UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

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.)

777 POST OAK BOULEVARD
SUITE 500
HOUSTON, TEXAS 77056
(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 [X] No [ ]

The number of shares outstanding of the issuer's common stock, as of November 13, 2000, was 37,286,284.

COMFORT SYSTEMS USA, INC.
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2000

COMFORT SYSTEMS USA, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
		(UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,664	$ 7,700
Accounts receivable, less allowance of $5,568 and $7,917	309,031	360,517
Other receivables	4,575	5,981
Inventories	20,907	19,908
Prepaid expenses and other	19,891	29,908
Costs and estimated earnings in excess of billings	54,575	48,151
Total current assets	412,643	472,165
PROPERTY AND EQUIPMENT, net	41,964	46,260
GOODWILL, less accumulated amortization of $20,665 and $30,131	474,529	458,064
OTHER NONCURRENT ASSETS	14,136	4,842
Total assets	$943,272	$981,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,353	$ 221
Current maturities of notes to affiliates and former owners	24,536	15,499
Accounts payable	96,032	119,814
Accrued compensation and benefits	36,187	41,602
Billings in excess of costs and estimated earnings	52,170	67,768
Other current liabilities	27,799	29,137
Total current liabilities	240,077	274,041
DEFERRED INCOME TAXES	4,547	6,746
LONG-TERM DEBT, NET OF CURRENT MATURITIES	225,471	248,069
NOTES TO AFFILIATES AND FORMER OWNERS, NET OF CURRENT MATURITIES	52,473	35,187
OTHER LONG-TERM LIABILITIES	1,739	586
Total liabilities	524,307	564,629
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, 39,258,913 shares issued	393	393
Treasury stock, at cost, 1,695,524 and 1,927,821 shares, respectively	(11,978)	(12,923)
Additional paid-in capital	342,655	341,923
Retained earnings	87,895	87,309
Total stockholders' equity	418,965	416,702
Total liabilities and stockholders' equity	$943,272	$981,331

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,	
	1999	2000	1999	2000
REVENUES	$374,815	$423,922	$1,008,234	$1,191,458
COST OF SERVICES	298,480	352,838	792,482	978,869
Gross profit	76,335	71,084	215,752	212,589
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	45,793	58,021	133,984	169,182
GOODWILL AMORTIZATION	2,983	3,151	8,650	9,483
RESTRUCTURING CHARGES	--	9,959	--	10,313
Operating income (loss)	27,559	(47)	73,118	23,611
OTHER INCOME (EXPENSE):				
Interest income	209	105	598	483
Interest expense	(5,265)	(7,122)	(14,078)	(19,900)
Other	89	588	192	678
Other income (expense)	(4,967)	(6,429)	(13,288)	(18,739)
REDUCTIONS IN NON-OPERATING ASSETS AND LIABILITIES, NET	--	--	--	(5,190)
INCOME (LOSS) BEFORE INCOME TAXES	22,592	(6,476)	59,830	(318)
INCOME TAX EXPENSE (BENEFIT)	9,724	(2,787)	25,753	268
NET INCOME (LOSS)	$ 12,868	$ (3,689)	$ 34,077	$ (586)
NET INCOME (LOSS) PER SHARE:				
Basic	$ 0.33	$ (0.10)	$ 0.88	$ (0.02)
Diluted	$ 0.33	$ (0.10)	$ 0.86	$ (0.02)
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:				
Basic	39,060	37,265	38,705	37,429
Diluted	39,531	37,265	40,335	37,429

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	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT			
BALANCE AT DECEMBER 31, 1998.........	38,141,180	$381	--	$ --	$333,978	$45,573	$379,932
Issuance of Common Stock:							
Acquisition of purchased companies......................	958,533	10	125,197	885	6,164	--	7,059
Issuance of Employee Stock Purchase Plan shares...........	142,276	2	--	--	2,036	--	2,038
Issuance of shares for options exercised......................	16,924	--	--	--	477	--	477
Common Stock repurchases...........	--	--	(1,820,721)	(12,863)	--	--	(12,863)
Net income..........................	--	--	--	--	--	42,322	42,322
BALANCE AT DECEMBER 31, 1999.........	39,258,913	393	(1,695,524)	(11,978)	342,655	87,895	418,965
Issuance of Common Stock:							
Issuance of Employee Stock Purchase Plan shares (unaudited)....................	--	--	329,212	2,254	(732)	--	1,522
Common Stock repurchases (unaudited)......................	--	--	(175,513)	(1,224)	--	--	(1,224)
Shares exchanged in repayment of notes receivable (unaudited).....	--	--	(385,996)	(1,975)	--	--	(1,975)
Net loss (unaudited)...............	--	--	--	--	--	(586)	(586)
BALANCE AT SEPTEMBER 30, 2000 (unaudited)........................	39,258,913	$393	(1,927,821)	$(12,923)	$341,923	$87,309	$416,702

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

COMFORT SYSTEMS USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 34,077	$ (586)
Adjustments to reconcile net income (loss) to net cash provided by operating activities --		
Restructuring charges	--	10,313
Reductions in non-operating assets and liabilities, net	--	5,190
Depreciation and amortization expense	16,955	18,413
Bad debt expense	656	3,864
Deferred tax expense (benefit)	(639)	101
Gain on sale of property and equipment	(280)	(636)
Changes in operating assets and liabilities, net of effects of acquisitions of purchased companies --		
(Increase) decrease in --		
Receivables, net	(46,153)	(54,815)
Inventories	(3,032)	867
Prepaid expenses and other current assets	(41)	1,919
Costs and estimated earnings in excess of billings	(17,294)	6,615
Other noncurrent assets	1,076	1,533
Increase (decrease) in --		
Accounts payable and accrued liabilities	16,875	16,272
Billings in excess of costs and estimated earnings	1,074	15,446
Other, net	(1,001)	(1,192)
Net cash provided by operating activities	2,273	23,304
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(11,360)	(14,687)
Proceeds from sales of property and equipment	1,020	1,477
Cash paid for purchased companies, net of cash acquired	(27,448)	--
Other	(500)	--
Net cash used in investing activities	(38,288)	(13,210)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(154,486)	(235,772)
Borrowings of long-term debt	188,860	229,416
Proceeds from issuance of common stock	2,258	1,522
Repurchases of common stock	--	(1,224)
Net cash provided by (used in) financing activities	36,632	(6,058)
NET INCREASE IN CASH AND CASH EQUIVALENTS	617	4,036
CASH AND CASH EQUIVALENTS, beginning of period	6,985	3,664
CASH AND CASH EQUIVALENTS, end of period	$ 7,602	$ 7,700

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

1. BUSINESS AND ORGANIZATION:

Comfort Systems USA, Inc., a Delaware corporation ("Comfort Systems" and collectively with its subsidiaries, the "Company"), is a leading national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services. The Company operates primarily in the commercial and industrial HVAC markets, and performs most of its services within manufacturing plants, office buildings, retail centers, apartment complexes, and healthcare, education and government facilities. In addition to standard HVAC services, the Company provides specialized applications such as process cooling, control systems, electronic monitoring and process piping. Certain locations also perform related services such as electrical and plumbing.

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 for the year ended December 31, 1999 (the "Form 10-K").

There were no significant changes in the accounting policies of the Company during the periods presented. For a description of the significant accounting policies of the Company, refer to Note 2 of Notes to Consolidated Financial Statements of Comfort Systems included in 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. Accordingly, these financial statements do not include all information or footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Form 10-K. The Company believes 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 fiscal year.

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 revenues, expenses, assets, liabilities and contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

CASH FLOW INFORMATION

Cash paid for interest for the nine months ended September 30, 1999 and 2000 was approximately $12.0 million and $18.8 million, respectively. Cash paid for income taxes for the nine months ended September 30, 1999 and 2000 was approximately $23.0 million and $12.1 million, respectively.

ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). This standard requires entities to recognize all derivative instruments (including certain derivative instruments embedded in other contracts) as assets or liabilities in its balance sheet and measure them at fair value. The statement requires that changes in the derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS No. 133, as amended, is effective for the Company beginning January 1, 2001. The Company is currently evaluating SFAS No. 133 and the impact on existing accounting policies and financial reporting disclosures. The Company does not expect the adoption of SFAS No. 133 to have a significant impact on the Company's results of operations or financial position.

RECLASSIFICATIONS

Certain reclassifications have been made in prior period financial statements to conform to current period presentation.

