UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997
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.)

THREE RIVERWAY
SUITE 200
HOUSTON, TEXAS 77056
(713) 830-9600
(Address and telephone number of Principal Executive offices)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.01 par value	New York Stock Exchange

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

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

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

As of March 24, 1998, the aggregate market value of the 20,881,235 shares of the registrant's common stock held by non-affiliates of the registrant was $430,675,472, based on the $20.625 last sale price of the registrant's common stock on the New York Stock Exchange on that date.

As of March 24, 1998, 28,808,084 shares of the registrant's common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: The information required by Part III (other than the required information regarding executive officers) is incorporated by reference from the registrant's definitive proxy statement, which will be filed with the Commission not later than 120 days following December 31, 1997.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements regarding the business and industry of Comfort Systems USA, Inc., a Delaware corporation ("Comfort Systems" and collectively with its subsidiaries, the "Company"), 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 uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual results to differ are discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Which May Affect Future Results."

PART I

ITEM 1. BUSINESS

Comfort Systems is a leading national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services. Founded in December 1996, the Company is consolidating the fragmented commercial and industrial HVAC markets, and performs most of its services within office buildings, retail centers, apartment complexes, hotels, manufacturing plants and government facilities. In addition to standard HVAC services, the Company also 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. Approximately 94% of the Company's pro forma combined 1997 revenues were derived from commercial and industrial customers.

On June 27, 1997, Comfort Systems completed the initial public offering (the "Offering") of its common stock (the "Common Stock") and simultaneously acquired in separate concurrent transactions twelve companies (collectively referred to as the "Founding Companies") engaged in providing HVAC services. The Founding Companies had operations in ten states and pro forma combined revenues in 1996 of $167.5 million. Subsequent to June 30, 1997, and through December 31, 1997, the Company acquired 27 HVAC and related businesses. These companies added approximately $190 million of annualized revenues to Comfort Systems and added operating locations in an additional 10 states, (which includes Puerto Rico).

These acquisitions included six "tuck-in" operations which were combined with existing Comfort Systems locations in 1997. In addition, during the first two months of 1998, the Company acquired five HVAC businesses with aggregate 1997 annual revenues of approximately $109 million.

INDUSTRY OVERVIEW

Based on available industry data, the Company believes that the HVAC industry is highly fragmented with over 40,000 companies, most of which are small, owner-operated businesses with limited access to capital for modernization and expansion. The HVAC industry as a whole is estimated to generate annual revenues in excess of $75 billion, over $35 billion of which is in the commercial and industrial markets. HVAC systems have become a necessity in virtually all commercial and industrial buildings as well as homes. Because most commercial buildings are sealed, HVAC systems provide the primary method of addressing air quality concerns and injecting fresh air. Older industrial facilities often have poor air quality as well as inadequate air conditioning, and older HVAC systems result in significantly higher energy costs than do modern systems. In many instances, the replacement of an aging system with a modern, energy-efficient system will significantly reduce a building's operating costs while also improving air quality and the effectiveness of the HVAC system. These factors are causing facility owners to examine replacement of older systems.

Growth in the HVAC industry is being positively affected by a number of factors, particularly (i) the aging of the installed base, (ii) the increasing efficiency, sophistication and complexity of HVAC systems, (iii) growing attention to indoor air quality resulting in the consideration of higher indoor air quality standards, and (iv) the increasing restrictions on the use of refrigerants commonly used in older HVAC systems. These factors are expected to increase demand for the reconfiguration or replacement of existing HVAC systems. The Company believes that these factors also mitigate the effect on the HVAC industry of the cyclicality inherent in the traditional construction industry.

The HVAC industry is subject to seasonal variations. Specifically, the demand for new installations and for 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.

The Company believes that the majority of business owners in the HVAC industry have limited access to capital for expansion of their businesses and that relatively few have attractive liquidity options. In addition, the increasing complexity of HVAC systems has led to a need for better trained technicians to install, monitor and service these systems. The cost of recruiting, training and retaining a sufficient number of qualified technicians makes it more difficult for smaller HVAC companies to expand their businesses. The Company believes that significant opportunities exist for a well-capitalized, national company to excel in the HVAC industry.

The HVAC industry can be broadly divided into the installation segment and the maintenance, repair and replacement segment.

INSTALLATION SEGMENT. The installation segment consists of "design and build" and "plan and spec" projects. In "design and build" projects, the commercial HVAC firm is responsible for designing, engineering and installing a cost-effective, energy-efficient system customized to the specific needs of the building owner. Costs and other project terms are normally negotiated between the building owner or their representative and the HVAC firm. Firms which specialize in "design and build" projects generally have specially-trained HVAC engineers, CAD/CAM design systems and in-house sheet metal and prefabrication capabilities. These firms utilize a consultative approach with customers and tend to develop long-term relationships with building owners and developers, general contractors, architects and property managers. "Plan and spec" installation refers to projects where an architect or a consulting engineer designs the HVAC systems and the installation project is "put out for bid." The Company believes that "plan and spec" projects usually take longer to complete than "design and build" projects because the preparation of the system design by a third party and resulting bid process often take months to complete. Furthermore, in "plan and spec" projects, the HVAC firm is not responsible for project design and any changes must be approved by several parties, thereby increasing overall project time and cost. Approximately 55% of the Company's pro forma combined 1997 revenues related to installation services and the majority of the revenues from installation projects were performed on a "design and build" basis.

MAINTENANCE, REPAIR AND REPLACEMENT SEGMENT. This segment includes the maintenance, repair, replacement, reconfiguration and monitoring of previously installed HVAC systems and controls. The aging of the installed base of HVAC systems and the increasing demand for more efficient, sophisticated and complex systems and controls have fueled growth in this segment. The increasing sophistication and complexity of these HVAC systems is leading many commercial and industrial building owners and property managers to outsource maintenance and repair, often through service agreements with HVAC service providers. In addition, increasing restrictions are being placed on the use of certain types of refrigerants used in HVAC systems, which, along with indoor air quality concerns, may increase demand for the reconfiguration and replacement of existing HVAC systems. State-of-the-art control and monitoring systems feature electronic sensors and microprocessors. These systems require specialized training to install, maintain and repair and the typical building engineer has not received this training. Increasingly, HVAC systems in commercial and industrial buildings are being remotely monitored through PC-based communications systems to improve energy efficiency and expedite problem diagnosis and correction. Approximately 45% of the Company's pro forma combined 1997 revenues related to maintenance, repair and replacement services.

STRATEGY

The Company has implemented an aggressive operating strategy that emphasizes continued internal growth and expansion through acquisitions.

OPERATING STRATEGY. The key elements of the Company's operating strategy are:

FOCUS ON COMMERCIAL AND INDUSTRIAL MARKETS. The Company focuses principally on the commercial and industrial markets with particular emphasis on the "design and build" installation segment and the maintenance, repair and replacement segments. The Company believes that the commercial and industrial HVAC markets are attractive because of their growth opportunities, diverse customer base, reduced weather exposure as compared to residential markets, attractive margins and potential for long-term relationships with building owners, property managers, general contractors and architects.

OPERATE ON A DECENTRALIZED BASIS. The Company manages its subsidiaries on a decentralized basis, with local management maintaining responsibility for day-to-day operations, profitability and growth. While it maintains strong operating and financial controls, the Company believes that its decentralized operating structure allows local management of each Company to capitalize on their knowledge of local and regional markets and on customer relationships possessed by each acquired company.

