



Comfort Systems USA Reports Third Quarter Results

November 12, 2003

Sequential Operating Income and Margin Growth

Continued Cost Containment

Houston, TX – November 12, 2003 – Comfort Systems USA, Inc. (NYSE: FIX), a leading provider of commercial, industrial and institutional heating, ventilation and air conditioning (“HVAC”) services, today announced net income of \$175,000 or \$0.00 per diluted share, for the quarter ended September 30, 2003, as compared to net income of \$3,740,000 or \$0.10 per diluted share, in the third quarter of 2002. Net income from continuing operations for the quarter was \$2,806,000 or \$0.07 per diluted share in the third quarter of 2003. Excluding the restructuring charges, net income from continuing operations was \$3,423,000 or \$0.09 per diluted share for the quarter as compared to \$3,581,000 or \$0.09 per diluted share in the third quarter of 2002. The Company reported revenues from continuing operations of \$210,198,000 in the current quarter as compared to \$212,071,000 in 2002.

Bill Murdy, Comfort Systems USA's Chairman and CEO, said, “Our third quarter reflected another period of steady progress for Comfort Systems USA. While industry activity levels were still restrained, our same-store revenues during the quarter increased 1.3% year-over-year, our best top-line comparison over the past two and a half years of very difficult industry conditions. In addition, excluding a modest restructuring charge, operating margins were up from the second quarter and virtually unchanged from last year's third quarter. This reflects our best year-over-year margin comparison in over a year, as our diligent cost containment kept pace with continuing gross margin pressure.”

The Company reported net income from continuing operations of \$1,336,000 or \$0.04 per diluted share for the first nine months of 2003 as compared to net income from continuing operations of \$4,578,000 or \$0.12 per diluted share for the first nine months of 2002. Excluding restructuring charges in both years, and a nonrecurring credit for a favorable receivables settlement in 2002, net income from continuing operations was \$3,431,000 or \$0.09 per diluted share for the first nine months of 2003 as compared to \$5,279,000 or \$0.14 per diluted share for the same period in 2002. The Company reported revenues of \$592,029,000 from continuing operations for the current year to date, as compared to \$609,836,000 in 2002.

Murdy continued, “We continue to see signs of improving conditions in our industry. Recent economic and industry measures have taken positive turns, and commentary from the major industry manufacturers is cautiously optimistic, including continuing recognition of the build-up of deferred maintenance and replacement needs in the installed HVAC base. Based on these trends, our 2004 planning and budgeting work, and our ongoing focus on improving operating execution, we continue to expect that our 2004 results will be significantly better than 2003.”

The Company will host a conference call to discuss its financial results and position in more depth on Wednesday, November 12, 2003 at 10:00 a.m. Central Time. The call-in number for this conference call is 1-630-395-0024. A replay of the entire call will be available until 6:00 p.m. Central Time, Wednesday, November 19, 2003 by calling 1-402-998-1545.

Comfort Systems USA is a premier provider of business solutions addressing workplace comfort, with 84 locations in 57 cities around the nation. For more information, visit the Company's website at www.comfortsystemsusa.com.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current plans and expectations of Comfort Systems USA, Inc. and involve risks and uncertainties that could cause 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, among others, the lack of a combined operating history and the difficulty of integrating formerly separate businesses, retention of key management, national and regional declines in non-residential construction activity, difficulty in obtaining or increased costs associated with debt financing or bonding, shortages of labor and specialty building materials, seasonal fluctuations in the demand for HVAC systems and the use of incorrect estimates for bidding a fixed price contract and other risks detailed in the Company's reports filed with the Securities and Exchange Commission.