3. RESTRUCTURING CHARGES:

During the three and nine months ended September 30, 2000, the Company recorded restructuring charges of approximately $10.0 million and $10.3 million, respectively, associated primarily with restructuring efforts at certain underperforming operations. As announced by the Company in the second quarter of 2000, management has been performing an extensive review of its operations. As part of this ongoing review, management decided to cease operating at two operating locations, sell two smaller satellite operations, and merge one small company into a larger operation. These actions are expected to be substantially complete by the end of 2000. The restructuring charges associated with these actions are primarily non-cash and include goodwill impairments of approximately $7.1 million and the writedown of other long-lived assets of approximately $0.9 million. The remaining restructuring items primarily include severance and lease termination costs. Severance costs relate to the departure of the Company's former chief executive officer and to the termination of approximately 20 employees including certain corporate personnel and the management of certain underperforming locations. The following table shows the portions of the restructuring charges that are expected to result in cash disbursements, and how much of those amounts had been paid by September 30, 2000 (in thousands):

	TOTAL ACCRUAL	PAYMENTS	BALANCE AT SEPTEMBER 30, 2000
Severance	$1,303	$(487)	$ 816
Lease termination costs and other	1,040	(82)	958
Total	$2,343	$(569)	$1,774

Aggregated financial information related to the operations addressed by restructuring is as follows (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30, 1999	2000
Revenues	$14,653	$18,381
Operating loss	$ (96)	$(6,304)

The Company is continuing its extensive review of its operations and activities which are not strategic. This review includes further core commercial/industrial HVAC operations as well as the Company's expanded e-commerce activities, and will likely result in decisions to cease operating at or sell additional operations. Management expects this effort to be substantially complete by year-end.

4. REDUCTIONS IN NON-OPERATING ASSETS AND LIABILITIES, NET:

During the quarter ended June 30, 2000, the Company recorded a non-cash charge of approximately $5.2 million primarily related to the impairment of certain non-operating assets. These assets primarily related to notes receivable from former business owners. In addition, the Company recorded an impairment of approximately $0.8 million to its minority investment in two entities associated with the distribution and implementation of high-end engineering and design software. The Company also recorded a gain of approximately $0.6 million on the reduction of its subordinated note payable to a former owner in connection with the settlement of claims with this former owner.

5. BUSINESS COMBINATIONS:

During 1999, the Company acquired 25 businesses which were accounted for as purchases. These companies provide HVAC and related services. The aggregate consideration paid in these transactions was $38.0 million in cash, 1,151,907 shares of the Company's common stock ("Common Stock") with a fair value at the dates of acquisition totaling $8.5 million, $2.2 million in the form of convertible subordinated notes and $21.3 million in the form of subordinated notes. In addition, the Company received 68,177 shares from a former owner related to a prior year acquisition. Subsequent to the issuance of certain of the convertible subordinated notes, the Company entered into agreements with certain of the convertible noteholders to modify the terms of $2.1 million of these notes to eliminate the provisions relating to convertibility into Common Stock. The remaining convertible subordinated notes are convertible into 5,133 shares of Common Stock.

There were no acquisitions during the nine months ended September 30, 2000.

The accompanying balance sheets include allocations of the respective purchase prices to the assets acquired and liabilities assumed based on preliminary estimates of fair value and are subject to final adjustment.

The unaudited pro forma data presented below consists of the income statement data presented in these consolidated financial statements plus income statement data for the purchased companies as if the acquisitions were effective on January 1, 1999 through the respective dates of acquisitions (in thousands, except per share data):

	NINE MONTHS ENDED SEPTEMBER 30, 1999
Revenues	$1,062,327
Net income	$ 34,095
Net income per share -- diluted	$ 0.85
Shares used in computing net income per share -- diluted	40,922

Pro forma adjustments included in the preceding table regarding the purchased companies primarily relate to (a) certain reductions in salaries and benefits to the former owners of the purchased companies which the former owners agreed would take effect as of the acquisition date, (b) amortization of goodwill related to the purchased companies, (c) interest expense on borrowings of $38.0 million used in the acquisition of the purchased companies, and (d) interest expense related to subordinated notes issued in the acquisition of certain of the purchased companies. In addition, an incremental tax provision has been recorded as if all applicable purchased companies had been subject to federal and state income taxes.

The pro forma results presented above are not necessarily indicative of actual results which might have occurred had the operations and management teams of the Company and the purchased companies been combined at the beginning of the period presented.

6. LONG-TERM DEBT OBLIGATIONS:

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

	DECEMBER 31, 1999	SEPTEMBER 30, 2000
		(UNAUDITED)
Revolving credit facility	$225,215	$247,700
Notes to affiliates and former owners	77,009	50,686
Other	3,609	590
Total debt	305,833	298,976
Less: current maturities	27,889	15,720
	$277,944	$283,256

REVOLVING CREDIT FACILITY

The Company has a revolving credit facility (the "Credit Facility" or the "Facility") provided by Bank One, Texas, N.A. ("Bank One") and other banks (the "Bank Group"). The Credit Facility provides the Company with a revolving line of credit of up to the lesser of $280 million or 80% of net accounts receivable. Borrowings under the Facility are secured by accounts receivable, inventory, fixed assets other than real estate, and the shares of capital stock of the Company's subsidiaries. The Credit Facility expires on November 1, 2001, at which time all amounts outstanding are due. The Company has a choice of two interest rate options under the Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus 0.5% or Bank One's prime rate. An additional margin of 1% to 2% is then added to the higher of these two rates. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate LIBOR) plus 2.25% to 3.5%. The additional margin for both options depends on the ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization, ("EBITDA") as defined. Commitment fees of 0.375% to 0.5% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the Facility.

The Credit Facility prohibits payment of dividends by the Company, limits certain non-Bank Group debt, and restricts outlays of cash by the Company relating to certain investments, capital expenditures, vehicle leases, acquisitions and principal repayments of subordinate debt. The Credit Facility also provides for the maintenance of certain levels of shareholder equity and EBITDA, and for the maintenance of certain ratios of the Company's EBITDA to interest expense and debt to EBITDA.

Under the terms of the Credit Facility that were in effect as of June 30, 2000, the Company was in violation of two of the Facility's financial balance and ratio requirements, in both cases by small amounts. The Bank Group waived these violations. In connection with these waivers, the Bank Group increased certain interest charges, introduced a minimum EBITDA requirement and reduced the requirements of the ratios of EBITDA to interest expense and debt to EBITDA. As of September 30, 2000, the Company was in violation of several of the Facility's financial balance and ratio requirements, primarily as a result of the restructuring charges the Company recorded in the third quarter. The Bank Group has waived these violations. In connection with these waivers, the Bank Group increased certain interest charges and agreed to exclude aggregate restructuring charges recorded in 2000 of up to $27.5 million before taxes from consideration in determining the Company's compliance with the financial balance and ratio requirements of the Facility. In addition, the Bank Group agreed to reduce the requirements of financial balances and ratios for the Company's 2000 results.

As of September 30, 2000, the Company had $247.7 million in borrowings outstanding under the Credit Facility and had incurred interest expense at an average rate of approximately 8.6% per annum for the first nine months of 2000. The Credit Facility's interest rate terms as summarized above are effective as of November 13, 2000 and will result in an increase of approximately 0.30% in the additional margin and related costs the Company pays in excess of the indicated market interest rate in either of the interest rate options. As of September 30, 2000, the Company also had $2.2 million in letters of credit outstanding under the Facility, and unused borrowing capacity under the Facility of $50.1 million. As of November 13, 2000, $230.0 million in borrowings and $2.2 million in letters of credit were outstanding under the Facility, and $47.8 million in unused capacity was available.

INTENDED REFINANCINGS

Earlier this year, the Company intended to refinance a portion of its variable-rate debt under the Credit Facility with fixed-rate private placement debt. In anticipation of this transaction, the Company entered into interest rate lock agreements to hedge against increases in market interest rates. In the second quarter of 2000, the Company elected not to complete this refinancing and terminated the interest lock agreements at a nominal gain. In connection with this refinancing, the Company also had intended to significantly decrease the size of the Credit Facility. As disclosed by the Company in May 2000, if this had occurred, the Company would have recognized extraordinary charges of approximately $0.01 to $0.02 per share for the write-off of a portion of the deferred issuance costs of the Credit Facility. Because the Company no longer intends to significantly reduce the Credit Facility as contemplated in the second quarter, it no longer expects such charges will be necessary.

The Company is considering steps to extend the maturity of, or otherwise refinance, its borrowings under the Credit Facility. These amounts currently mature in November 2001.

NOTES TO AFFILIATES AND FORMER OWNERS

Subordinated notes were issued to former owners of certain purchased companies as part of the consideration used to acquire their companies. These notes had an outstanding balance of $50.7 million as of September 30, 2000. Of these notes, $50.3 million bear interest, payable quarterly, at a weighted average interest rate of 5.79% and $0.4 million are non-interest bearing. In addition, $1.2 million of these notes are convertible by the holders into shares of the Company's Common Stock at a weighted average price of $25.27 per share. The scheduled maturities of the subordinated notes are $3.4 million in 2000, $24.4 million in 2001, $22.0 million in 2002, and $0.9 million in 2003.

Under the current terms of the Credit Facility, the Company is restricted from making scheduled repayments of subordinate debt beginning in October 2000. As a result, the Company did not make principal payments of approximately $3.4 million related to its subordinated debt that were due in October and November of 2000. The holders of these notes have the right to notify the Company and the Bank Group of this default and generally must wait for one year from the date of the notification to pursue payment remedies. Through November 13, 2000, the Company has received notices from five holders of the Company's subordinate debt holding indebtedness totaling $5.4 million. The Company intends to negotiate the disposition of this issue in connection with pursuing an extension of the maturity of borrowings under the Credit Facility as discussed above.