ACHIEVE OPERATING EFFICIENCIES. The Company believes there are opportunities to achieve operating efficiencies and cost savings through purchasing economies and the adoption of "best practices" operating programs. The Company seeks to use its growing purchasing power to gain volume discounts on products and services such as HVAC components, raw materials, service vehicles, advertising, bonding, insurance and benefits. Moreover, the Company reviews operations and training programs at the local and regional operating levels in order to identify those "best practices" that can be successfully implemented throughout its operations.

ATTRACT AND RETAIN QUALITY EMPLOYEES. The Company attracts and retains quality employees by providing them (i) an enhanced career path from working for a larger public company, (ii) additional training, education and apprenticeships to allow talented employees to advance to higher-paying positions, (iii) the opportunity to realize a more stable income and (iv) attractive benefits packages.

INTERNAL GROWTH. A key component of the Company's strategy is to continue the internal growth at the Company's subsidiaries. The key elements of the Company's internal growth strategy are:

CAPITALIZE ON SPECIALIZED TECHNICAL AND MARKETING STRENGTHS. The Company believes it will be able to continue to expand the services it offers in its markets by leveraging the specialized technical and marketing strengths of individual acquired companies. The Company also believes its growing geographical coverage will enable it to serve existing customers' needs in new regions that may have been beyond the service area of the Company's operations that originated the existing customer relationship. In addition, a number of acquired companies currently focus primarily on installation and, therefore, have only limited maintenance, repair and replacement operations. The Company believes there are significant opportunities for these acquired companies to provide maintenance, repair and replacement services, particularly by offering these services to customers for whom those companies have already designed and built systems. Several of the acquired companies have specific expertise in HVAC control and monitoring systems, process cooling, replacement and other service strengths. This expertise has been and will be increasingly shared within the Company's family of HVAC businesses.

ESTABLISH REGIONAL AND NATIONAL MARKET COVERAGE. The Company believes that significant demand exists from large regional and national companies to utilize the services of a single HVAC service company capable of providing comprehensive commercial and industrial services on a regional or national basis. Many of the acquired companies already provide local or regional coverage to companies with nationwide locations, such as commercial real estate developers and managers, retailers and manufacturers. The Company believes it can expand these existing relationships as it develops a nationwide network to provide these customers with a single source for all of their HVAC needs to promote consistent service, improve control and reduce cost.

ACQUISITIONS. Based on available industry data, the Company believes the HVAC industry is highly fragmented, with small, owner-operated businesses with limited capital resources, which outnumber larger enterprises. The key elements of the Company's acquisition strategy are:

ENTER NEW GEOGRAPHIC MARKETS. In new markets, Comfort Systems targets one or more leading local or regional companies providing HVAC services. The acquisition target has the customer base, technical skills and infrastructure necessary to be a core business into which other HVAC and/or complimentary service operations can be consolidated or "tucked-in." The Company chooses businesses that are located in attractive markets, are financially stable, are experienced in the industry and have management willing to participate in the future growth of the Company.

EXPAND WITHIN EXISTING MARKETS. Once the Company has entered a market, it seeks to acquire other well-established HVAC businesses to expand its market penetration and range of services offered. The Company also pursues "tuck-in" acquisitions of smaller companies, whose operations can be integrated into an existing operation to leverage the existing infrastructure of the previously acquired company.

ACQUIRE COMPLIMENTARY BUSINESSES. The Company acquires companies providing complimentary services to the same customer base, such as commercial and industrial control systems, process piping, plumbing and electrical services. This enables the Company to offer, on a comprehensive basis and from a single provider, HVAC, mechanical and electrical services in certain markets.

ACQUISITION PROGRAM

The Company is regarded by acquisition candidates as an attractive acquirer because of; (i) the Company's strategy to become a national, comprehensive and professionally managed HVAC service provider focused on commercial and industrial markets; (ii) the Company's decentralized operating strategy; (iii) the Company's increased visibility and access to financial resources as a public company; (iv) the potential for increased profitability due to certain centralized administrative functions, enhanced systems capabilities and access to increased marketing resources; and (v) the potential for the owners of the businesses being acquired to participate in the Company's planned internal growth and growth through acquisitions, while realizing liquidity.

As consideration for acquisitions, the Company will use various combinations of its Common Stock, cash and notes. The consideration for each future acquisition will vary on a case-by-case basis. The major factors in establishing the purchase price for each acquisition include historical operating results, future prospects of the acquiree and the ability of a business to complement the services offered by the Company.

OPERATIONS SERVICES PROVIDED

The Company provides a wide range of installation, maintenance, repair and replacement services for HVAC and related systems in commercial, industrial and, to a lesser extent, residential properties. Daily operations are managed on a local basis by the management team at each acquired company. In addition to senior management, acquired companies' personnel generally include design engineers, sales personnel, customer service personnel, installation service technicians, sheet metal and prefabrication technicians, estimators and administrative personnel. The Company manages the acquired companies on a decentralized basis, with local management maintaining responsibility for day-to-day operating decisions. The Company is in the process of centralizing certain administrative functions to enable the management of each acquired company to focus on pursuing new business opportunities and improving operating efficiencies. Administrative functions which the Company is centralizing include company-wide training and safety programs, certain accounting functions, risk management programs, cash management programs, purchasing programs and employee benefits.

INSTALLATION SEGMENT. The Company's installation business comprised approximately 55% of the Company's 1997 pro forma combined revenues. This segment consists of the design, engineering, integration, installation and start-up of HVAC and related systems. The commercial and industrial installation services performed by the Company consist primarily of "design and build" systems for office buildings, retail centers, apartment complexes, hotels, manufacturing plants and government facilities. In a "design and build" project, the customer typically has an overall design for the facility prepared by an architect or a consulting engineer who then enlists the Company's engineering personnel to prepare a specific design for the HVAC system. The Company determines the needed capacity, energy efficiency and type of controls that best suit the proposed facility. The Company's engineer then estimates the amount of time, labor, materials and equipment needed to build the specified system. Materials and equipment for a typical commercial or industrial project include ductwork, compressors, blowers, chillers, cooling towers, air handling equipment and the associated pumps and piping necessary to complete the system. The Company utilizes CAD/CAM systems in the design and engineering phases of the project to calculate the material and labor costs of the project. The drawings are prepared in a format appropriate for submission to local building inspectors. The final design, terms, price and timing of the project are then negotiated with the customer or its representatives, after which any necessary modifications are made to the system.

Once an agreement has been reached, the Company orders the necessary materials and equipment for delivery to meet the project schedule. In most instances, the Company fabricates in its own facilities, the ductwork and piping and assembles certain components for the system based on the mechanical drawing specifications, thereby eliminating the need to subcontract ductwork or piping fabrication. The Company's CAD/CAM systems are capable of automatically cutting ductboard, sheet metal and piping, thereby reducing the amount of labor necessary to produce the ductwork and piping for the system. Project specific components are then fabricated at the Company's facilities in sections small enough to be transported to the job site. This practice enables the Company to limit the amount of fieldwork required for installation, reduce the labor associated with the installation process and, therefore, meet the shorter time requirements increasingly demanded by commercial and industrial customers. The Company installs the system at the project site, working closely with the general contractor. Most commercial and industrial installation projects last from two weeks to one year and generate revenues from $25,000 to $2,000,000 per project. These projects are generally billed periodically as costs are incurred and, in most cases, with a 10% retainage held back until completion and successful start-up of the HVAC system.

The Company also performs selected "plan and spec" installation services when a bidder prequalification process has been used by the customer to limit the number of potential bidders for an attractive project. The Company may bid on more of these projects when "design and build" projects are in lower demand and when additional on-the-job training is needed for apprentice or less-experienced technicians.

