



Comfort Systems Announces Second Quarter Results

August 5, 2003

Significant Earnings Improvement From the First Quarter

Continued Strong Cash Flow

Houston, TX – August 5, 2003 – Comfort Systems USA, Inc. (NYSE: FIX), a leading provider of commercial/industrial heating, ventilation and air conditioning (“HVAC”) services, today announced net income of \$2,573,000 or \$0.07 per diluted share, for the quarter ended June 30, 2003, as compared to net income of \$4,768,000 or \$0.12 per diluted share, in the second quarter of 2002. Net income from continuing operations for the quarter was \$2,606,000 or \$0.07 per diluted share in the second quarter of 2003 as compared to \$5,103,000 or \$0.13 per diluted share in the second quarter of 2002. The Company reported revenues from continuing operations of \$202,355,000 in the current quarter as compared to \$211,500,000 in 2002.

Bill Murdy, Comfort Systems USA's Chairman and CEO, said, “Our second quarter earnings marked a substantial improvement from the first quarter even as difficult conditions persisted in our industry and in the general economy. We also continued our consistent record of free cash flow performance, with another strong showing this quarter at \$13,095,000. In addition, we maintained a steady backlog heading into the second half.”

The Company reported a net loss from continuing operations of \$1,397,000 or \$0.04 per diluted share for the first six months of 2003 as compared to net income from continuing operations of \$1,102,000 or \$0.03 per diluted share for the first six months of 2002. The Company reported revenues of \$384,769,000 from continuing operations for the current year to date, as compared to \$401,126,000 in 2002.

Murdy continued, “While we are pleased with our improvement in our second quarter earnings over the first quarter and expect further improvement in the third quarter, general industry and economic conditions have not yet improved to the degree we and other industry participants expected earlier this year. As a result, we now believe our full-year 2003 results will be comparable to 2002's results, rather than higher than 2002 results as indicated in our first quarter reports. However, we and other industry participants do continue to expect improving conditions over the next year. This is based in part on what is believed to be mounting maintenance and replacement needs in the broad installed base of HVAC equipment, as it appears these activities have been deferred by many facility owners in the difficult economy of the last couple of years. In addition, we continue to see signs of increasing industry activity in response to modest improvement in the general economic outlook. We believe these indications are consistent with the traditional lag between activity levels in our industry and overall economic activity. In view of these factors, along with our ongoing focus on cost containment, we expect our 2004 results to show significant improvement over the current year.

“We also want to acknowledge the superb work of the Comfort Systems USA field and support organizations in producing profits and cash flow in what remains a challenging operating environment. And our people once again widened the substantial margin by which our safety record exceeds the industry average. Their efforts are also focused on building our company as an industry leader for the long term. The Comfort Systems USA team is the foundation of our future success.”

The Company will host a conference call to discuss its financial results and position in more depth on Wednesday, August 6, 2003 at 10:00 a.m. Central Time. The call-in number for this conference call is 1-210-234-0020. A replay of the entire call will be available until 5:00 p.m. Central Time, Wednesday, August 13, 2003 by calling 1-402-220-0305.

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, difficulty in obtaining or increased costs associated with debt financing or bonding, retention of key management, national and regional declines in non-residential construction activity, 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 Six Months Ended June 30, 2003 and 2002
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2003	%	2002	%	2003	%	2002	%
Revenues	\$ 202,355	100.0%	\$ 211,500	100.0%	\$ 384,769	100.0%	\$401,126	100.0%
Cost of services	167,553	82.8%	172,986	81.8%	322,215	83.7%	332,362	82.9%
Gross profit	34,802	17.2%	38,514	18.2%	62,554	16.3%	68,764	17.1%
SG&A	29,400	14.5%	30,480	14.4%	60,349	15.7%	62,873	15.7%
Restructuring charges	1,112	0.5%	—	—	2,274	0.6%	1,878	0.5%
Income (loss) from operations	4,290	2.1%	8,034	3.8%	(69)	—	4,013	1.0%
Interest expense, net	1,058	0.5%	1,094	0.5%	2,422	0.6%	2,963	0.7%
Other expense (income)	(102)	(0.1%)	(804)	(0.4%)	147	—	(1,116)	(0.3%)
Income (loss) before taxes	3,334	1.6%	7,744	3.7%	(2,638)	(0.7%)	2,166	0.5%
Income taxes	728	—	2,641	—	(1,241)	—	1,064	—
Income (loss) from continuing operations	2,606	1.3%	5,103	2.4%	(1,397)	(0.4%)	1,102	0.3%
Discontinued operations:								
Operating income (loss), net of applicable income tax benefit (expense) of \$18, \$90, \$(36) and \$1,813	(33)		(166)		66		89	
Estimated loss on disposition, including income tax benefit (expense) of \$0, \$91, \$(231) and \$(25,887)	—		(169)		(912)		(11,156)	
Income (loss) before cumulative effect of change in accounting principle	2,573		4,768		(2,243)		(9,965)	
Cumulative effect of change in accounting principle, net of income tax benefit of \$26,317	—		—		—		(202,521)	
Net income (loss)	\$ 2,573		\$ 4,768		\$ (2,243)		\$ (212,486)	
Income (loss) per share:								
Basic-								
Income (loss) from continuing operations	\$ 0.07		\$ 0.13		\$ (0.04)		\$ 0.03	
Discontinued operations -								
Income (loss) from operations	—		—		—		—	
Estimated loss on disposition	—		—		(0.02)		(0.30)	
Cumulative effect of change in accounting principle	—		—		—		(5.37)	
Net income (loss)	\$ 0.07		\$ 0.13		\$ (0.06)		\$ (5.64)	
Diluted -								
Income (loss) from continuing operations	\$ 0.07		\$ 0.13		\$ (0.04)		\$ 0.03	
Discontinued operations -								
Income (loss) from operations	—		—		—		—	
Estimated loss on disposition	—		(0.01)		(0.02)		(0.29)	
Cumulative effect of change in accounting principle	—		—		—		(5.30)	
Net income (loss)	\$ 0.07		\$ 0.12		\$ (0.06)		\$ (5.56)	
Shares used in computing income (loss) per share:								
Basic	37,640		37,839		37,631		37,687	
Diluted	37,983		38,476		38,804		38,237	