7. COMMITMENTS AND CONTINGENCIES:

CLAIMS AND LAWSUITS

The Company is party to litigation in the ordinary course of business. There are currently no pending legal proceedings that, in management's opinion, would have a material adverse effect on the Company's operating results or financial condition. The Company maintains various insurance coverages in order to limit financial risk associated with certain claims.

A wholly-owned insurance company subsidiary reinsures a portion of the risk associated with surety bonds issued by a third party insurance company. Because no claims have been made against these financial instruments in the past, management does not expect these instruments will have a material effect on the Company's consolidated financial statements.

8. STOCKHOLDERS' EQUITY:

TREASURY STOCK

On October 5, 1999, the Company announced that its Board of Directors had approved a share repurchase program authorizing the Company to buy up to 4.0 million shares of its Common Stock. During 1999, the Company purchased approximately 1.8 million shares at a cost of approximately $12.9 million. During the first nine months of 2000, the Company purchased approximately 0.2 million shares at a cost of approximately $1.2 million. The Company does not expect further share repurchases under this program for the foreseeable future.

RESTRICTED COMMON STOCK

In March 1997, Notre Capital Ventures II, L.L.C. exchanged 2,742,912 shares of Common Stock for an equal number of shares of restricted voting common stock ("Restricted Voting Common Stock"). The holders of Restricted Voting Common Stock are entitled to elect one member of the Company's Board of Directors and 0.55 of one vote for each share on all other matters on which they are entitled to vote. Holders of Restricted Voting Common Stock are not entitled to vote on the election of any other directors.

Each share of Restricted Voting Common Stock will automatically convert to Common Stock on a share-for-share basis (i) in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a distribution which is a distribution by a holder to its partners or beneficial owners, or a transfer to a related party of such holders (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)), (ii) in the event any person acquires beneficial ownership of 15% or more of the total number of outstanding shares of Common Stock of the Company, or (iii) in the event any person offers to acquire 15% or more of the total number of outstanding shares of Common Stock of the Company. After July 1, 1998, the Board of Directors may elect to convert any remaining shares of Restricted Voting Common Stock into shares of Common Stock in the event 80% or more of the originally outstanding shares of Restricted Voting Common Stock have been previously converted into shares of Common Stock. As of September 30, 2000, 1,346,828 shares of Restricted Voting Common Stock had been converted to shares of Common Stock.

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 year. Diluted EPS is computed considering the dilutive effect of stock options and convertible subordinated notes. Options had an anti-dilutive effect for the three months and nine months ended September 30, 2000 because the Company reported a net loss during these periods, and therefore, are not included in the diluted EPS calculation. The Company has options outstanding to purchase 4.7 million shares of Common Stock at prices ranging from $3.875 to $21.438 per share. Diluted EPS is also computed by adjusting both net earnings and shares outstanding as if the conversion of the convertible subordinated notes occurred on the first day of the year. The after-tax interest expense related to the assumed conversion of the convertible subordinated notes during the three months and nine months ended September 30, 1999 was $0.1 million and $0.8 million, respectively. The convertible subordinated notes had an anti-dilutive effect during the three months and nine months ended September 30, 2000, and therefore, are not included in the diluted EPS calculation.

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,	
	1999	2000	1999	2000
Common shares outstanding, end of period	39,252	37,331	39,252	37,331
Effect of using weighted average common shares outstanding	(192)	(66)	(547)	98
Shares used in computing earnings per share -- basic	39,060	37,265	38,705	37,429
Effect of shares issuable under stock option plans based on the treasury stock method	202	--	228	--
Effect of shares issuable related to convertible notes	269	--	1,402	--
Shares used in computing earnings per share -- diluted	39,531	37,265	40,335	37,429

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion should be read in conjunction with the historical consolidated financial statements of Comfort Systems USA, Inc. ("Comfort Systems" and collectively with its subsidiaries, the "Company") and related notes thereto included elsewhere in this Form 10-Q and the Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 1999 (the "Form 10-K"). This discussion contains forward-looking statements regarding the business and industry of Comfort Systems within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current plans and expectations of the Company and involve risks and uncertanties 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 risks set forth in "Factors Which May Affect Future Results," included in the Form 10-K.

The Company is a leading national provider of comprehensive HVAC installation, maintenance, repair and replacement services. The Company operates primarily in the commercial and industrial HVAC markets, and performs most of its services within manufacturing plants, office buildings, retail centers, apartment complexes, and healthcare, education and government facilities. In addition to standard HVAC services, the Company provides specialized applications such as process cooling, control systems, electronic monitoring and process piping. Certain locations also perform related services such as electrical and plumbing.

RESULTS OF OPERATIONS -- (IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	1999		2000		1999		2000	
Revenues	$374,815	100.0%	$423,922	100.0%	$1,008,234	100.0%	$1,191,458	100.0%
Cost of services	298,480	79.6%	352,838	83.2%	792,482	78.6%	978,869	82.2%
Gross profit	76,335	20.4%	71,084	16.8%	215,752	21.4%	212,589	17.8%
Selling, general and administrative expenses	45,793	12.2%	58,021	13.7%	133,984	13.3%	169,182	14.2%
Goodwill amortization	2,983	0.8%	3,151	0.7%	8,650	0.9%	9,483	0.8%
Restructuring charges	--	--	9,959	2.3%	--	--	10,313	0.9%
Operating income (loss)	27,559	7.4%	(47)	--	73,118	7.3%	23,611	2.0%
Other income (expense)	(4,967)	(1.3)%	(6,429)	(1.5)%	(13,288)	(1.3)%	(18,739)	(1.6)%
Reductions in non-operating assets and liabilities, net	--	--	--	--	--	--	(5,190)	(0.4)%
Income (loss) before income taxes	22,592	6.0%	(6,476)	(1.5)%	59,830	5.9%	(318)	--
Income tax expense (benefit)	9,724		(2,787)		25,753		268	
Net income (loss)	$ 12,868	3.4%	$ (3,689)	(0.9)%	$ 34,077	3.4%	$ (586)	--

REVENUES -- Revenues increased $49.1 million, or 13.1%, to $423.9 million for the third quarter of 2000 and increased $183.2 million, or 18.2%, to $1.2 billion for the first nine months of 2000, compared to the same periods in 1999. For the three months ended September 30, 2000, the 13.1% revenue growth rate was comprised of approximately 11.0% internal growth and 2.1% for operations that were acquired in the second half of 1999 that are in the Company's results for the full third quarter of 2000. For the first nine months of 2000, the 18.2% revenue growth rate was comprised of approximately 12.8% internal growth and

5.4% for second-half 1999 acquisitions that are in the Company's results for the first nine months of 2000. Revenue growth of approximately 3% versus both the comparable three and nine-month periods in 1999 resulted from the Company's ability to increase volume by subcontracting portions of projects to other contractors.

Of the 11.0% and 12.8% internal revenue growth amounts for the quarter and year-to-date periods in 2000 as compared to last year, 7.2% and 7.1%, respectively, were attributable to the Company's largest single operation. This growth represents substantial increases in volume at this operation which did not result in commensurate increases in profitability due to scarce technical and skilled labor and customer scheduling and site restrictions related to strong business conditions. The Company has experienced these kinds of challenges at numerous other operations as well, and believes they reflect high levels of activity and capacity constraints for the construction industry in general. As a result, management is placing less emphasis on revenue growth and more on efficiency and profit margin improvements in current activities and planning for 2001 across all operations. It is likely, therefore, that the Company will experience slower revenue growth in future periods. There can be no assurance, however, that this strategy will lead to improved profit margins in the near term.

GROSS PROFIT -- Gross profit decreased $5.3 million, or 6.9%, to $71.1 million for the third quarter of 2000 and decreased $3.2 million, or 1.5%, to $212.6 million for the first nine months of 2000, compared to the same periods in 1999. As a percentage of revenues, gross profit decreased from 20.4% for the three months ended September 30, 1999 to 16.8% for the three months ended September 30, 2000 and decreased from 21.4% for the first nine months of 1999 to 17.8% for the first nine months of 2000.

During the third quarter of 2000, the Company's largest operation and one other of the Company's larger operations turned in disappointing results due to execution shortfalls on certain sizable projects with nationally recognized companies. In addition, the Company has also experienced weak performance at several locations relating to ongoing turnaround efforts and execution difficulties. The remaining decrease in gross profit as a percentage of revenues resulted from increased labor costs, pricing pressures in certain markets and scheduling and efficiency challenges associated with labor availability and productivity at the high levels of activity at most of our operations. The Company has also realized a change in its mix of revenue volume to include more subcontracting activities which generally carry lower margins.