– Financial table follows –

Comfort Systems USA, Inc.
Consolidated Statements of Operations
For the Three Months and Nine Months Ended September 30, 2003 and 2002
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2003	%	2002	%	2003	%	2002	%
Revenues	\$ 210,198	100.0%	\$ 212,071	100.0%	\$ 592,029	100.0%	\$ 609,836	100.0%
Cost of services	174,771	83.1%	172,726	81.4%	494,873	83.6%	502,552	82.4%
Gross profit	35,427	16.9%	39,345	18.6%	97,156	16.4%	107,284	17.6%
SG&A	28,064	13.4%	31,665	14.9%	87,712	14.8%	93,876	15.4%
Restructuring charges	949	0.5%	—	—	3,223	0.5%	1,878	0.3%
Income from operations	6,414	3.1%	7,680	3.6%	6,221	1.1%	11,530	1.9%
Interest expense, net	1,078	0.5%	947	0.4%	3,495	0.6%	3,919	0.6%
Other expense (income)	(42)	—	(116)	(0.1%)	105	—	(1,232)	(0.2%)
Income before taxes	5,378	2.6%	6,849	3.2%	2,621	0.4%	8,843	1.5%
Income taxes	2,572	—	3,268	—	1,285	—	4,265	—
Income from continuing operations	2,806	1.3%	3,581	1.7%	1,336	0.2%	4,578	0.8%
Discontinued operations:								
Operating income (loss), net of applicable income tax benefit (expense) of \$92, \$91, \$(174) and \$1,655	142		159		281		353	
Estimated loss on disposition, including income tax expense of \$43, \$0, \$274 and \$25,887	(2,773)		—		(3,685)		(11,156)	
Income (loss) before cumulative effect of change in accounting principle	175		3,740		(2,068)		(6,225)	
Cumulative effect of change in accounting principle, net of income tax benefit of \$26,317	—		—		—		(202,521)	
Net income (loss)	\$ 175		\$ 3,740		\$ (2,068)		\$ (208,746)	

Income (loss) per share:				
Basic-				
Income from continuing operations	\$ 0.07	\$ 0.10	\$ 0.04	\$ 0.12
Discontinued operations -				
Income (loss) from operations	—	—	0.01	0.01
Estimated loss on disposition	(0.07)	—	(0.10)	(0.29)
Cumulative effect of change in accounting principle	—	—	—	(5.37)
Net income (loss)	<u>\$ —</u>	<u>\$ 0.10</u>	<u>\$ (0.05)</u>	<u>\$ (5.53)</u>
Diluted -				
Income from continuing operations	\$ 0.07	\$ 0.09	\$ 0.04	\$ 0.12
Discontinued operations -				
Income (loss) from operations	—	0.01	0.01	—
Estimated loss on disposition	(0.07)	—	(0.10)	(0.29)
Cumulative effect of change in accounting principle	—	—	—	(5.30)
Net income (loss)	<u>\$ —</u>	<u>\$ 0.10</u>	<u>\$ (0.05)</u>	<u>\$ (5.47)</u>
Shares used in computing income (loss) per share:				
Basic	37,713	37,834	37,659	37,736
Diluted	38,454	38,131	38,081	38,192

Note 1: The diluted earnings per share data presented above reflects the dilutive effect, if any, of stock options, convertible notes, warrants and contingently issuable restricted stock which were outstanding during the periods presented.

Supplemental Information (Unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2003	% of Revenues	2002	% of Revenues	2003	% of Revenues	2002	% of Revenues
Income from operations	\$ 6,414		\$ 7,680		\$ 6,221		\$ 11,530	
Restructuring charges	949		—		3,223		1,878	
Kmart reserve reversal	—		—		—		(800)	
Income from operations, excluding restructuring charges and Kmart reserve reversal	\$ 7,363	3.5%	\$ 7,680	3.6%	\$ 9,444	1.6%	\$ 12,608	2.1%
Net income (loss)	\$ 175		\$ 3,740		\$ (2,068)		\$ (208,746)	
Cumulative effect of change in accounting principle	—		—		—		202,521	
Discontinued operations	2,631		(159)		3,404		10,803	
Income taxes	2,572		3,268		1,285		4,265	
Other expense (income)	(42)		(116)		105		(1,232)	
Interest expense, net	1,078		947		3,495		3,919	
Depreciation	1,293		1,677		3,996		4,948	
Restructuring charges	949		—		3,223		1,878	
Kmart reserve reversal	—		—		—		(800)	
EBITDA	\$ 8,656	4.1%	\$ 9,357	4.4%	\$ 13,440	2.3%	\$ 17,556	2.9%
Income from continuing operations (after tax)	\$ 2,806		\$ 3,581		\$ 1,336		\$ 4,578	
Restructuring charges (after tax)	617		—		2,095		1,221	
Kmart reserve reversal (after tax)	—		—		—		(520)	
Income from continuing operations (after tax), excluding restructuring charges and Kmart reserve reversal	\$ 3,423	1.6%	\$ 3,581	1.7%	\$ 3,431	0.6%	\$ 5,279	0.9%
Diluted earnings per share-income from continuing operations (after tax), excluding restructuring charges and Kmart reserve reversal	\$ 0.09		\$ 0.09		\$ 0.09		\$ 0.14	

Note 1: Income from operations, excluding restructuring charges and Kmart reserve reversal is presented because the Company believes it reflects the results of the core ongoing operations of the Company. However, this measure is not considered a primary measure of an entity's financial results under generally accepted accounting principles, and accordingly, this amount should not be considered an alternative to operating income as determined under generally accepted accounting principles and as reported by the Company.