The Company also installs process cooling systems, control and monitoring systems and industrial process piping. Process cooling systems are utilized primarily in industrial facilities to provide heating and/or cooling to precise temperature and climate standards for products being manufactured and for the manufacturing equipment. Control systems are used in HVAC and process cooling systems to maintain pre-established temperature or climate standards for commercial or industrial facilities. These systems use direct digital technology integrated with computer terminals. HVAC control systems are capable not only of controlling a facility's entire HVAC system, often on a room-by-room basis, but can be programmed to integrate energy management, security, fire, card key access, lighting and overall facility monitoring. This monitoring can be performed on-site or remotely through a PC-based communications system. The monitoring system will communicate an exception when the HVAC system is operating outside pre-established parameters. Diagnosis of potential problems can be performed from the computer terminal which often can remotely adjust the control system. Industrial process piping is utilized in manufacturing facilities to convey required raw material, support utilities and finished products.

MAINTENANCE, REPAIR AND REPLACEMENT SEGMENT. The Company's maintenance, repair and replacement segment comprised approximately 45% of the Company's 1997 pro forma combined revenues, and includes the maintenance, repair, replacement, reconfiguration and monitoring of HVAC systems and industrial process piping. Approximately two-thirds of the Company's maintenance, repair and replacement segment revenues were derived from reconfiguring existing HVAC systems for commercial and industrial customers. Reconfiguration often utilizes consultative expertise similar to that provided in the "design and build" installation market. The Company believes that the reconfiguration of an existing system results in a more cost-effective, energy-efficient system that better meets the specific needs of the building owner. The reconfiguration also enables the Company to utilize its design and engineering personnel as well as its sheet metal and pre-fabrication facilities.

Maintenance and repair services are provided either in response to service calls or pursuant to a service agreement. Service calls are coordinated by customer service representatives or dispatchers that use computer and communication technology to process orders, arrange service calls, communicate with customers, dispatch technicians and invoice customers. Service technicians work from service vehicles equipped with commonly used parts, supplies and tools to complete a variety of jobs.

Commercial and industrial service agreements usually have terms of one to three years, with automatic annual renewals, and typically provide fees from $3,000 to $20,000 per year. The Company also provides remote monitoring of temperature, pressure, humidity and air flow for HVAC systems. If the system is not operating within the specifications set forth by the customer and cannot be remotely adjusted, a service crew is dispatched to analyze and repair the system.

SOURCES OF SUPPLY

The raw materials and components used by the Company include HVAC system components, ductwork, steel, sheet metal and copper tubing and piping. These raw materials and components are generally available from a variety of domestic or foreign suppliers at competitive prices. Delivery times are typically short for most raw materials and standard components, but during periods of peak demand, may extend to a month or more. Chillers for large units typically have the longest delivery time and generally have lead times of up to six months. The major components of HVAC systems are compressors and chillers that are manufactured primarily by York Heating and Air Conditioning Corporation ("York"), Carrier Corporation and Trane Air Conditioning Company. The major suppliers of control systems are Honeywell Inc., Johnson Controls Inc., York and Andover Control Corporation. The Company does not have any significant contracts for the supply of raw materials or components.

SALES AND MARKETING

The Company has a diverse customer base, with no single customer accounting for more than 6% of the Company's historical consolidated 1997 revenues or 4% of pro forma combined 1997 revenues. Management and a dedicated sales force at the acquired companies have been responsible for developing and maintaining successful long-term relationships with key customers. Customers of the acquired companies generally include building owners and developers and property managers, as well as general contractors, architects and consulting engineers. The Company intends to continue its emphasis on developing and maintaining long-term relationships with its customers by providing superior, high-quality service in a professional manner. Moreover, the dedicated sales force will receive additional technical and sales training to enhance the comprehensive selling skills necessary to serve the HVAC needs of their customers.

The Company also intends to capitalize on cross-marketing and business development opportunities that management believes are available to the Company as a national provider of comprehensive commercial and industrial HVAC and related services. Management believes that it will be able to leverage the diverse technical and marketing strengths of individual acquired companies to expand the services offered in other local markets. Eventually, the Company intends to offer comprehensive services from many of its regional locations.

EMPLOYEES

As of December 31, 1997, the Company had 3,119 employees, including 198 management personnel, 2,430 engineers and service and installation technicians, 130 sales personnel and 361 administrative personnel. As it executes its internal growth and acquisition strategies, the Company expects the number of employees to increase. Certain of the Company's subsidiaries have collective bargaining agreements that cover, in the aggregate, approximately 370 employees. The Company has not experienced any strikes or work stoppages and believes its relations with employees covered by collective bargaining agreements are good.

RECRUITING, TRAINING AND SAFETY

The Company's continued future success will depend, in part, on its ability to continue to attract, retain and motivate qualified service technicians, field supervisors and project managers. The Company believes that its success in retaining qualified employees will be based on the quality of its recruiting, training, compensation, employee benefits programs and opportunities for advancement. The Company recruits at local technical schools and community colleges where students focus on learning basic HVAC and related skills. Additionally, Comfort Systems provides on-the-job training, apprenticeship programs, attractive benefit packages, steady employment and opportunities for advancement.

The Company intends to establish "best practices" safety programs throughout its operations to ensure that all technicians comply with safety standards established by the Company and federal, state and local laws and regulations. The Company's employment screening process seeks to determine that prospective employees have the requisite skills, sufficient background references and acceptable driving records, if applicable. Additionally, the Company intends to implement a "best practices" safety program throughout its operations, which will provide employees with incentives to improve safety performance and decrease workplace accidents. The Company intends to implement job site safety meetings which will provide additional guidance in safety related matters such as proper lifting techniques and eye safety in an effort to reduce the number of preventable accidents.

RISK MANAGEMENT, INSURANCE AND LITIGATION

The primary risks in the Company's operations are bodily injury, property damage and injured workers' compensation. The Company has obtained and intends to maintain liability insurance for bodily injury and third party property damage which it considers sufficient to insure against these risks, subject to self-insured amounts.

The Company is subject to certain claims and lawsuits arising in the normal course of business and maintains various insurance coverages to minimize financial risk associated with these claims. The Company has provided accruals for probable losses and legal fees associated with certain of these actions in the accompanying consolidated financial statements. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolution of these matters will not have a material effect on the Company's financial position or results of operations.

The Company's subsidiaries typically warrant labor for the first year after installation on new air conditioning and heating systems and pass to the customer warranties on equipment purchased from manufacturers. The Company's subsidiaries generally warrant labor for 30 days after servicing of existing air conditioning and heating systems. The Company does not expect warranty claims to have a material adverse effect on its financial position or results of operations.

COMPETITION

The HVAC industry is highly competitive. The Company believes that purchasing decisions in the commercial and industrial markets are based on (i) long-term customer relationships, (ii) quality, timeliness and reliability of services provided, (iii) competitive price, (iv) range of services provided and (v) scale of operation. The Company believes its strategy of becoming a leading national provider of comprehensive HVAC installation services as well as maintenance, repair and replacement of HVAC systems directly addresses these factors. Specifically, the Company's strategy to focus on the highly consultative "design and build" installation segment and the maintenance, repair and replacement segment, as well as its strategy to operate on a decentralized basis, should promote the development and strengthening of long-term customer relationships. In addition, the Company's focus on attracting, training and retaining quality employees by utilizing professionally managed recruiting, training and benefits programs should allow it to offer high quality, comprehensive HVAC services at a competitive price.

Most of the Company's competitors are small, owner-operated companies that typically operate in a limited geographic area. There are, however, a few public companies focused on providing HVAC services in some of the same service lines provided by the Company. In addition, there are other private companies attempting to consolidate HVAC companies on a regional or national basis. In the future, competition may be encountered from new entrants, such as public utilities and HVAC manufacturers. Certain of the Company's competitors and potential competitors may have greater financial resources than the Company to finance acquisition and development opportunities, to pay higher prices for the same opportunities or to develop and support their own operations.