During the nine months ended September 30, 2000, the Company reported negative gross profit of approximately $3.6 million related to one of its operations in the Midwest. The Company has decided to cease operations at this location and costs associated with this step are included in restructuring charges as discussed below. The remaining decrease in gross profit as a percentage or revenues for the nine months ended September 30, 2000 is consistent with the factors discussed above.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A") -- SG&A increased $12.2 million, or 26.7%, to $58.0 million for the third quarter of 2000 and increased $35.2 million, or 26.3%, to $169.2 million for the first nine months of 2000, compared to the same periods in 1999. As a percentage of revenues, selling, general and administrative expenses increased from 12.2% for the three months ended September 30, 1999 to 13.7% for the three months ended September 30, 2000 and from 13.3% for the first nine months of 1999 to 14.2% for the first nine months of 2000. This increase in SG&A as a percentage of revenues resulted primarily from the inclusion in 2000 of results of companies acquired in 1999 that have higher SG&A as a percentage of sales than the rest of the Company's operations. These acquisitions include Outbound Services where the Company has incurred significantly higher SG&A to support expansion of its e-commerce activities. The Company also increased corporate and regional office spending to support the requirements of a larger organization, and to increase its efforts to land more national account and energy project business. In addition, as discussed above, the Company has experienced weak performance at several locations relating to turnaround efforts and execution difficulties, and these companies have realized a disproportionate amount of SG&A as compared to their revenue volumes.

RESTRUCTURING CHARGES -- During the three and nine months ended September 30, 2000, the Company recorded restructuring charges of approximately $10.0 million and $10.3 million, respectively, associated primarily with restructuring efforts at certain underperforming operations. As announced by the Company in the second quarter of 2000, management has been performing an extensive review of its operations. As part of this ongoing review, management decided to cease operating at two operating locations, sell two smaller satellite operations, and merge one small company into a larger operation. These actions are expected to be substantially complete by the end of 2000. The aggregate results of these operations for the first nine months of 2000 were revenues of $18.4 million and operating losses of $6.3 million. The restructuring charges associated with these actions are primarily non-cash and include goodwill impairments of approximately $7.1 million and the writedown of other long-lived assets of approximately $0.9 million. The remaining restructuring items primarily include severance and lease termination costs. Severance costs relate to the departure of the Company's former chief executive officer and to the termination of approximately 20 employees including certain corporate personnel and the management of certain underperforming locations.

The Company is continuing its extensive review of its operations and activities which are not strategic. This review includes further core commercial/industrial HVAC operations as well as the Company's expanded e-commerce activities, and will likely result in decisions to cease operating at or sell additional operations. Management expects this effort to be substantially complete by year-end.

OTHER INCOME (EXPENSE) -- Other expense, net, increased $1.5 million, or 29.4%, to $6.4 million for the third quarter of 2000 and increased $5.5 million, or 41.0%, to $18.7 million for the first nine months of 2000, compared to the same periods in 1999. This increase was primarily due to the increase in interest expense related to the cash and subordinate notes portions of consideration paid for companies acquired in 1999.

REDUCTIONS IN NON-OPERATING ASSETS AND LIABILITIES, NET -- During the quarter ended June 30, 2000, the Company recorded a non-cash charge of approximately $5.2 million primarily related to the impairment of certain non-operating assets. These assets primarily related to notes receivable from former business owners. In addition, the Company recorded an impairment of approximately $0.8 million to its minority investment in two entities associated with the distribution and implementation of high-end engineering and design software. The Company also recorded a gain of approximately $0.6 million on the reduction of its subordinated note payable to a former owner in connection with the settlement of claims with this former owner.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW -- For the nine months ended September 30, 2000, net cash provided by operating activities was $23.3 million and represents an increase of $21.0 million over the comparable period of the prior year. This improvement primarily results from an increase in accounts payable and accrued liabilities, and an increase in billings in excess of costs and estimated earnings.

Cash used in investing activities was $13.2 million for the nine months ended September 30, 2000, primarily in connection with purchases of property and equipment for $14.7 million. Cash used in investing activities for the nine months ended September 30, 1999 was $38.3 million, primarily in connection with the acquisition of purchased companies and purchases of property and equipment.

Cash used in financing activities for the nine months ended September 30, 2000 was $6.1 million and was primarily attributable to net payments of long-term debt of $6.4 million. Net cash provided by financing activities for the nine months ended September 30, 1999 was $36.6 million and was primarily attributable to net borrowings of long-term debt used to fund acquisitions.

REVOLVING CREDIT FACILITY -- The Company has a revolving credit facility (the "Credit Facility" or the "Facility") provided by Bank One, Texas, N.A. ("Bank One") and other banks (the "Bank Group"). The

Credit Facility provides the Company with a revolving line of credit of up to the lesser of $280 million or 80% of net accounts receivable. Borrowings under the Facility are secured by accounts receivable, inventory, fixed assets other than real estate, and the shares of capital stock of the Company's subsidiaries. The Credit Facility expires on November 1, 2001, at which time all amounts outstanding are due. The Company has a choice of two interest rate options under the Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus 0.5% or Bank One's prime rate. An additional margin of 1% to 2% is then added to the higher of these two rates. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate LIBOR) plus 2.25% to 3.5%. The additional margin for both options depends on the ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization, ("EBITDA") as defined. Commitment fees of 0.375% to 0.5% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the Facility.

The Credit Facility prohibits payment of dividends by the Company, limits certain non-Bank Group debt, and restricts outlays of cash by the Company relating to certain investments, capital expenditures, vehicle leases, acquisitions and principal repayments of subordinate debt. The Credit Facility also provides for the maintenance of certain levels of shareholder equity and EBITDA, and for the maintenance of certain ratios of the Company's EBITDA to interest expense and debt to EBITDA.

Under the terms of the Credit Facility that were in effect as of June 30, 2000, the Company was in violation of two of the Facility's financial balance and ratio requirements, in both cases by small amounts. The Bank Group waived these violations. In connection with these waivers, the Bank Group increased certain interest charges, introduced a minimum EBITDA requirement and reduced the requirements of the ratios of EBITDA to interest expense and debt to EBITDA. As of September 30, 2000, the Company was in violation of several of the Facility's financial balance and ratio requirements, primarily as a result of the restructuring charges the Company recorded in the third quarter. The Bank Group has waived these violations. In connection with these waivers, the Bank Group increased certain interest charges and agreed to exclude aggregate restructuring charges recorded in 2000 of up to $27.5 million before taxes from consideration in determining the Company's compliance with the financial balance and ratio requirements of the Facility. In addition, the Bank Group agreed to reduce the requirements of financial balances and ratios for the Company's 2000 results.

As of September 30, 2000, the Company had $247.7 million in borrowings outstanding under the Credit Facility and had incurred interest expense at an average rate of approximately 8.6% per annum for the first nine months of 2000. The Credit Facility's interest rate terms as summarized above are effective as of November 13, 2000 and will result in an increase of approximately 0.30% in the additional margin and related costs the Company pays in excess of the indicated market interest rate in either of the interest rate options. As of September 30, 2000, the Company also had $2.2 million in letters of credit outstanding under the Facility, and unused borrowing capacity under the Facility of $50.1 million. As of November 13, 2000, $230.0 million in borrowings and $2.2 million in letters of credit were outstanding under the Facility, and $47.8 million in unused capacity was available.

INTENDED REFINANCING -- Earlier this year, the Company intended to refinance a portion of its variable-rate debt under the Credit Facility with fixed-rate private placement debt. In anticipation of this transaction, the Company entered into interest rate lock agreements to hedge against increases in market interest rates. In the second quarter of 2000, the Company elected not to complete this refinancing and terminated the interest lock agreements at a nominal gain. In connection with this refinancing, the Company also had intended to significantly decrease the size of the Credit Facility. As disclosed by the Company in May 2000, if this had occurred, the Company would have recognized extraordinary charges of approximately $0.01 to $0.02 per share for the write-off of a portion of the deferred issuance costs of the Credit Facility. Because the Company no longer intends to significantly reduce the Credit Facility as contemplated in the second quarter, it no longer expects such charges will be necessary.

The Company is considering steps to extend the maturity of, or otherwise refinance, its borrowings under the Credit Facility. These amounts currently mature in November 2001.

NOTES TO AFFILIATES AND FORMER OWNERS -- Subordinated notes were issued to former owners of certain purchased companies as part of the consideration used to acquire their companies. These notes had an outstanding balance of $50.7 million as of September 30, 2000. Of these notes, $50.3 million bear interest, payable quarterly, at a weighted average interest rate of 5.79% and $0.4 million are non-interest bearing. In addition, $1.2 million of these notes are convertible by the holders into shares of the Company's Common Stock at a weighted average price of $25.27 per share. The scheduled maturities of the subordinated notes are $3.4 million in 2000, $24.4 million in 2001, $22.0 million in 2002, and $0.9 million in 2003.

Under the current terms of the Credit Facility, the Company is restricted from making scheduled repayments of subordinate debt beginning in October 2000. As a result, the Company did not make principal payments of approximately $3.4 million related to its subordinated debt that were due in October and November of 2000. The holders of these notes have the right to notify the Company and the Bank Group of this default and generally must wait for one year from the date of the notification to pursue payment remedies. Through November 13, 2000, the Company has received notices from five holders of the Company's subordinate debt holding indebtedness totaling $5.4 million. The Company intends to negotiate the disposition of this issue in connection with pursuing an extension of the maturity of borrowings under the Credit Facility as discussed above.

STOCK REPURCHASES -- On October 5, 1999, the Company announced that its Board of Directors had approved a share repurchase program authorizing the Company to buy up to 4.0 million shares of its Common Stock. During 1999, the Company purchased approximately 1.8 million shares at a cost of approximately $12.9 million. During the first nine months of 2000, the Company purchased approximately 0.2 million shares at a cost of approximately $1.2 million. The Company does not expect further share repurchases under this program for the foreseeable future.