Note 2: The Company defines earnings before interest, taxes, depreciation and amortization (EBITDA) as net income (loss), excluding cumulative effect of change in accounting principle, discontinued operations, income taxes, other expense (income), interest expense, net, depreciation, restructuring charges and Kmart reserve reversal. EBITDA may be defined differently by other companies. EBITDA is presented because it is a financial measure that is frequently requested by capital market participants in evaluating the Company. However, EBITDA is not considered under generally accepted accounting principles as a primary measure of an entity's financial results, and accordingly, EBITDA should not be considered an alternative to operating income, net income, or cash flows as determined under generally accepted accounting principles and as reported by the Company.

Note 3: The bottom two calculations in the above table show income from continuing operations (after tax) and related earnings per share information excluding restructuring charges and Kmart reserve reversal. The tax rate on these items was computed using the pro forma effective tax rate of the Company exclusive of these charges.

Comfort Systems USA, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2003 <u>(unaudited)</u>	December 31, 2002
Cash and cash equivalents	\$ 7,820	\$ 6,017
Accounts receivable, net	170,737	166,274
Costs and estimated earnings in excess of billings	16,520	17,811
Assets related to discontinued operations	1,405	7,221
Other current assets	<u>26,791</u>	<u>30,391</u>
Total current assets	223,273	227,714
Property and equipment, net	14,054	15,972
Goodwill	109,471	109,471
Other noncurrent assets	<u>11,298</u>	<u>13,378</u>
Total assets	<u>\$ 358,096</u>	<u>\$ 366,535</u>
Current maturities of long-term debt	\$ 4,385	\$ 1,780
Accounts payable	57,528	56,330
Billings in excess of costs and estimated earnings	29,313	26,633
Liabilities related to discontinued operations	672	1,723
Other current liabilities	<u>48,910</u>	<u>61,187</u>
Total current liabilities	140,808	147,653
Long-term debt, net of discount	10,732	10,604
Other long-term liabilities	<u>3,365</u>	<u>3,192</u>
Total liabilities	154,905	161,449
Total equity	<u>203,191</u>	<u>205,086</u>
Total liabilities and equity	<u>\$ 358,096</u>	<u>\$ 366,535</u>

Selected Cash Flow Data (in thousands) (unaudited):

	<u>Three Months Ended</u> <u>September 30.</u>		<u>Nine Months Ended</u> <u>September 30.</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Cash flow from operating activities	\$ (6,437)	\$ 12,114	\$ 5,143	\$ 13,807
Cash flow from investing activities	\$ (510)	\$ (844)	\$ (5,096)	\$ 151,785
Cash flow from financing activities	\$ 3,352	\$ (13,269)	\$ 1,669	\$ (165,592)
Cash flow from operating activities	\$ (6,437)	\$ 12,114	\$ 5,143	\$ 13,807
Taxes paid related to the sale of businesses	—	—	10,371	—
Purchases of property and equipment	(714)	(974)	(2,661)	(4,044)
Proceeds from sales of property and equipment	<u>208</u>	<u>196</u>	<u>319</u>	<u>1,330</u>
Free cash flow	\$ (6,943)	\$ 11,336	\$ 13,172	\$ 11,093

Note 1: The Company defines free cash flow as cash flow from operating activities less items related to certain transactions such as sales of businesses and customary capital expenditures plus the proceeds from asset sales. Other companies may define free cash flow differently. Free cash flow is presented because it is a financial measure that is frequently requested by capital market participants in evaluating the Company. 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 cash flows as determined under generally accepted accounting principles and as reported by the Company.

Note 2: Cash flow information for 2002 includes the results of discontinued operations, including the 19 operations sold to Emcor in the first quarter of 2002.