GOVERNMENTAL REGULATION AND ENVIRONMENTAL MATTERS

The Company's operations are subject to various federal, state and local laws and regulations, including; (i) licensing requirements applicable to service technicians, (ii) building and HVAC codes and zoning ordinances, (iii) regulations relating to consumer protection, including those governing residential service agreements and (iv) regulations relating to worker safety and protection of the environment. The Company believes it has all required licenses to conduct its operations and is in substantial compliance with applicable regulatory requirements. Failure of the Company to comply with applicable regulations could result in substantial fines or revocation of the Company's operating licenses.

Many state and local regulations governing the HVAC services trades require permits and licenses to be held by individuals. In some cases, a required permit or license held by a single individual may be sufficient to authorize specified activities for all of the Company's service technicians who work in the state or county that issued the permit or license. The Company intends to implement a policy to ensure that, where possible, any such permits or licenses that may be material to the Company's operations in a particular geographic region are held by at least two Company employees within that region.

The Company's operations are subject to the federal Clean Air Act, as amended (the "Clean Air Act"), which governs air emissions and imposes specific requirements on the use and handling of chlorofluorocarbons ("CFCs") and certain other refrigerants. Clean Air Act regulations require the certification of service technicians involved in the service or repair of equipment containing these refrigerants and also regulate the containment and recycling of these refrigerants. These requirements have increased the Company's training expenses and expenditures for containment and recycling equipment. The Clean Air Act is intended ultimately to eliminate the use of CFCs in the United States and to require alternative refrigerants to be used in replacement HVAC systems. As a result, the number of conversions of existing HVAC systems which utilize CFCs to systems using alternative refrigerants is expected to increase.

The Company is not aware of any material environmental liabilities associated with its properties.

EXECUTIVE OFFICERS

The Company has five executive officers.

Fred M. Ferreira, age 54, has served as Chairman of the Board, Chief Executive Officer and President of Comfort Systems since January 1997. Mr. Ferreira was responsible for introducing the consolidation opportunity in the commercial and industrial HVAC industry to Notre Capital Ventures II, L.L.C. ("Notre") and was primarily responsible for the organization of Comfort Systems, the acquisition of the Founding Companies and the Offering. From 1995 through 1996, Mr. Ferreira was a private investor. He served as Chief Operating Officer and a director of Allwaste, Inc., a publicly-traded environmental services company ("Allwaste"), from 1994 to 1995, and was President of Allwaste Environmental Services, Inc., the largest division of Allwaste, from 1991 to 1994. From 1989 to 1990, Mr. Ferreira served as President of Allied Waste Industries, Inc., an environmental services company. Prior to that time, Mr. Ferreira served as Vice President - Southern District and in various other positions with Waste Management, Inc., an environmental services company.

Michael Nothum, Jr., age 43, is a director of the Company and was acting Chief Operating Officer until January 1998 when he became Chief Operating Officer. He has been employed by Tri-City Mechanical, Inc., one of the Founding Companies, since 1979, serving as President since 1992. Mr. Nothum currently serves on the Education and Training Committee of Associated Builders and Contractors and on the Legislative Committee of the Air Conditioning Contractors Association.

J. Gordon Beittenmiller, age 39, has served as Senior Vice President, Chief Financial Officer and a director of Comfort Systems since February 1997. From 1994 to February 1997, Mr. Beittenmiller was Corporate Controller of Keystone International, Inc. ("Keystone"), a publicly-traded manufacturer of industrial valves and actuators, and served Keystone in other financial positions from 1991 to 1994. From 1987 to 1991, he was Vice President - Finance of Critical Industries, Inc., a publicly-traded manufacturer and distributor of specialized safety equipment. From 1982 to 1987, he held various positions with Arthur Andersen LLP. Mr. Beittenmiller is a Certified Public Accountant.

Reagan S. Busbee, age 34, has served as Senior Vice President of Comfort Systems since January 1997. From 1992 through 1996, Mr. Busbee served as Vice President of Chas. P. Young Co., a financial printer and a wholly-owned subsidiary of Consolidated Graphics Inc., a publicly-traded consolidator of the printing industry. From August 1986 to May 1992, he held various positions and was a certified public accountant with Arthur Andersen LLP.

William George, III, age 33, has served as Vice President, General Counsel and Secretary of Comfort Systems since March 1997. From October 1995 to February 1997, Mr. George was Vice President and General Counsel of American Medical Response, Inc., a publicly-traded consolidator of the healthcare transportation industry. From September 1992 to September 1995, Mr. George practiced corporate and antitrust law at Ropes & Gray, a law firm.

ITEM 2. PROPERTIES

Each of the Company's subsidiaries leases the real property and buildings from which it operates. The Company's facilities consist of offices, shops, maintenance and warehouse facilities. Generally, leases range from five to ten years and are on terms the Company believes to be commercially reasonable. Certain of these facilities are leased from related parties. In order to maximize available capital, the Company generally intends to continue to lease the majority of its properties. The Company believes that its facilities are adequate for its current needs.

The company leases its executives and administrative offices in Houston, Texas.

ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table sets forth the reported high and low sales prices of the Common Stock for the quarters indicated as traded at the New York Stock Exchange. The Common Stock is traded under the symbol FIX.

	HIGH	LOW
June 27-30, 1997............................	$ 16.125	$ 13.00
Third Quarter, 1997.........................	$ 21.5625	$ 15.50
Fourth Quarter, 1997........................	$ 20.0625	$ 15.00

As of March 24, 1998, there were approximately 278 stockholders of record of the Company's Common Stock, and the last reported sale price on that date was $20.625 per share.

The Company has never declared or paid a dividend on its Common Stock. The Company expects to retain all future earnings in order to finance its acquisition program and, consequently, does not intend to declare any dividend on the Common Stock for the foreseeable future. In addition, the Company's revolving credit agreement restricts the ability of the Company to pay dividends without the lender's consent. No market exists for the Company's Restricted Voting Common Stock, which converts to Common Stock upon transfer.

SALE OF UNREGISTERED SECURITIES

On January 6, 1997, Comfort Systems issued and sold shares of Common Stock to the following parties in the amounts and for the consideration indicated. These sales were exempt from registration under Section 4(2) of the Securities Act ("Section 4(2)"), no public offering being involved: Notre - 23,516.623 shares for a consideration of $28,699.12; Fred M. Ferreira - 3957.7359 shares for a consideration of $4,794.35; J. Gordon Beittenmiller - 825.5 shares for a consideration of $1,000.00; Reagan S. Busbee - 825.5 shares for a consideration of $1,000.00; S. Craig Lemmon - 825.5 shares for consideration of $1,000.00; Milburn E. Honeycutt - 412.75 shares for a consideration of $500.00; Brian J. Vensel - 412.75 shares for a consideration of $500.00; Emmett E. Moore - 412.75 shares for a consideration of $500.00; John W. Bouloubasis - 412.75 shares for a consideration of $500.00; Stephen R. Baur - 330.2 shares for a consideration of $400.00; Shellie LePori - 206.375 shares for a consideration of $250.00; Constance Drew - 288.925 shares for a consideration of $350.00; John Mercadante, Jr. - 82.55 shares for consideration of $100.00; Larry Martin - 82.55 shares for consideration of $100.00; Norton Family Trust - 61.9125 shares for a consideration of $75.00; Larry E. Jacobs - 61.9125 shares for consideration of $75.00; Richard T. Howell - 41.275 shares for a consideration of $50.00; Rod Crosby - 41.275 shares for a consideration of $50.00; Jennifer Summerford - 24.765 shares for a consideration of $30.00; Infoscope Partners, Inc. - 8.255 shares for a consideration of $10.00; Melinda Malik - 4.1275 shares for a consideration of $5.00; and Steven T. Zellers - 16.51 shares for a consideration of $20.00.