OUTLOOK -- The Company anticipates that available borrowings under its Credit Facility and cash flow from operations will be sufficient to meet the Company's normal working capital and capital expenditure needs. The Company will need to extend the maturity of its borrowings under the Credit Facility and certain of its subordinate debt to affiliates and former owners. As discussed above, the Company is considering alternatives to accomplish these steps. There can be no assurance that extensions can be obtained, or that if the Company needs additional financing, that such financing can be secured when needed or on terms the Company deems acceptable.

SEASONALITY AND CYCLICALITY

The HVAC industry is subject to seasonal variations. Specifically, the demand for new installation and replacement is generally lower during the winter months 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, the Company expects its revenues and operating results generally will be lower in the first and fourth calendar quarters.

Historically, the construction industry has been highly cyclical. As a result, the Company's volume of business may be adversely affected by declines in new installation projects in various geographic regions of the United States.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk primarily related to potential adverse changes in interest rates. Management is actively involved in monitoring exposure to market risk and continues to develop and utilize appropriate risk management techniques.

COMFORT SYSTEMS USA, INC.
PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to litigation in the ordinary course of business. There are currently no pending legal proceedings that, in management's opinion, will have a material adverse effect on the Company's consolidated operating results or financial condition.

ITEM 2. RECENT SALES OF UNREGISTERED SECURITIES

During the three month period ended September 30, 2000, the Company did not issue any unregistered shares of its common stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 -- Fourth Amendment to Credit Agreement dated as of November 13, 2000 amending the Third Amended and Restated Credit Agreement dated December 14, 1998 among the Company and its subsidiaries, Bank One, Texas, N.A., as agent and the banks listed therein. (Filed herewith).

27.1 -- Financial Data Schedule. (Filed herewith).

(b) Reports on Form 8-K

None.

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

SIGNATURE

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

COMFORT SYSTEMS USA, INC.

By: /s/ J. GORDON BEITTENMILLER
J. GORDON BEITTENMILLER
EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER AND DIRECTOR

Dated: November 14, 2000

EXHIBIT 10.1

COMFORT SYSTEMS USA, INC.

FOURTH AMENDMENT TO CREDIT AGREEMENT

This FOURTH AMENDMENT TO CREDIT AGREEMENT (this "AMENDMENT") is dated as of November 13, 2000 (the "EFFECTIVE DATE") and entered into by and among COMFORT SYSTEMS USA, INC., a Delaware corporation (the "COMPANY"), the other Credit Support Parties (as defined in Section 4 hereof), the Subsidiaries of the Company listed on the signature pages hereto as Guarantors (together with each other Person who subsequently becomes a Guarantor, collectively the "GUARANTORS"), the banks and other financial institutions listed on the signature pages hereto under the caption "BANKS" (together with each other Person who becomes a Bank, collectively the "BANKS"), BANK ONE, TEXAS, N.A., individually as a bank ("BOT") and as administrative agent for the other Banks (in such capacity together with any other Person who becomes the administrative agent, the "ADMINISTRATIVE AGENT"), BANKERS TRUST COMPANY, individually as a Bank ("BTCO") and as syndication agent for the other Banks (in such capacity together with any other Person who becomes the syndication agent, the "SYNDICATION AGENT"), BANK OF AMERICA, N.A. (formerly known as NationsBank, N.A.), individually as a Bank ("BOFA") and as documentation agent for the other Banks (in such capacity together with any other Person who becomes the documentation agent, the "DOCUMENTATION AGENT"; and together with the Administrative Agent and the Syndication Agent, the "AGENTS"), and CREDIT LYONNAIS NEW YORK BRANCH, individually as a Bank and Co-Agent, NATIONAL CITY BANK, individually as a Bank and as Co-Agent, and THE BANK OF NOVA SCOTIA, individually as a Bank and as Co-Agent (collectively, the "CO-AGENTS"), and is made with reference to that certain Third Amended and Restated Credit Agreement dated as of December 14, 1998, by and among the Company, the Guarantors, the Banks, the Agents and the Co-Agents, as amended by that certain First Amendment dated as of January 14, 1999, that certain Second Amendment dated as of August 18, 1999, and that certain Third Amendment dated as of August 11, 2000 (as so amended, the "CREDIT AGREEMENT"), and to other Loan Documents. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement, as amended hereby (the "AMENDED CREDIT AGREEMENT").

RECITALS

WHEREAS, the Company, the Guarantors and the Banks desire to amend the Credit Agreement as set forth herein;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENT TO THE CREDIT AGREEMENT

1.1 AMENDMENTS TO SECTION 1.1: DEFINITIONS.

The definition of "Account" is added to Section 1.1 of the Credit Agreement in proper alphabetical order to read as follows:

""ACCOUNT" has the meaning stated in the Texas Uniform Commercial Code."

The definition of "ASSET SALES" in Section 1.1 of the Credit Agreement is hereby amended by deleting the reference to "$500,000" contained therein and substituting "$1,000,000.00" therefor.

The definition of "Borrowing Base" is added to Section 1.1 of the Credit Agreement in proper alphabetical order to read as follows:

> ""BORROWING BASE" means as to the Company and its Guarantors on a consolidated basis at any time, an amount equal to the product of (a) eighty percent (80%), times (b) the Eligible Accounts Receivable; PROVIDED that in the absence of a Borrowing Base Certificate, the Administrative Agent shall determine the Borrowing Base from time to time in its reasonable discretion, taking into account all information reasonably available to it, and the Borrowing Base from time to time so determined shall be the Borrowing Base for all purposes of this Agreement until a Borrowing Base Certificate is furnished to and accepted by the Administrative Agent."

The definition of "Borrowing Base Certificate" is added to Section 1.1 of the Credit Agreement in proper alphabetical order to read as follows:

> ""BORROWING BASE CERTIFICATE" means, as of any date, a certificate as to the Borrowing Base as of such date in the form of Exhibit 7.1(i)."

The definition of "EBITDA" in Section 1.1 of the Credit Agreement is hereby deleted in its entirety and the following is substituted therefor:

> ""EBITDA" means, for any period, the consolidated pre-tax income for such period, plus the aggregate amount which was deducted for such period in determining such consolidated, pre-tax income in respect of Interest Expense (including amortization of debt discount, imputed interest and capitalized interest), depreciation and amortization, provided, the calculations of EBITDA after the acquisition of assets or entities permitted under Section 8.5(d) shall include pro forma adjustments consistent with the regulations and practices of the United States Securities and Exchange Commission (whether or not applicable) to account for such acquired

entity's historical EBITDA for the relevant period or similar adjustments in the case of an asset acquisition. For fiscal year 2000, (and only for fiscal year 2000) the actual amount of pre-tax restructuring charges incurred by the Company during fiscal year 2000 (but in no event in excess of $27,500,000.00 in the aggregate) may be added back in determining EBITDA, PROVIDED that such pre-tax restructuring charges may be added back to the extent, and only to the extent, that such pre-tax restructuring charges were deducted in calculating EBITDA."

The definition of "Eligible Accounts Receivable" is added to Section 1.1 of the Credit Agreement in proper alphabetical order to read as follows:

""ELIGIBLE ACCOUNTS RECEIVABLE" means at any time an amount equal to the aggregate net invoice or ledger amount (net of any reserves) due on all trade Accounts of the Company and the Guarantors for goods sold or leased or services rendered upon which Borrower's and Guarantors' rights to receive payment are absolute and not contingent upon the fulfillment of any condition whatsoever; PROVIDED, however, that Eligible Accounts Receivable shall include any retainage due to the Company and the Guarantors with respect to jobs in progress."

The definition of "Margin" in Section 1.1 of the Credit Agreement is hereby amended by deleting the grid contained in the definition of "Margin" and substituting the following therefor:

TOTAL FUNDED DEBT/EBITDA RATIO	EURODOLLAR RATE ADVANCE	ALTERNATE BASE RATE ADVANCE
$ 4.00	3.500 %	2.000 %
$ 3.50 but less than 4.00	3.000 %	1.750 %
$ 3.00 but less than 3.50	2.750 %	1.500 %
$ 2.50 but less than 3.00	2.500 %	1.250 %
less than 2.50	2.250 %	1.000 %

The definition of "Total Commitment" in Section 1.1 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

""TOTAL COMMITMENT" means the sum of the Commitments for each Bank totaling a maximum of $280,000,000.00 for all Banks."

