation 30 Commerce Way Woburn, MA 01801	Massachusetts	Corporation	042842193	
California Comfort Systems USA, Inc. 7740 Kenamar Court San Diego, CA 92121	California	Corporation	1201196	TCP Company
ColonialWebb Contractors Company 2820 Ackley Avenue Richmond, VA 23228	Virginia	Corporation	0137512-0	Comfort Systems USA (Carolinas), LLC
Comfort Systems USA (Arkansas), Inc. 4806 Rixey Road North Little Rock, AR 72117	Delaware	Corporation	2872673	
Comfort Systems USA (Baltimore), LLC 675 Bering Drive, Suite 400 Houston, TX 77057	Delaware	Limited Liability Company	2955787	Comfort Systems USA (Baltimore), Inc.; Comfort Systems USA Federal Services, LLC
Comfort Systems USA (Bristol), Inc. 294 Blevins Blvd. Bristol, VA 24202	Delaware	Corporation	2783665	Fred Hayes Heating & Air Conditioning Service Co.; Comfort Systems USA New River (Bristol)
Comfort Systems USA Energy Services, Inc. 7 Waterside Crossing Windsor, CT 06095	Delaware	Corporation	2788605	Comfort Systems USA (Hartford), Inc.
Comfort Systems USA G.P., Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Corporation	2932812	
Comfort Systems USA (Intermountain), Inc. 2035 S. Milestone Drive Salt Lake City, UT 84104	Utah	Corporation	04982	Contract Services; Salmon & Alder, LLC; SA Associates, Inc.; Martin Heating & Cooling
Comfort Systems USA (Kentucky), Inc. 3405 Robards Court Louisville, KY 40218	Kentucky	Corporation	0153687	Rademaker Corporation; MELCO Industries, Inc.

Grantor Official Name, Address of Principal Place of Business and Location of Records of Collateral	State of Organization	Entity Type	Charter/ID Number	Prior Names & Trade Names
Comfort Systems USA (MidAtlantic), LLC 1057 Bill Tuck Highway South Boston, VA 24592	Virginia	Limited Liability Company	S313150-7	Comfort Systems USA (Carolinas), Inc.; Climate Control, Inc.; Climate Control, LLC; CCI Systems, Inc.
Comfort Systems USA (Midwest), LLC 2182 231st Lane Ames, IA 50014	Iowa	Limited Liability Company	387726	
Comfort Systems USA National Accounts, LLC 2655 Fortune Circle West, Suite E & F Indianapolis, IN 46241	Indiana	Limited Liability Company	1998071673	Accu-Temp, LLC
Comfort Systems USA (Ohio), Inc. 7401 First Place Oakwood Village, OH 44146	Ohio	Corporation	543269	
Comfort Systems USA Puerto Rico, Inc. P.O. Box 4956, Suite 1134 Caguas, PR 00726	Puerto Rico	Corporation	78,907	James Air Conditioning Enterprises, Inc.
Comfort Systems USA (South Central), Inc. 9745 Bent Oak Drive Houston, TX 77040	Texas	Corporation	801702880	Atlas Comfort Systems USA; Accurate Air Systems, L.P.; Accurate Air Systems, Inc.
Comfort Systems USA (Southeast), Inc. 435 Corday Street Pensacola, FL 32503	Delaware	Corporation	2875705	Comfort Systems USA (Atlanta), Inc.; H & M Mechanical, Inc.; Gulfside Mechanical, Inc.; Neel Mechanical Contractors, Inc.; Neel Mechanical, Inc.; Batchelor's Mechanical Contractors
Comfort Systems USA (Southwest), Inc. 6875 W. Galveston	Arizona	Corporation	113419	Conditioned Air Mechanical Services, Inc.; The Bengtsson