On February 25, 1997, Comfort Systems issued and sold shares of Common Stock to the following parties in the amounts and for the consideration indicated. These sales were exempt from registration under Section 4(2) of the Securities Act, no public offering being involved: William George III - 619.125 shares for a consideration of $750.00; J. Gordon Beittenmiller - 132.08 shares for a consideration of $160.00; Reagan S. Busbee - 132.02 shares for a consideration of $160.00; S. Craig Lemmon - 132.08 shares for a consideration of $160.00; Milburn E. Honeycutt - 66.04 shares for a consideration of $80.00; and Brian J. Vensel - 66.04 shares for a consideration of $80.00.

Effective March 20, 1997, Comfort Systems effected a 121.1387 to 1 stock split on outstanding shares of Common Stock as of March 19, 1997.

Effective March 20, 1997, Comfort Systems issued and sold 2,742,912 shares of Restricted Voting Common Stock to Notre in exchange for 2,742,912 share of Common Stock. This sale was exempt from registration under Section 3(a)(9) of the Securities Act, no public offering being involved.

On July 2, 1997, the Company issued 9,720,927 shares of its Common Stock in connection with the Mergers of the Founding Companies (each as defined in the Company's Registration Statement on Form S-1 dated July 2, 1997). Each of these transactions was completed without registration under the Securities Act in reliance upon the exemption provided by Section 4(2), no public offering being involved.

Excluding the issuance on July 2, 1997, described above, during the third quarter of 1997, the Company issued 2,057,823 unregistered shares of its Common Stock in connection with acquisitions of HVAC businesses, none of which was individually material. Of such shares, 583,878 were subsequently registered pursuant to the Company's Registration Statement filed with the Securities Exchange Commission on October 16, 1997. Each of these transactions was completed without registration under the Securities Act in reliance upon the exemption provided by Section 4(2), no public offering being involved.

In the fourth quarter of 1997, the Company issued 2,708,289 unregistered shares of its Common Stock in connection with the acquisition of HVAC businesses, none of which was individually material. Each of these transactions was complete without registration under the Securities Act in reliance on the exemption provided by Section 4(2), no public offering being involved.

ITEM 6. SELECTED FINANCIAL DATA

Comfort Systems acquired the twelve Founding Companies in connection with the Offering on June 27, 1997. During the remainder of 1997, the Company completed 27 acquisitions, 14 of which were accounted for as pooling-of-interests (the "Pooled Companies") and 13 of which were accounted for as purchases (the "Purchased Companies"). The following selected historical financial data has been derived from the audited financial statements of the Company for each of the three years ended December 31, 1995, 1996, and 1997, and retroactively reflects the Pooled Companies as appropriate. The remaining selected historical financial data of the Company has been derived from unaudited financial statements of the Company. These unaudited financial statements have been prepared on the same basis as the audited financial statements of the Company, and in the opinion of the Company, reflect all adjustments necessary for a fair presentation of that historical information. The historical financial statement data reflects the acquisitions of the Founding Companies and Purchased Companies as of their respective acquisition dates and reflects eight of the Pooled Companies (the "Restated Companies") for all periods presented. Certain of the Pooled Companies are considered immaterial poolings based upon the relative significance of their individual operations and have not been restated for all periods presented. The selected historical financial data below should be read in conjunction with the historical financial statements and related notes.

	YEAR ENDED DECEMBER 31,				
	1993	1994	1995	1996	1997
	(IN THOUSANDS)				
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 52,195	$ 67,254	$ 65,167	$ 96,296	$ 237,709
Operating income	822	1,638	1,717	5,076	4,531
Net income (loss)	685	1,203	1,293	3,590	(2,830)
BALANCE SHEET DATA:					
Working capital	$ 3,645	$ 3,904	$ 7,048	$ 9,515	$ 57,275
Total assets	14,918	18,164	24,874	31,479	287,780
Total debt, including current portion	2,406	2,001	3,502	3,929	21,211
Stockholders' equity	3,550	4,305	7,707	11,357	212,668

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

INTRODUCTION

The following discussion should be read in conjunction with the consolidated historical financial statements of the Company and related notes thereto. 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, among others, risks associated with the difficulty of integrating newly acquired companies while maintaining their financial performance, seasonal or cyclical variation in demand for the Company's products and services, the ability to obtain acquisition financing, increasing competition for acquisition targets as new companies enter the market for HVAC consolidation, labor availability, and the continued issuance of new shares and the resulting overhang of saleable stock and other risks detailed in the Company's continuing reports filed with the Securities and Exchange Commission.

Comfort Systems was founded in December 1996 to become a leading national provider of HVAC services, focusing primarily on commercial and industrial markets.

On June 27, 1997, Comfort Systems completed the Offering of its Common Stock and simultaneously acquired the twelve Founding Companies, which are engaged in providing HVAC services. The closing of the acquisitions of the Founding Companies and the Offering occurred on July 2, 1997. Subsequent to June 30, 1997, and through December 31, 1997, the Company acquired 27 additional HVAC businesses. Of these additional acquisitions, fourteen acquisitions were accounted for as poolings-of-interests and are referred to herein as the Pooled Companies, and the remaining thirteen acquisitions were accounted for as purchases and are referred to herein as the Purchased Companies. The historical financial statements of the Company have been retroactively restated to give effect to the operations of the Restated Companies. Certain of the Pooled Companies are considered immaterial poolings and have not been restated for all periods presented based upon the relative significance of their individual operations as discussed in Item 6.

Pro forma and historical results are not necessarily indicative of future results of the Company because, among other things, the acquired companies were not under common control or management prior to their acquisition. The results of the Company have historically been subject to seasonal fluctuations. These pro forma combined and historical statements of operations should be read in conjunction with the consolidated financial statements and related notes of Comfort Systems, filed herewith, and the additional information and the respective financial statements and related notes of Comfort Systems and the Founding Companies included in the Company's Registration Statement on Form S-1 (File No. 333-24021) (the "Registration Statement"), as amended, filed with the Securities and Exchange Commission in connection with the Offering.

The timing and magnitude of acquisitions, assimilation costs and the seasonal nature of the HVAC industry may materially affect operating results. Accordingly, the operating results for any period are not necessarily indicative of the results that may be achieved for any subsequent period.

PRO FORMA

The following pro forma information is presented supplementally to reflect the pro forma results of operations as if the acquisition of the Founding Companies occurred on January 1 of the respective years, as presented in the Registration Statement. Therefore, the accompanying unaudited pro forma combined statements of operations and the related management's discussion and analysis of the Company for the years ended December 31, 1997 and 1996, respectively, include the combined operations of the Restated

Companies and the Founding Companies from January 1, 1996, and the Purchased Companies from the dates of their acquisition. Certain of the Pooled Companies are considered immaterial poolings and have not been restated for all periods presented.