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				Six Months Ended			
	June 30,				June 30,			
	2003	%	2002	%	2003	%	2002	%
Income (loss) from operations	\$ 4,290		\$ 8,034		\$ (69)		\$ 4,013	
Restructuring charges	1,112		—		2,274		1,878	
Kmart reserve reversal	—		(800)		—		(800)	
Income from operations, excluding restructuring charges and Kmart reserve reversal	\$ 5,402	2.7%	\$ 7,234	3.4%	\$ 2,205	0.6%	\$ 5,091	1.3%
Net income (loss)	\$ 2,573		\$ 4,768		\$ (2,243)		\$ (212,486)	
Cumulative effect of change in accounting principle	—		—		—		202,521	
Discontinued operations	33		335		846		11,067	
Income taxes	728		2,641		(1,241)		1,064	
Other expense (income)	(102)		(804)		147		(1,116)	
Interest expense, net	1,058		1,094		2,422		2,963	
Depreciation	1,387		1,683		2,723		3,294	
Restructuring charges	1,112		—		2,274		1,878	
Kmart reserve reversal	—		(800)		—		(800)	
EBITDA	\$ 6,789	3.4%	\$ 8,917	4.2%	\$ 4,928	1.3%	\$ 8,385	2.1%
Income (loss) from continuing operations (after tax)	\$ 2,606		\$ 5,103		\$ (1,397)		\$ 1,102	
Restructuring charges (after tax)	723		—		1,478		1,221	
Kmart reserve reversal (after tax)	—		(520)		—		(520)	
Income from continuing operations (after tax), excluding restructuring charges and Kmart reserve reversal	\$ 3,329	1.6%	\$ 4,583	2.2%	\$ 81	—	\$ 1,803	0.4%
Diluted earnings per share-income from continuing operations (after tax), excluding restructuring charges and Kmart reserve reversal	\$ 0.09		\$ 0.12		\$ —		\$ 0.05	

Note 1: Income (loss) 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 (loss) 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)

	June 30, 2003 (unaudited)	December 31, 2002
Cash and cash equivalents	\$ 11,415	\$ 6,083
Accounts receivable, net	164,423	167,177
Costs and estimated earnings in excess of billings	15,996	17,881
Assets related to discontinued operations	—	2,643
Other current assets	<u>28,032</u>	<u>30,759</u>
Total current assets	219,866	224,543
Property and equipment, net	14,831	16,072
Goodwill	112,545	112,545
Other noncurrent assets	<u>12,185</u>	<u>13,375</u>
Total assets	<u>\$ 359,427</u>	<u>\$ 366,535</u>
Current maturities of long-term debt	\$ 2,166	\$ 1,780
Accounts payable	64,215	56,496
Billings in excess of costs and estimated earnings	30,271	26,672
Liabilities related to discontinued operations	—	1,017
Other current liabilities	<u>47,457</u>	<u>61,688</u>
Total current liabilities	144,109	147,653
Long-term debt, net of discount	9,421	10,604
Other long-term liabilities	<u>3,085</u>	<u>3,192</u>
Total liabilities	156,615	161,449
Total equity	<u>202,812</u>	<u>205,086</u>
Total liabilities and equity	<u>\$ 359,427</u>	<u>\$ 366,535</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Cash flow from operating activities	\$ 13,923	\$ 10,955	\$ 11,580	\$ 1,693
Cash flow from investing activities	\$ (3,502)	\$ 10,130	\$ (4,586)	\$ 152,629
Cash flow from financing activities	\$ (10,335)	\$ (18,316)	\$ (1,683)	\$ (152,323)
Cash flow from operating activities	\$ 13,923	\$ 10,955	\$ 11,580	\$ 1,693
Taxes paid related to the sale of businesses	—	—	10,371	—
Purchases of property and equipment	(860)	(936)	(1,947)	(3,070)
Proceeds from sales of property and equipment	<u>32</u>	<u>963</u>	<u>111</u>	<u>1,134</u>
Free cash flow	\$ 13,095	\$ 10,982	\$ 20,115	\$ (243)

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 as 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.