1.2 AMENDMENT TO SECTION 2.1: THE LOANS.

Section 2.1 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"THE LOANS" Subject to the terms and conditions hereof, each Bank severally agrees at any time and from time to time on and after the Effective Date and prior to the Maturity Date, to make and maintain a loan or loans (together with any Advances under a Letter of Credit described in Article III, a "LOAN" and collectively, the "LOANS") to the Company not to exceed at any time outstanding the maximum amount of its Commitment, which Loans (i) shall, at the option of the Company, be made and maintained pursuant to one or more Advances comprised of Alternate Base Rate Advances or Eurodollar Rate Advances; PROVIDED that, except as otherwise specifically provided herein, all Advances made simultaneously under the Loan shall be of the same Type, (ii) in the case of Eurodollar Rate Advances, shall be made in the minimum amount of $1,000,000.00 and integral multiples of $100,000.00 and, in the case of Alternate Base Rate Advances, in the minimum amount of $100,000.00 and integral multiples thereof, or, in either case, in the remaining balance of the lesser of (w) the Total Commitment, and (x) the Borrowing Base, (iii) may be repaid and, so long as no Default or Event of Default exists hereunder, reborrowed, at the option of the Company in accordance with the provisions hereof, and (iv) shall not, in the aggregate at any time outstanding and together with all Letter of Credit Obligations, exceed the lesser of (y) the Total Commitment, and (z) the Borrowing Base."

1.3 AMENDMENT TO SECTION 2.7(B): LOANS AND LETTER OF CREDIT OBLIGATIONS IN EXCESS OF TOTAL COMMITMENT.

Section 2.7(b) of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"(b) LOANS AND LETTER OF CREDIT OBLIGATIONS IN EXCESS OF TOTAL COMMITMENT. The Company shall repay Loans on any day on which the aggregate outstanding principal amount of the Loans together with the outstanding Letter of Credit Obligations exceeds the lesser of (i) the Total Commitment, and (ii) the Borrowing Base, in the amount of such excess."

1.4 AMENDMENT TO SECTION 3.1(A): LETTERS OF CREDIT.

Section 3.1(a) of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"(a) Subject to and upon the terms and conditions herein set forth, the Issuing Bank agrees that it will, at any time and from time to time on or after the Effective Date and prior to the Maturity Date, following its receipt of a Letter of Credit Request and Application for Letter of Credit, issue for the account of the Company and in support of the obligations of the Company or any of its Subsidiaries, one or more standby and/or commercial letters of credit (the "LETTERS OF CREDIT") payable on a sight basis, up to a maximum amount outstanding at any one time for all Letters of Credit of $10,000,000.00; PROVIDED that the Issuing Bank shall not issue any Letter of Credit if at the time of such issuance: (i) Letter of Credit Obligations shall be greater than an amount which, when added to the sum of all Advances then outstanding plus Letter of Credit Obligations, would exceed the lesser of (x) the Total Commitment, and (y) the Borrowing Base; or (ii) the expiry date or, in the case of any Letter of Credit containing an expiry date that is extendable at the option of the Issuing Bank, the initial expiry date, of such Letter of Credit is a date that is later than the Maturity Date."

1.5 AMENDMENT TO SECTION 4.1: FEES.

Section 4.1(a) of the Credit Agreement is hereby amended by deleting the grid contained in Section 4.1(a) and substituting the following therefor:

"FUNDED DEBT/EBITDA	COMMITMENT FEE RATE
greater than or equal to $4.00x	0.500%
greater than or equal to $3.50x and less than 4.00x	0.500%
greater than or equal to $3.00x and less than 3.50x	0.500%
greater than or equal to $2.50x and less than 3.00x	0.500%
greater than or equal to less than 2.50x	0.375%"

1.6 ADDITION OF SECTION 7.1(H): ADDITIONAL REPORTING REQUIREMENTS.

Section 7.1 of the Credit Agreement is hereby amended by adding the following as subsection 7.1(h):

"(h) As soon as available, and in any event within thirty (30) days after the end of each calendar month, the consolidated balance sheet of the Company and its Subsidiaries as of the end of such month and the related consolidated statements of income for such period, along with summaries of the accounts receivable and accounts payable balances as of the end of such month, all of which shall be certified by the treasurer, chief financial officer, or chief executive officer of the Company as fairly presenting in all material respects, the financial position of the Company and its Subsidiaries as of the end of such month in accordance with GAAP. In addition to the foregoing, the Company shall also provide at such time a schedule and explanation of the top fifteen (15) jobs in progress for which projections indicate a negative deviation from the original anticipated margins, which report shall include the amount of underbillings for each such job."

1.7 ADDITION OF SECTION 7.1(I): BORROWING BASE CERTIFICATE.

Section 7.1 of the Credit Agreement is hereby amended by adding the following as subsection 7.1(i):

"(i) Within thirty (30) days after the end of each calendar month, a completed Borrowing Base Certificate calculating and certifying the Borrowing Base as of the last day of such calendar month, signed by an officer and the secretary of the company and in the form attached hereto as Exhibit 7.1(i)."

1.8 ADDITION OF SECTION 7.10: ADDITIONAL COLLATERAL.

Article VII of the Credit Agreement is hereby amended by adding the following as Section 7.10:

"SECTION 7.10 ADDITIONAL COLLATERAL. The Company hereby agrees that on or before December 15, 2000, the Company and the Guarantors shall take, or cause to be taken all such actions, execute and deliver or cause to be executed and delivered all such agreements, documents and instruments, and make or cause to be made all such filings and recordings that may be necessary or, in the opinion of the Agents, desirable in order to create in favor of the Administrative Agent, for the benefit of the Banks, a valid (and upon such filing and recording) perfected First Priority security interest in all furniture, fixtures, machinery and equipment, (including, without limitation, leasehold improvements, computers, telecommunications equipment and vehicles) owned by the Company and the Guarantors as security for the Obligations, which furniture, fixtures, machinery and equipment shall be included in the definition of Collateral as such term is used in the Credit Agreement. Such actions shall include, without limitation, the following:

(i) Execution by the Company and delivery to the Administrative Agent of an Amended and Restated Company Security Agreement and Amended and Restated Subsidiary Security Agreements granting a Lien on such furniture, fixtures, machinery and equipment as security for the Obligations, which Amended and Restated Company Security Agreement and Amended and Restated Subsidiary Security Agreements shall be included in the definition of Collateral Documents as such term is used in the Credit Agreement;

(ii) Delivery to the Administrative Agent of (a) the results of a recent search, by a Person satisfactory to the Agents, of all jurisdictions where filings to perfect are material or a material portion of such furniture, fixtures, machinery and equipment are located, together with copies of all such filings disclosed by such search; and (b) UCC termination statements duly executed by all applicable Persons for filing in all applicable jurisdictions as may be necessary to terminate any effective UCC financing statements or fixture filings disclosed in such search and affecting such furniture, fixtures, machinery and equipment (other than any such financing statements or fixture filings in respect of Liens permitted to remain outstanding pursuant to the terms of this Agreement);

(iii) Delivery to the Administrative Agent of UCC financing statements duly executed by the Company and each applicable Guarantor with respect to all such furniture, fixtures, machinery and equipment of the Company or such Guarantor, for filing in all jurisdictions as may be necessary or, in the opinion of the Agents, desirable to perfect the security interests created in such furniture, fixtures, machinery and equipment pursuant to the Collateral Documents; and

(iv) If required by the Administrative Agent, delivery to the Administrative Agent of an opinion of counsel (which counsel shall be reasonably satisfactory to the Agents) under the laws of Texas and such other jurisdictions as Agents may reasonably require, in each case with respect to the creation and perfection of the security interests in favor of the Administrative Agent on behalf of the Banks in such furniture, fixtures, machinery and equipment and such other matters governed by the laws of such jurisdiction regarding such security interests as the Agents may reasonably request, in each case in form and substance reasonably satisfactory to Agents.

Notwithstanding the foregoing, the Company and the Guarantors shall not be required to re-title or to otherwise indicate the Administrative Agent's lien on behalf of the Banks on the certificate of title of any titled vehicles until such time as the Administrative Agent notifies the Company that such action is required."

1.9 AMENDMENT TO SECTION 8.2: CONSOLIDATION, MERGER OR SALE OF ASSETS.

Section 8.2 of the Credit Agreement is hereby amended by (1) deleting the word "and" immediately after clause (b) contained in such Section 8.2, and (2) deleting the period at the end of Section 8.2 and substituting the following therefor:

", and (d) wind ups, liquidations, dissolutions, mergers or consolidations with respect to the Subsidiaries listed on Exhibit 8.2(d) attached hereto and incorporated herein by reference and Asset Sales with respect to the stock of such Subsidiaries and the assets owned by such Subsidiaries as of the Amendment Effective Date for the Fourth Amendment to Credit Agreement; PROVIDED that all proceeds received from such transactions permitted by this Section 8.2(d) shall be applied to the Obligations then outstanding under the Loan Documents. No amendment, modification, termination, waiver or consent shall be made with respect to this Section 8.2 or with respect to the definition of "Asset Sales" without the consent of Banks holding at least eighty percent (80%) of the Advances outstanding under the Loans, or, if no Advances are outstanding, Banks holding such percentage of the Total Commitment (notwithstanding any reduction or termination of the Total Commitment) or if there are no Advances or Commitments outstanding, Banks holding such percentage of outstanding Letters of Credit."

1.10 AMENDMENT TO SECTION 8.5: INVESTMENTS.

Section 8.5(d) of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"(d) Provided that the Company has obtained the prior written consent of the Majority Banks with respect thereto, Investments in the stock, warrants, stock appreciation rights, other securities and/or other assets of domestic entities engaged in the same general type of business as the Company on the Effective Date, in which the Company or one of its wholly owned Subsidiaries is the surviving entity."