The Founding Companies, Pooled Companies and Purchased Companies were managed prior to their acquisitions as independent private companies. Therefore, historical selling, general, and administrative expenses for the periods presented in the consolidated financial statements of the Company reflect compensation and related benefits the owners of those businesses received prior to acquisition. Historical selling, general and administrative expenses also include the non-recurring non-cash compensation charge of $11.6 million recorded by Comfort Systems in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company. The following pro forma combined results of operations have been presented for the purpose of reflecting net income as if the merger of the Founding Companies and the acquisition of the Restated Companies occurred January 1, 1996 and 1997. The pro forma adjustments reflect: (a) certain reductions in salaries and benefits to the former owners ("the Compensation Differential") of the Founding and Purchased Companies which they agreed would take effect as of the date of the acquisitions, (b) pro forma compensation expense of $430,000 for the six months ended June 30, 1997, to reflect the ongoing salaries received by corporate management as though those salaries were being paid prior to the Offering, (c) interest expense on borrowings of $11.0 million that would have been necessary to fund the S Corporation Distributions if they had occurred at the beginning of each period presented, (d) the elimination of the $11.6 million non-recurring non-cash compensation charge referred to above, and (e) the reduction of the acquisition-related costs incurred in the acquisition of the Pooled Companies. In addition, an incremental tax provision has been recorded as if all applicable Purchased and Founding Companies, and Pooled Companies which were C Corporations had been subject to federal and state income taxes.

RESULTS OF OPERATIONS - PRO FORMA COMBINED (UNAUDITED)

	YEAR ENDED DECEMBER 31, (IN THOUSANDS)			
	1996		1997	
Revenues	$ 263,863	100.0%	$ 324,609	100.0%
Cost of services	191,879	72.7	234,336	72.2
Gross profit	71,984	27.3	90,273	27.8
Selling, general and administrative expenses	41,745	15.8	55,966	17.2
Goodwill amortization	3,495	1.4	3,593	1.1
Operating income	26,744	10.1	30,714	9.5
Other income (expense)	(863)	(0.3)	(461)	(0.2)
Income before taxes	25,881	9.8	30,253	9.3
Provision for income taxes	11,077	--	12,721	--
Pro forma net income	$ 14,804	5.6%	$ 17,532	5.4%

1997 COMPARED TO 1996

PRO FORMA REVENUES - Pro forma combined revenues increased 23% to $324.6 million for the year ended December 31, 1997. Revenues of $16.7 million for the Purchased Companies acquired in 1997 are included in 1997. No results for these companies are included in 1996. Excluding these amounts, revenues increased 16.7% from 1996 to 1997. This increase was primarily attributable to significant "design and build" projects in the Company's Phoenix operations for a new medical center and a semiconductor fabrication facility, broad growth in commercial and industrial "design and build" activities in Tennessee operations, increased general demand for the Company's services in the Grand Rapids, Michigan market, greater demand for specialized multi-unit installation services in Texas and the Northeast, and increased demand for the Company's commercial service capabilities in the Cincinnati market.

PRO FORMA GROSS PROFIT - Pro forma combined gross profit increased 25.4% to $90.3 million for the year ended December 31,1997, primarily due to increased revenue volume. Gross profit from certain Purchased Companies, which are not reported in 1996 results, accounted for 4.4% of the pro forma gross profit in the current year. Pro forma combined gross profit as a percentage of revenues increased from 27.3% to 27.8% in 1997. This increase in gross profit margin was primarily attributable to an overall improvement from the Companies' operations in Mobile, Alabama, associated with its specialized "design and build" HVAC installation capabilities, and the somewhat higher gross margins resulting from the installation and service of HVAC controls-based energy management systems at two locations. These increases in gross profit margin were slightly offset by certain lower margin "design and build" installation projects, which were accepted as a strategic enhancement to the Company's portfolio of "design and build" projects.

PRO FORMA SELLING, GENERAL AND ADMINISTRATION EXPENSES (SG&A) - Pro forma combined SG&A expenses, excluding goodwill amortization and non-recurring acquisition related costs, increased $14.2 million or 34.1% to $56.0 million for the year ended December 31,1997, compared to the prior year. Approximately $2.5 million of this increase is attributable to the Purchased Companies, which are not included in 1996 results. The Company's establishment as a public company in 1997 resulted in $2.2 million of corporate office and management expenses in 1997, whereas no such corporate expenses are reflected in 1996 as the Company was not yet public. The remaining increases in SG&A were due principally to additions of personnel and infrastructure to support growth in revenues.

PRO FORMA OTHER INCOME (EXPENSE) - Pro forma net other expense decreased due to the increase in interest income of $0.7 million resulting from the investment of temporary excess cash following the Company's Offering of Common Stock in June 1997.

HISTORICAL

The following historical consolidated financial information represents the operations of the Restated Companies for all periods presented and the Founding Companies and Purchased Companies from their respective date of acquisitions. Certain of the Pooled Companies are considered immaterial poolings and have not been restated for all periods presented. The following historical financial information for 1997 includes the non-recurring non-cash compensation charge of $11.6 million recorded by Comfort Systems in the first quarter of 1997, non-recurring acquisition-related costs and reflects normal recurring corporate costs of Comfort Systems subsequent to the initial public offering. This compensation charge is not deductible for federal and state income taxes. This historical consolidated information has been derived from the audited Consolidated Financial Statements of the Company.

RESULTS OF OPERATIONS - HISTORICAL

	YEAR ENDED DECEMBER 31, (IN THOUSANDS)					
	1995		1996		1997	
Revenues	$ 65,167	100.0%	$ 96,296	100.0%	$ 237,709	100.0%
Cost of services	48,743	74.8	72,123	74.9	171,941	72.3
Gross profit	16,424	25.2	24,173	25.1	65,768	27.7
Selling, general and administrative expenses	14,707	22.6	19,097	19.8	59,386	25.0
Goodwill amortization	--	--	--	--	1,851	0.8
Operating income	1,717	2.6	5,076	5.3	4,531	1.9
Other income (expense)	79	0.1	(69)	(0.1)	69	0.0
Income before taxes	1,796	2.7	5,007	5.2	4,600	1.9
Provision for income taxes	503	--	1,417	--	7,430	--
Net income (loss)	$ 1,293	2.0%	$ 3,590	3.7%	$ (2,830)	(1.2)%

1997 COMPARED TO 1996

REVENUES - Revenues increased $141.4 million, or 146.9%, over 1996, to $237.7 million for the year ended December 31, 1997. The acquisition of the Founding Companies as of July 2, 1997, and the acquisition of the Purchased Companies in the second half of 1997, accounted for 88.2% of the increase in revenues over the prior year. The remaining increase in revenues over the prior year is primarily attributable to increased demand for the Company's commercial service capabilities in the Cincinnati market.

GROSS PROFIT - Gross profit increased $41.6 million, or 172.1%, over 1996, to $65.8 million for the year ended December 31, 1997. The acquisition of the Founding Companies and Purchased Companies accounted for 81.5% of the increase over the prior year. Gross profit as a percentage of revenues increased as a result of the Founding Companies' positive impact on the overall gross profit percentage in the second half of 1997 and an overall improvement from the Pooled Companies compared to the prior year. The Company's operations in Mobile, Alabama contributed the largest increase as a percentage of revenues among the Pooled Companies due to higher margins associated with its specialized "design and build" HVAC installation capabilities.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - SG&A, excluding goodwill amortization, increased $40.3 million, or 211.0%, over 1996, to $59.4 million for 1997. Approximately one half of this increase is related to the acquisition of the Founding and Purchased Companies. Historical SG&A for 1997 includes the non-recurring, non-cash compensation charge of $11.6 million recorded by Comfort Systems in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company. The Company's establishment as a public company in 1997 resulted in $2.8 million of corporate office and management expenses in 1997 whereas no such corporate expenses are reflected in 1996 as the Company was not yet public. Of this amount, approximately $0.6 million was non-recurring acquisition costs related to the Pooled Companies. The remaining increase related to increases in personnel and infrastructure to support growth at certain of the Pooled Companies, and does not reflect the reduction in management compensation and benefits as a result of the mergers of these Pooled Companies with Comfort Systems.