Grantor Official Name, Address of Principal Place of Business and Location of Records of Collateral	State of Organization	Entity Type	Charter/ID Number	Prior Names & Trade Names
Comfort Systems USA (Syracuse), Inc. 6500 New Venture Gear Drive East Syracuse, NY 13057	New York	Corporation	N/A	Armani Plumbing & Mechanical; ABJ Fire Protection Company; Woodcock & Associates, Inc.; Woodcock & Armani; Billone Mechanical Contractors
Comfort Systems USA (Texas), L.P. 675 Bering, Suite 400 Houston, TX 77057	Texas	Limited Partnership	00111578-10	
Comfort Systems USA (Twin Cities), Inc. 675 Bering, Suite 400 Houston, TX 77057	Minnesota	Corporation	2P-1011	
Comfort Systems USA (Western Michigan), Inc. 675 Bering, Suite 400 Houston, TX 77057	Michigan	Corporation	341-042	
Control Concepts, LLC 3550 North Parkway, Suite 100 Cumming, GA 30040	Georgia	Limited Liability Company	12058032	Control Concepts, Inc.
Control Concepts Mechanical Services, LLC 3550 North Parkway, Suite 100 Cumming, GA 30040	Georgia	Limited Liability Company	12058034	Control Concepts Mechanical Services, Inc.
CS53 Acquisition Corporation 675 Bering, Suite 400 Houston, TX 77057	Delaware	Corporation	2997337	
Delcard Associates, LLC 675 Bering, Suite 400 Houston, TX 77057	Delaware	Limited Liability Company	3250401	Delcard Heating & Air Conditioning, Inc.
Design Mechanical Incorporated 168 CTC Blvd., Suite #D Louisville, CO 80027	Delaware	Corporation	2814928	Western Building Services, Inc.; Breckenridge Mechanical, Inc.
Dillingham & Smith Mechanical and Sheet Metal Contractors, LLC 2311 Kline Avenue Nashville, TN 37211	Tennessee	Limited Liability Company	000460366	

Grantor Official Name, Address of Principal Place of Business and Location of Records of Collateral	State of Organization	Entity Type	Charter/ID Number	Prior Names & Trade Names
Dyna Ten Corporation 4375 Diplomacy Road Fort Worth, TX 76155	Texas	Corporation	00523341-00	
Dyna Ten Maintenance Systems, LLC 4375 Diplomacy Road Fort Worth, TX 76155	Texas	Limited Liability Company	800690724	
Eastern Heating & Cooling, Inc. 880 Broadway Albany, NY 12207-1316	New York	Corporation	N/A	
Eastern Refrigeration Co., Inc. 880 Broadway Albany, NY 12207-1316	New York	Corporation	N/A	
Granite State Holdings Company, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Corporation	4054936	
Granite State Plumbing & Heating, LLC 10 N. Riverdale Road Weare, NH 03281	Delaware	Limited Liability Company	3420719	
H & M Mechanical, Inc. 3100 Richard Arrington Jr. Blvd. North Birmingham, AL 35203	Delaware	Corporation	2913102	Comfort Systems USA (Atlanta), Inc.; Helm Corporation; MidSouth Controls LLC
Helm Corporation 675 Bering, Suite 400 Houston, TX 77057	Colorado	Corporation	19871249912	

Hess Mechanical Corporation 9600 Fallard Court Upper Marlboro, MD 20772-6703	Delaware	Corporation	2872661	
Hudson River Heating and Cooling, Inc. 675 Bering, Suite 400 Houston, TX 77057	Delaware	Corporation	4018441	
H-VAC Supply, L.L.C. P.O. Box 4956, Suite 1134 Caguas, PR 00726	Puerto Rico	Limited Liability Company	423	