1.11 AMENDMENT TO SECTION 8.6: RESTRICTED PAYMENTS.

Section 8.6 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

"The Company will not, without the prior written consent of the Majority Banks, (i) pay any dividend or other distribution, direct or indirect, on account of, or redeem, retire, purchase or guaranty the value of or make any other acquisition, direct or indirect, of any shares of any class of stock of the Company, or of any warrants, rights or options to acquire any such shares, now or hereafter outstanding, or (ii) make any Restricted Subordinated Debt Payments; PROVIDED the Company may, to the extent, and only to the extent, such payments are not otherwise prohibited pursuant to the terms of this Agreement, make payments of regularly scheduled interest in respect of any Subordinated Indebtedness, in accordance with the terms of and to the extent required by, and subject to the subordination provisions contained in, the documents establishing and evidencing such Subordinated Indebtedness."

1.12 AMENDMENT TO SECTION 8.10: FUNDED SENIOR DEBT TO EBITDA RATIO.

Section 8.10 of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"The Company will not, as of the last day of any fiscal quarter, permit the ratio of its total Funded Senior Debt on such day to EBITDA for the four consecutive fiscal quarters then ended to exceed the amounts set forth below:

DATE(S)	RATIO
09/30/00	3.20x
12/31/00	3.70x
03/31/01	3.75x
06/30/01	3.55x
09/30/01	3.10x

For purposes of calculating the ratio in this Section 8.10, the calculation of Funded Senior Debt after the acquisition of assets or entities permitted under this Agreement shall include adjustments to account for the total Funded Senior Debt of or applicable to such acquired assets or entities during the relevant period."

1.13 AMENDMENT TO SECTION 8.11: TOTAL FUNDED DEBT TO EBITDA RATIO.

Section 8.11 of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"The Company will not, as of the last day of any fiscal quarter, permit the ratio of (i) its Total Funded Debt on such day to (ii) EBITDA for the four consecutive fiscal quarters then ended to exceed the amounts set forth below:

DATE(S)	RATIO
09/30/00	3.85x
12/31/00	4.50x
03/31/01	4.60x
06/30/01	4.35x
09/30/01	3.80x

For purposes of calculating the ratio in this Section 8.11, the calculation of Total Funded Debt after the acquisition of assets or entities permitted under this Agreement shall include adjustments to account for the Total Funded Debt of or applicable to such acquired assets or entities during the relevant period."

1.14 AMENDMENT TO SECTION 8.13: CAPITAL EXPENDITURES.

Section 8.13 of the Credit Agreement is hereby amended by adding the following provision at the end of such section:

"Notwithstanding anything contained in this Agreement to the contrary, for the fiscal year 2001 the Company will not permit total consolidated capital expenditures (including Capitalized Lease Obligations but exclusive of (a) Investments permitted under SECTION 8.5(D), and (b) consolidated capital expenditures with respect to casualty loss replacements) to be greater than the lesser of (i) $22,000,000.00, and (ii) two percent (2.00%) of gross revenues (pro forma gross revenues with respect to permitted acquisitions) for fiscal year 2001."

1.15 AMENDMENT TO SECTION 8.14: INTEREST COVERAGE RATIO.

Section 8.14 of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"The Company will not, as of the last day of any fiscal quarter, permit the ratio of EBITDA for the four consecutive fiscal quarters then ended to cash Interest Expense for such period to be less than the amounts set forth below:

DATE(S)	RATIO
09/30/00	3.10x
12/31/00	2.35x
03/31/01	2.15x
06/30/01	2.25x
09/30/01	2.50x"

1.16 AMENDMENT OF SECTION 8.15: MINIMUM EBITDA.

Section 8.15 of the Credit Agreement is deleted in its entirety and the following is substituted therefor:

"The Company will not, as of the last day of any fiscal quarter specified in the table below, permit its EBITDA for the three (3) months then ended to be less than the amounts set forth below:

DATE(S)	QUARTERLY EBITDA
09/30/00	$15,750,000.00
12/31/00	$15,300,000.00
03/31/01	$13,800,000.00
06/30/01	$17,400,000.00
09/30/01	$22,450,000.00"

1.17 ADDITION OF EXHIBIT 7.1(I): FORM OF BORROWING BASE CERTIFICATE.

The Credit Agreement is hereby amended by adding Exhibit 7.1(i) attached hereto as Exhibit 7.1(i) to the Credit Agreement.

1.18 ADDITION OF EXHIBIT 8.2(D): EXCEPTED SUBSIDIARIES.

The Credit Agreement is hereby amended by adding Exhibit 8.2(d) attached hereto as Exhibit 8.2(d) to the Credit Agreement.

SECTION 2. CONDITIONS TO EFFECTIVENESS

Section 1 of this Amendment shall become effective only upon the prior or concurrent satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the "AMENDMENT EFFECTIVE DATE"):

A. On or before the Amendment Effective Date, the Company shall deliver to the Banks (or to the Agents for the Banks) the following, each, unless otherwise noted, dated the Amendment Effective Date:

1. A certificate of the secretary or an assistant secretary of the Company and of the Guarantors certifying: (i) that the resolutions of the Board of Directors of the Company and of the Guarantors approving and authorizing the execution, delivery, and performance of the Amended Credit Agreement and amendments thereto delivered on the Effective Date, are in full force and effect and have not been amended, supplemented or otherwise modified since December 14, 1998 and (ii) the signature and incumbency of the officers of each of the Company and of the Guarantors who are authorized to sign on behalf of the Company or such Guarantor.

2. Counterparts of this Amendment executed by the Majority Banks and each of the other parties hereto.

3. Payment to each of the Banks approving this Amendment, subject to Majority Bank approval, of an amendment fee equal to twenty one hundredths of one percent (0.20%) of such Bank's Commitment and payment to BOT as administrative agent of any other fees agreed upon in writing by the Company and BOT.

B. On or before the Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by the Agents, acting on behalf of the Banks, and their counsel shall be satisfactory in form and substance to the Agents and such counsel, and the Agents and such counsel shall have received all such counterpart originals or certified copies of such documents as the Agents may reasonably request.

SECTION 3. REPRESENTATIONS AND WARRANTIES

In order to induce the Banks to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, the Company and each Guarantor party hereto represents and warrants to each Bank that the following statements are true, correct and complete as to itself:

A. CORPORATE POWER AND AUTHORITY. The Company and each Guarantor party hereto has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated hereby and the Company and each Guarantor party hereto has all requisite corporate power and authority to carry out the transactions contemplated by, and perform its obligations under, the Amended Credit Agreement.

B. AUTHORIZATION OF AGREEMENTS. The execution and delivery of this Amendment and the performance of the Amended Credit Agreement have been duly authorized by all necessary corporate action on the part of the Company and each Guarantor party hereto, as the case may be.

C. NO CONFLICT. The execution and delivery by the Company and each Guarantor party hereto of this Amendment and the performance by the Company and each Guarantor of this Amendment and the performance by the Company of the Amended Credit Agreement do not and will not (i) violate any provision of any law or any governmental rule or regulation applicable to the Company or any of its Subsidiaries, the Certificate or Articles of Incorporation or Bylaws of the Company or any of its Subsidiaries or any order, judgment or decree of any court or other agency of government binding on the Company or any of its Subsidiaries, (ii) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any material agreement (other than failure to pay the notes evidencing the Subordinated Debt in accordance with this Amendment) to which the Company or any of its Subsidiaries is a party or by which it is bound or to which it is subject, (iii) result in or require the creation or imposition of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries (other than any Liens created under any of the Loan Documents in favor of the Agents on behalf of the Banks), or (iv) require any approval of stockholders or any approval or consent of any Person under any material agreement to which the Company or any of its Subsidiaries is a party or by which it is bound or to which it is subject.

D. GOVERNMENTAL CONSENTS. The execution and delivery by the Company and each Guarantor party hereto of this Amendment and the performance by the Company and each Guarantor of this Amendment and the performance by the Company and each Guarantor of the Amended Credit Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body.

E. BINDING OBLIGATION. This Amendment has been duly executed and delivered by the Company and each Guarantor party hereto and this Amendment and the Amended Credit Agreement are the legally valid and binding obligations of the Company and each Guarantor, enforceable against the Company and each Guarantor in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

F. INCORPORATION OF REPRESENTATIONS AND WARRANTIES FROM AMENDED CREDIT AGREEMENT. The representations and warranties contained in Article VI of the Amended Credit Agreement are and will be true, correct and complete in all material respects on and as of the Amendment Effective Date to the same extent as though made on and as of that date, except (i) 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, and (ii) to the extent such representations and warranties relate to a default of any Subordinated Debt resulting from a failure to pay the notes evidencing such Subordinated Debt in accordance with this amendment resulting from the Company not being in Financial Compliance.

G. ABSENCE OF DEFAULT. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would, after giving effect to this Amendment, constitute an Event of Default or a Default.