OTHER INCOME (EXPENSE) - Net other income increased to $0.1 million for the year ended December 31, 1997 due primarily to the increase in interest income of $0.7 million resulting from the investment of temporary excess cash following the Company's Offering of Common Stock in June.

1996 COMPARED TO 1995

REVENUES - Revenues increased $31.1 million, or 47.8%, to $96.3 million for the year ended December 31, 1996, compared to the year ended December 31, 1995. Certain Pooled Companies representing $12.3 million, or 39.5%, of the increase in revenue over 1995 are not included in 1995 results. The remaining increase in revenues over 1995 is primarily attributable to increased demand for the Company's commercial service capabilities in the Memphis market and commercial installation service capabilities in the Alabama market.

GROSS PROFIT - Gross Profit increased $7.7 million, or 47.2%, to $24.2 million for the year ended December 31, 1996, compared to the year ended December 31, 1995. Certain Pooled Companies representing $4.1 million, or 52.7%, of the increase over 1995 are not included in 1995 results. The remaining increase in gross profit was partially a result of increased demand for the Company's commercial service capabilities while maintaining gross profit margins in the Memphis market area and an improvement in gross profit margins in the Cincinnati operations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - SG&A, excluding goodwill amortization, increased $4.4 million, or 29.8%, to $19.1 million for the year ended December 31, 1996 compared to the year ended December 31, 1995. Certain Pooled Companies representing $2.3 million, or 52.6%, of the increase over 1995 are not included in the 1995 results. The majority of the remaining increase is due to an addition of personnel in the Cincinnati market area to capitalize on revenue growth opportunities. SG&A for the Pooled Companies in 1995 and 1996 reflects the compensation and related benefits those owners received from their respective businesses prior to the acquisition.

LIQUIDITY AND CAPITAL RESOURCES - HISTORICAL

For the year ended December 31, 1997, net cash used in operating activities was $1.7 million due to a decrease in accounts payable of $3.8 million and an increase in accounts receivables of $10.9 million. Accounts payable balances decreased from the date of acquisition at various locations as certain companies took advantage of the consolidated cash management system to receive cash discounts for early payments. Cash provided from operations for 1996 and 1995 was $3.3 million and $1.0 million, respectively, primarily as a result of net income for the periods.

Cash used in investing activities was $57.5 million for the year ended 1997, primarily in connection with the acquisition of the Founding Companies and Purchased Companies for $54.1 million, net of cash acquired. Cash flows used in investing activities for 1996 and 1995 were $1.8 million and $0.7 million, respectively, primarily for additions to equipment.

Cash provided by financing activities for the year ended December 31, 1997 was $67.7 million and was primarily attributable to the $79.9 million from the Offering which was partially offset by a net reduction in debt of $10.7 million in the second half of 1997. Net cash used in financing activities in 1996 was $0.8 million from a net reduction in outstanding debt. Net cash provided by financing activities in 1995 was $1.1 million due to the net increase in outstanding debt of $1.3 million.

On June 27, 1997, Comfort Systems completed the offering of 6,100,000 shares of Common Stock to the public at $13.00 per share. The net proceeds to Comfort Systems from the Offering (after deducting underwriting commissions and offering expenses) were $68.8 million. Of this amount, $45.3 million was used to pay the cash portion of the purchase prices of the Founding Companies.

In connection with the Offering, the Company granted its underwriters an option to sell an additional 915,000 shares at $13.00 per share. On July 9, the underwriters exercised this option. Net proceeds to the Company from this sale of shares were $11.1 million after deducting underwriting commissions.

Subsequent to December 31, 1997, and through February 25, 1998, the Company completed acquisitions of five companies for approximately $15.1 million in cash, 2,002,894 shares of Common Stock and approximately $1.3 million in Convertible Subordinated Notes. The Company has filed a Current Report on Form 8-K related to one of these acquisitions. These acquisitions will be accounted for as purchase transactions.

In July 1997, the Company entered into a credit agreement with Bank One, Texas, N.A. (the "Credit Facility"). The Credit Facility was amended and restated in September 1997 primarily to provide for additional banks to lend to the Company under the Credit Facility. The Credit Facility provides the Company with an unsecured revolving line of credit of $75 million. The Company has a choice of two interest rate options when borrowing under the Credit Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus one-half percentage point or the bank's prime rate. An additional margin of zero to one-quarter percentage point is then added to the higher of these two rates. The additional margin depends on the ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization for the preceding twelve months ("EBITDA"). For purposes of this ratio, EBITDA may include the preceding twelve months' results for any companies acquired during the last year. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate the London Interbank Offered Rates or LIBOR, as published in major financial media) plus one to two percentage points, again depending on the ratio of debt to EBITDA. In addition, commitment fees of 0.125% to 0.375% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the line of credit. The Credit Facility prohibits the payment of dividends by the Company without lender's approval and requires the Company to comply with certain financial covenants. The Credit Facility expires on July 2, 2000, at which time, all amounts outstanding under the facility are due. As of December 31, 1997, $15.3 million was outstanding under the Credit Facility at an average interest rate of approximately 6.7% per annum for the second half of 1997. As of March 24, 1998, $43.8 million was outstanding under the Credit Facility. The Company is currently in discussion with existing and potential lenders to significantly increase the Credit Facility and extend its maturity to three years from the date of increase. The Company believes that all other terms and conditions of the Credit Facility will remain substantially unchanged if the Credit Facility is increased.

The Company intends to pursue additional acquisition opportunities. The Company anticipates that available borrowings under its Credit Facility and cash flow from operations will provide cash in excess of the Company's normal working capital needs, debt service requirements and planned capital expenditures for equipment. Should the Company accelerate or revise its acquisition program, the Company may need to seek additional financing through the public or private sale of equity or debt securities. There can be no assurance that the Company will secure such financing if and when it is needed, or that such financing will be available on terms that the Company deems acceptable.

YEAR 2000

The Company is currently assessing the impact of "Year 2000" related issues on its operational and financial computer systems. The Company has not yet determined the operational impact, if any, which may result in the future. Therefore, the Company is unable to determine the potential impact, if any, on its results of operations or financial condition.

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.

FACTORS WHICH MAY AFFECT FUTURE RESULTS

The Company's future operating results are difficult to predict and may be affected by a number of factors, including the lack of a combined operating history and the difficulty of integrating acquired businesses, difficulties in implementing its acquisition strategy, seasonal and cyclical fluctuations in the demand for HVAC systems and the availability of acquisition financing. As a result of these and other factors, there can be no assurance that the Company will not experience material fluctuations in future operating results on a quarterly or annual basis.

The Company's success depends in part on its ability to integrate the businesses that it acquires. The acquired businesses operated as separate, independent entities prior to their affiliation with the Company, and there can be no assurance that the Company will be able to integrate the operations of these businesses successfully or institute the necessary systems and procedures, including accounting and financial reporting systems, to effectively manage the combined enterprise on a profitable basis. The pro forma combined historical financial results of the acquired businesses primarily cover periods when such businesses were not under common control or management and, therefore, may not be indicative of the Company's future financial or operating results.

The Company has grown and intends to continue to grow significantly through the acquisition of additional HVAC and complementary businesses, but in the future it could face difficulties in implementing its acquisition strategy. The Company faces increasing competition for acquisition candidates, a fact that may limit the number of acquisition opportunities and may lead to higher acquisition prices. The HVAC industry is currently undergoing rapid consolidation on both a national and a regional level by the Company and by other companies that have acquisition objectives that are similar to the Company's objectives. Additionally, HVAC equipment manufacturers and certain public utilities are beginning to enter the maintenance, repair and replacement segment of the HVAC industry. These companies generally are better capitalized, have greater name recognition and may be able to provide these services at a lower cost.