5

<u>Grantor Official Name, Address of Principal Place of Business and Location of Records of Collateral</u>	<u>State of Organization</u>	<u>Entity Type</u>	<u>Charter/ID Number</u>	<u>Prior Names & Trade Names</u>
Mechanical Technical Services, Inc. 1720 Royston Lane Round Rock, TX 78664	Texas	Corporation	801702874	Mechanical Technical Services, L.P.; MTECH
Merit Mechanical, Inc. 9630 153 rd Ave NE Redmond, WA 98052	Washington	Corporation	600517946	
MJ Mechanical Services, Inc. 2040 Military Road Tonawanda, NY 14150	Delaware	Corporation	2832395	JM State Refrigeration; Vastola Heating & Air Conditioning
North American Mechanical, Inc. 4401 State Road 19 Windsor, WI 53598	Delaware	Corporation	2872663	Masterson Plumbing
Plant Services Incorporated 675 Bering, Suite 400 Houston, TX 77057	Iowa	Corporation	109676	
Quality Air Heating & Cooling, Inc. 3395 Kraft Avenue, SE Grand Rapids, MI 49512	Michigan	Corporation	233-444	Control Logic
Riddleberger Brothers, Inc. 6127 S. Valley Pike Mount Crawford, VA 22841	Virginia	Corporation	0081890	
S.I. Goldman Company, Inc. 799 Bennett Drive Longwood, FL 32750	Florida	Corporation	515751	Comfort Systems USA (Florida), Inc.
S.M. Lawrence Company, Inc. 245 Preston Street Jackson, TN 38301	Tennessee	Corporation	000018143	Comfort Systems USA (Tennessee), Inc.
SA Associates, Inc. 675 Bering, Suite 400 Houston, TX 77057	Utah	Corporation	108921	Salmon & Alder Associates
Salmon & Alder, L.L.C. 675 Bering, Suite 400 Houston, TX 77057	Utah	Limited Liability Company	LC014499	

6

<u>Grantor Official Name, Address of Principal Place of Business and Location of Records of Collateral</u>	<u>State of Organization</u>	<u>Entity Type</u>	<u>Charter/ID Number</u>	<u>Prior Names & Trade Names</u>
Seasonair, Inc. 16001-A Industrial Drive Gaithersburg, MD 20877	Maryland	Corporation	D0193599	
Temp Right Service, Inc. 101 North Catlin Missoula, MT 59801	Delaware	Corporation	2800213	Carson Brothers
The Capital Refrigeration Company 619 E. Jefferson Street Montgomery, AL 36104	Delaware	Corporation	2930477	

Names of Persons from whom a Grantor has acquired assets during the past two (2) years, other than assets acquired in the ordinary course of business:

Air Management Services, Inc.: assets acquired by Comfort Systems USA (Southwest), Inc. (1/2/14)

Innovative Energy Solutions, LLC: assets acquired by Comfort Systems USA (Ohio), Inc. (6/1/14)