SECTION 4. ACKNOWLEDGMENT AND CONSENT

The Company is a party to certain Collateral Documents pursuant to which the Company has created Liens in favor of the Agents on certain Collateral to secure the Obligations. Each of the Guarantors party hereto is a party to certain Collateral Documents and the Guaranty, pursuant to which each such Guarantor has (i) guarantied the Obligations and (ii) created Liens in favor of the Administrative Agent on certain Collateral to secure the Guaranteed Obligations of such Guarantor under the Guaranty. The Guarantors party hereto are collectively referred to herein as the "CREDIT SUPPORT PARTIES", and the Collateral Documents and the Guaranty are collectively referred to herein as the "CREDIT SUPPORT DOCUMENTS".

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement, the Collateral Documents and the Guaranty and this Amendment and consents to the further amendment of the Credit Agreement effected pursuant to this Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, to the fullest extent possible the payment and performance of all "Obligations," "Guarantied Obligations" and "Secured Obligations," as the case may be (in each case as such terms are defined in the applicable Credit Support Document), including without limitation the payment and performance of all such "Obligations," "Guarantied Obligations" or "Secured Obligations," as the case may be, in respect of the Obligations of the Company now or hereafter existing under or in respect of the Amended Credit Agreement and the Notes.

Each Credit Support Party acknowledges and agrees that any of the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each Credit Support Party represents and warrants that all representations and warranties contained in the Amended Credit Agreement and the other Credit Support Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the Amendment Effective Date to the same extent as though made on and as of that date, except (i) 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, and (ii) to the extent such representations and warranties relate to a default of any Subordinated Debt resulting from a failure to pay the notes evidencing such Subordinated Debt in accordance with this amendment resulting from the Company not being in Financial Compliance.

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

SECTION 5. MISCELLANEOUS

A. REFERENCE TO AND EFFECT ON THE AMENDED CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS.

(i) On and after the Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Credit Agreement.

(ii) Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(iii) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of any Agent or any Bank under, the Credit Agreement or any of the other Loan Documents.

B. FEES AND EXPENSES. Company acknowledges that all reasonable costs, fees and expenses as described in Section 12.4 of the Credit Agreement incurred by the Agents and its counsel with respect to this Amendment and the documents and transactions contemplated hereby shall be for the account of the Company.

C. HEADINGS. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

D. APPLICABLE LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING WITHOUT LIMITATION SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK), WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

E. COUNTERPARTS; EFFECTIVENESS. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment (other than the provisions of Section 1, which shall become effective upon the satisfaction of each of the conditions set forth in Section 2) shall become effective upon the execution of a counterpart hereof by the Company, the Credit Support Parties, the Guarantors and the Majority Banks and receipt by the Company and the Agents of written or telephonic notification of such execution and authorization of delivery of such counterpart.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

COMPANY:

COMFORT SYSTEMS USA, INC.

By:

J. Gordon Beittenmiller
Senior Vice President and
Chief Financial Officer

CREDIT SUPPORT PARTIES AND GUARANTORS:

ADAMS MECHANICAL SERVICES, INC.
ACCURATE AIR SYSTEMS, INC.
AIR POWER SYSTEMS, INC.
ALLSTATE MECHANICAL, INC.
ATLAS AIR CONDITIONING COMPANY
ATLAS COMFORT SERVICES USA, INC.
BATCHELOR'S MECHANICAL CONTRACTORS, INC.
BCM CONTROLS CORPORATION
CEL, INC.
CONTRACT SERVICE, INC.
DESIGN MECHANICAL INCORPORATED
DYNASTAR, INC.
EASTERN HEATING & COOLING, INC.
EASTERN REFRIGERATION CO., INC.
EDS, INC.
F&G MECHANICAL CORPORATION
FRED HAYES MECHANICAL CONTRACTORS, INC.
FREEWAY HEATING & AIR CONDITIONING, INC.
GMS AIR CONDITIONING, INC.
HELM CORPORATION
HILLCREST SHEET METAL, INC.
JAMES AIR CONDITIONING ENTERPRISES, INC.
KUEMPEL SERVICE, INC.
LAWRENCE SERVICE, INC.
LOWRIE ELECTRIC CO., INC.
MANDELL MECHANICAL CORPORATION
MARTIN HEATING, INC.
MEADOWLANDS FIRE PROTECTION CORP.
MECHANICAL SERVICE GROUP, INC.
MJ MECHANICAL SERVICES, INC.
NOGLE & BLACK MECHANICAL, INC.
NORTH JERSEY MECHANICAL CONTRACTORS, INC.
OK SHEET METAL & AIR CONDITIONING, INC.
QUALITY AIR HEATING & COOLING, INC.

RHC ACQUISITION CORP.
RIVER CITY MECHANICAL, INC.
SALMON & ALDER, INC.
SEASONAIR, INC.
S&K AIR CONDITIONING CO., INC.
S.M. LAWRENCE COMPANY, INC.
STANDARD HEATING & AIR CONDITIONING COMPANY
TECH HEATING AND AIR CONDITIONING, INC.
TECH MECHANICAL, INC.
TEMP-RIGHT SERVICE, INC.
TRI-CITY MECHANICAL, INC.
TROOST SERVICE CO.
WALKER-J-WALKER, INC.
WESTERN BUILDING SERVICES, INC.

By:

J. Gordon Beittenmiller
Vice President

AMOUNT OF COMMITMENT:	ADMINISTRATIVE AGENT/BANK:
$42,000,000.00	BANK ONE, TEXAS, N.A., AS ADMINISTRATIVE AGENT AND INDIVIDUALLY AS A BANK

By: ---------------------------------

Name: ------------------------------

Title: -----------------------------

AMOUNT OF COMMITMENT:	SYNDICATION AGENT/BANK:
$32,666,667.00	BANKERS TRUST COMPANY, AS SYNDICATION AGENT AND INDIVIDUALLY AS A BANK

By:

Name:

Title:

AMOUNT OF COMMITMENT:	DOCUMENTATION AGENT/BANK:
$39,666,667.00	BANK OF AMERICA, N.A. (FORMERLY KNOWN AS NATIONSBANK, N.A.), AS DOCUMENTATION AGENT AND INDIVIDUALLY, AS A BANK

By: ---------------------------------

Name: ------------------------------

Title: -----------------------------

AMOUNT OF COMMITMENT:	CO-AGENT/BANK:
$23,333,333.00	CREDIT LYONNAIS NEW YORK BRANCH, AS CO-AGENT AND INDIVIDUALLY, AS A BANK

By:

Name:

Title:

AMOUNT OF COMMITMENT:	CO-AGENT/BANK:
$23,333,333.00	NATIONAL CITY BANK, AS CO-AGENT AND INDIVIDUALLY, AS A BANK

By:

Name:

Title:

AMOUNT OF COMMITMENT:	CO-AGENT/BANK:
$23,333,333.00	THE BANK OF NOVA SCOTIA, AS CO-AGENT AND INDIVIDUALLY, AS A BANK

By:

Name:

Title:

AMOUNT OF COMMITMENT:	BANK:
$18,666,667.00	UNION BANK OF CALIFORNIA, N.A.

By: ---------------------------------

Name: ------------------------------

Title: -----------------------------

AMOUNT OF COMMITMENT:	BANK:
$14,000,000.00	COMERICA BANK

By:

Name:

Title:

AMOUNT OF COMMITMENT:	BANK:
$4,666,667.00	BANK POLSKA, KASA OPIEKI S.A., PEKOA S.A. GROUP, NEW YORK BRANCH

By: ________________________________

Name: ______________________________

Title: _____________________________

AMOUNT OF COMMITMENT:	BANK:
$28,000,000.00	FIRSTAR BANK, NATIONAL ASSOCIATION

By: ---------------------------------

Name: ------------------------------

Title: -----------------------------

AMOUNT OF COMMITMENT:	BANK:
$18,666,667.00	LASALLE BANK NATIONAL ASSOCIATION

By: ---------------------------------

Name: ------------------------------

Title: -----------------------------

AMOUNT OF COMMITMENT:	BANK:
$11,666,667.00	GENERAL ELECTRIC CAPITAL CORPORATION

By: ________________________________

Name: ______________________________

Title: _____________________________

EXHIBIT 7.1(i)
BORROWING BASE CERTIFICATE

The undersigned hereby certifies that the undersigned is the ___________________ of COMFORT SYSTEMS USA, INC., a Delaware corporation (the "COMPANY"), and that such officer is authorized to execute this Borrowing Base Certificate on behalf of the Company pursuant to the Third Amended and Restated Credit Agreement dated as of December 14, 1998 (as it may be amended, supplemented or restated from time to time, the "AGREEMENT"), by and among the Company, BANK ONE, TEXAS, N.A., as Agent, and the other parties thereto. The undersigned further certifies, represents and warrants that to the knowledge of such officer, after due inquiry, that SCHEDULE 1 attached hereto has been duly completed and is true and correct in all respects.

Dated ________________________, 200__.

COMFORT SYSTEMS USA, INC.

By:

Name:

Title:

SCHEDULE 1 TO EXHIBIT 7.1(I)

BORROWING BASE CALCULATION

As of _________________, 200___ :

Eligible Accounts Receivable	$ -----------	
	x 80% equals	
Borrowing Base		$ ===========

THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
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SEP-30-2000
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