7

to
SECOND AMENDED AND RESTATED PLEDGE AGREEMENT

Part A
Pledged Shares

	Pledged Entity	Class of Common Stock	Stock Certificate Number(s)	Number of Shares	Pledgor(s)/Percentage of Outstanding Shares
1.	Accu-Temp GP, Inc.	Common	CS1	100	100% of shares owned by Borrower
2.	Accu-Temp LP, Inc.	Common	CS1	100	100% of shares owned by Borrower
3.	ACI Mechanical, Inc.	Common	CS1	100	100% of shares owned by Borrower
4.	Acorn Industrial, LLC	Common	N/A	N/A	100% of member interest — Comfort Systems USA (MidAtlantic), LLC
5.	Air Systems Engineering, Inc.	Common	CS1	100	100% of shares owned by Borrower
6.	AIRTEMP, INC.	Common	CS1	100	100% of shares owned by Borrower
7.	ARC Comfort Systems USA, Inc.	Common	CS1	100	100% of shares owned by Borrower
8.	Atlas-Accurate Holdings, L.L.C.	N/A	N/A	N/A	100% member interest — CS53 Acquisition Corp.
9.	Atlas Comfort Systems USA, L.L.C.	N/A	N/A	N/A	100% member interest — Hess Mechanical Corporation
10.	Batchelor's Mechanical Contractors, LLC	N/A	N/A	N/A	100% of member interest — H & M Mechanical, Inc.
11.	BCM Controls Corporation	Common	CS1	100	100% of shares owned by Borrower
12.	California Comfort Systems USA, Inc.	Common	CS1	100	100% of shares owned by Borrower
13.	ColonialWebb Contractors Company	Common	CS1	100	100% of shares owned by Borrower
14.	Comfort Systems USA (Arkansas), Inc.	Common	CS1	100	100% of shares owned by Borrower
15.	Comfort Systems USA (Baltimore), LLC	N/A	N/A	N/A	100% member interest — Hess Mechanical Corporation
16.	Comfort Systems USA (Bristol), Inc.	Common	CS1	100	100% of shares owned by Borrower
17.	Comfort Systems USA Energy Services, Inc.	Common	CS1	100	100% of shares owned by Borrower
18.	Comfort Systems USA G.P., Inc.	Common	CS1	100	100% of shares owned by Borrower
19.	Comfort Systems USA (Intermountain), Inc.	Common	CS1	100	100% of shares owned by Borrower
20.	Comfort Systems USA (Kentucky), Inc.	Common	CS1	100	100% of shares owned by Borrower
21.	Comfort Systems USA (MidAtlantic), LLC	N/A	N/A	N/A	100% member interest — Riddleberger Brothers, Inc.
22.	Comfort Systems USA (Midwest), LLC	N/A	N/A	N/A	100% member interest — Plant Services Incorporated

1

	Pledged Entity	Class of Common Stock	Stock Certificate Number(s)	Number of Shares	Pledgor(s)/Percentage of Outstanding Shares
23.	Comfort Systems USA National Accounts, LLC	N/A	N/A	N/A	1% member interest — Accu-Temp GP, Inc. 99% member interest — Accu-Temp LP, Inc.
24.	Comfort Systems USA (Ohio), Inc.	Common	CS1	100	100% of shares owned by Borrower
25.	Comfort Systems USA Puerto Rico, Inc.	Common	CS1	100	100% of shares owned by Borrower
26.	Comfort Systems USA (South Central), Inc.	Common	CS1	100	100% of shares owned by Borrower
27.	Comfort Systems USA (Southeast), Inc.	Common	CS1	100	100% of shares owned by Borrower
28.	Comfort Systems USA (Southwest), Inc.	Common	CS1	100	100% of shares owned by Borrower
29.	Comfort Systems USA (Syracuse), Inc.	Common	CS1	100	100% of shares owned by Borrower
30.	Comfort Systems USA (Texas), L.P.	N/A	N/A	N/A	1% general partner interest — Comfort Systems USA GP, Inc. 99% limited partner interest — Tri-City Mechanical, Inc.
31.	Comfort Systems USA (Twin Cities), Inc.	Common	CS1	100	100% of shares owned by Borrower
32.	Comfort Systems USA (Western Michigan), Inc.	Common	CS1	100	100% of shares owned by Borrower
33.	Control Concepts, LLC	Common	N/A	N/A	100% of member interest — Comfort Systems USA (Southeast), Inc.
34.	Control Concepts Mechanical Services, LLC	Common	N/A	N/A	100% of member interest — Comfort Systems USA (Southeast), Inc.
35.	CS53 Acquisition Corporation	Common	CS1	100	100% of shares owned by Borrower

36.	Delcard Associates, LLC	N/A	N/A	N/A	100% of member interest — Seasonair, Inc.
37.	Design Mechanical Incorporated	Common	CS1	100	100% of shares owned by Borrower
38.	Dillingham & Smith Mechanical and Sheet Metal Contractors, LLC	N/A	N/A	N/A	100% member interest — Comfort Systems USA (Tennessee), Inc.
39.	Dyna Ten Corporation	Common	CS1	100	100% of shares owned by Borrower
40.	Dyna Ten Maintenance Services, LLC	N/A	N/A	N/A	100% member interest — Dyna Ten Corporation
41.	Eastern Heating & Cooling, Inc.	Common	CS1	100	100% of shares owned by Borrower
42.	Eastern Refrigeration Co., Inc.	Common	CS1	100	100% of shares owned by Borrower
43.	Granite State Holdings Company, Inc.	Common	CS1	100	100% of shares owned by Borrower

2

	<u>Pledged Entity</u>	<u>Class of Common Stock</u>	<u>Stock Certificate Number(s)</u>	<u>Number of Shares</u>	<u>Pledgor(s)/Percentage of Outstanding Shares</u>
44.	Granite State Plumbing & Heating, LLC	N/A	N/A	N/A	100% membership interest — Granite State Holdings Company, Inc.
45.	H & M Mechanical, Inc.	Common	CS1	100	100% of shares owned by Borrower
46.	Helm Corporation	Common	CS1	100	100% of shares owned by Borrower
47.	Hess Mechanical Corporation	Common	CS1	100	100% of shares owned by Borrower
48.	Hudson River Heating and Cooling, Inc.	Common	CS1	100	100% of shares owned by Borrower
49.	H-VAC Supply, L.L.C.	N/A	N/A	N/A	100% member interest — Comfort Systems USA Puerto Rico, Inc.
50.	Mechanical Technical Services, Inc.	Common	CS1	100	100% of shares owned by Borrower
51.	Merit Mechanical, Inc.	Common	CS1	100	100% of shares owned by Borrower
52.	MJ Mechanical Services, Inc.	Common	CS1	100	100% of shares owned by Borrower
53.	North American Mechanical, Inc.	Common	CS1	100	100% of shares owned by Borrower
54.	Plant Services Incorporated	Common	CS1	100	100% of shares owned by Borrower
55.	Quality Air Heating & Cooling, Inc.	Common	CS1	100	100% of shares owned by Borrower
56.	Riddleberger Brothers, Inc.	Common	CS1	100	100% of shares owned by Borrower
57.	S.I. Goldman Company, Inc.	Common	CS1	750	100% of shares owned by Borrower
58.	S.M. Lawrence Company, Inc.	Common	CS1	100	100% of shares owned by Borrower
59.	SA Associates, Inc.	Common	CS1	100	100% of shares owned by Borrower
60.	Salmon & Alder, L.L.C.	N/A	N/A	N/A	100% membership interest — SA Associates, Inc.
61.	Seasonair, Inc.	Common	CS1	1,544,000	100% of shares owned by Borrower
62.	Temp Right Service, Inc.	Common	CS1	100	100% of shares owned by Borrower
63.	The Capital Refrigeration Company	Common	CS1	100	100% of shares owned by Borrower

3

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes Oxley Act of 2002**

I, Brian E. Lane, certify that:

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

Date: October 29, 2014

/s/ BRIAN E. LANE

Brian E. Lane
President and Chief Executive Officer

QuickLinks

[Exhibit 31.1](#)

[CERTIFICATION OF CHIEF EXECUTIVE OFFICER Pursuant to Section 302 of the Sarbanes Oxley Act of 2002](#)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, William George, certify that:

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

Date: October 29, 2014

/s/ WILLIAM GEORGE

William George
Executive Vice President and Chief Financial Officer

QuickLinks

[Exhibit 31.2](#)

[CERTIFICATION OF CHIEF FINANCIAL OFFICER Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

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

In connection with the Quarterly Report of Comfort Systems USA, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian E. Lane, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: October 29, 2014

/s/ BRIAN E. LANE

Brian E. Lane
President and Chief Executive Officer

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

QuickLinks

[Exhibit 32.1](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

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

In connection with the Quarterly Report of Comfort Systems USA, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William George, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: October 29, 2014

/s/ WILLIAM GEORGE

William George
Executive Vice President and Chief Financial Officer

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

QuickLinks

[Exhibit 32.2](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)