Acquisitions also involve a number of special risks, including failure of the acquired business to achieve expected results, diversion of management's attention and failure to retain key personnel of the acquired business. There are also risks associated with unanticipated events or liabilities resulting from the acquired businesses' operations prior to their acquisition. Any of these risks, or a combination of them, could have a material adverse effect on the Company's business, financial condition and results of operations.

The timing, size and success of the Company's acquisition efforts depend in large part on the availability of financing. The Company intends to continue to finance future acquisitions by using shares of its Common Stock for a substantial portion of the consideration to be paid. If the Common Stock does not maintain a sufficient market value, or if potential acquisition candidates are otherwise unwilling to accept Common Stock as part of the consideration for the sale of their businesses, the Company may be required to utilize more of its cash resources, if available, to maintain its acquisition program. One factor that may affect the Common Stock's market price in the future, and thus its usefulness as acquisition currency, is the dilutive effect of the continued issuance of shares in connection with acquisitions. The availability of such shares in the market when they become eligible for sale could affect the Company's stock valuation (i.e., upon the expiration of contractual restrictions or of specified holding periods for unregistered shares). If the Company fails to maintain its stock valuation, and if the Company does not have sufficient cash resources, its growth could be limited unless it is able to obtain additional capital through debt or equity financing.

Key elements of the Company's strategy are to both maintain and improve the profitability of the acquired businesses and to continue to expand the revenues of acquired businesses. The Company's level of success in this strategy, if any, will be affected by demand for new or replacement HVAC systems. In part, such demand will turn on factors outside the Company's control, such as the level of new construction or the potential for slower replacement based upon the overall level of activity in the economy. The HVAC industry is subject to both seasonal and cyclical variations, meaning that temperate weather and downturns in the domestic or a regional economy will negatively affect overall demand for the Company's services.

The timely provision of high-quality installation service and maintenance, repair and replacement of HVAC systems by the Company requires an adequate supply of skilled HVAC technicians. In addition, the Company depends on the senior management of the businesses it acquires to remain committed to the success of the business after its acquisition and through a transition period. Accordingly, the Company's ability to increase its productivity and profitability are also affected by its ability to employ, train and retain the skilled technicians necessary to meet the Company's service requirements, and to retain senior management in acquired businesses.

HVAC systems are also subject to various environmental statutes and regulations, including the Clean Air Act and those regulating the production, servicing and disposal of certain ozone depleting refrigerants used in HVAC systems. There can be no assurance that the regulatory environment in which the Company operates will not change significantly in the future. The Company's failure to comply, or the costs of compliance, with such laws and regulations could adversely affect the Company's future results.

Because of these and other factors, past financial performance should not necessarily be considered an indicator of future performance. Investors should not rely solely on historical trends to anticipate future results and should be aware that the trading price of the Company's Common Stock may be subject to wide fluctuations in response to quarter-to-quarter variations in operating results, general conditions in the HVAC industry, the increasing supply of tradable stock, changes in analysts' earnings estimates, and recommendations by analysts or other events.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA.

COMFORT SYSTEMS USA, INC.
PRO FORMA COMBINED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1997 & 1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

This pro forma combined financial statement should be read in conjunction with the audited historical Consolidated Financial Statements of Comfort Systems USA, Inc. included elsewhere in this report.

	YEAR ENDED DECEMBER 31, (IN THOUSANDS) 1996	1997
Revenues	$ 263,863	$ 324,609
Cost of services	191,879	234,336
Gross profit	71,984	90,273
Selling, general and administrative expenses	41,745	55,966
Goodwill amortization	3,495	3,593
Operating income	26,744	30,714
Other income (expense)	(863)	(461)
Income before taxes	25,881	30,253
Provision for income taxes	11,077	12,721
Pro forma net income	$ 14,804	$ 17,532
Pro forma net income per share	$ 0.65	$ 0.72
Shares used in computing pro forma net income per share	22,760	24,502

The unaudited pro forma financial information for the years ended December 31, 1997 and 1996, includes the results of Comfort Systems and the Founding Companies from January 1, 1996, the Purchased Companies from date of their respective acquisitions and the retroactive restatement to January 1, 1996 of 13 of the 14 Pooled Companies. This pro forma combined financial information includes the effects of (a) the Offering, (b) certain reductions in salaries and benefits to the former owners (the "Compensation Differential") of the Founding Companies and Pooled Companies which they agreed would take effect as of the acquisition date, (c) amortization of goodwill resulting from the acquisitions of Purchased and Founding Companies, (d) elimination of the compensation expense related to the non-recurring non-cash compensation charge of $11.6 million recorded by Comfort Systems in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company, (e) pro forma compensation expense of $430,000 for the six months ended June 30, 1997, to reflect the ongoing salaries received by corporate management as though those salaries were being paid prior to the Offering, and (f) interest expense on borrowings of $11.0 million that would have been necessary to fund certain S Corporation distributions if they had occurred at the beginning of the period. In addition, an incremental tax provision has been recorded as if all applicable Purchased and Founding Companies, and Pooled Companies which were C Corporations had been subject to federal and state income taxes. Diluted earnings per share and basic earnings per share are the same for all periods presented above.

This pro forma financial information may not be comparable to and may not be indicative of the Company's future results of operations because these acquired companies were not under common control or management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited the accompanying consolidated balance sheets of Comfort Systems USA, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Comfort Systems USA, Inc., and subsidiaries as of December 31, 1996 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

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

	DECEMBER 31, 1996	DECEMBER 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,141	$ 14,533
Accounts receivable	16,899	73,826
Less -- Allowance	227	1,034
Accounts receivable, net	16,672	72,792
Other receivables	278	884
Inventories	1,090	6,214
Prepaid expenses and other	1,743	4,428
Costs and estimated earnings in excess of billings	1,476	12,050
Total current assets	27,400	110,901
PROPERTY AND EQUIPMENT, net	3,363	12,046
GOODWILL, net	--	163,126
OTHER NONCURRENT ASSETS	716	1,707
Total assets	$ 31,479	$287,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 1,770	$ 869
Accounts payable	6,074	22,805
Accrued compensation and benefits	2,604	5,622
Payable to stockholders/affiliates	500	16
Billings in excess of costs and estimated earnings	3,760	10,100
Income taxes payable	384	4,928
Other current liabilities	2,793	9,286
Total current liabilities	17,885	53,626
DEFERRED INCOME TAXES	502	960
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,317	20,326
PAYABLE TO STOCKHOLDERS/AFFILIATES	342	--
OTHER LONG-TERM LIABILITIES	76	200
Total liabilities	20,122	75,112
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par, 52,969,912 shares authorized, 4,628,545 and 26,575,669 shares issued and outstanding, respectively	46	266
Additional paid-in capital	96	205,709
Retained earnings	11,215	6,693
Total stockholders' equity	11,357	212,668
Total liabilities and stockholders' equity	$ 31,479	$287,780

Reflects a 121.1387-for-one stock split effective on March 19, 1997

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)

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
REVENUES	$ 65,167	$ 96,296	$ 237,709
COST OF SERVICES	48,743	72,123	171,941
Gross profit	16,424	24,173	65,768
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,707	19,097	58,811
GOODWILL AND OTHER AMORTIZATION	--	--	1,851
ACQUISITION RELATED EXPENSES	--	--	575
Operating income	1,717	5,076	4,531
OTHER INCOME (EXPENSE):			
Interest income	209	283	1,149
Interest expense	(203)	(244)	(1,212)
Other	73	(108)	132
Other income (expense)	79	(69)	69
INCOME BEFORE INCOME TAXES	1,796	5,007	4,600
PROVISION FOR INCOME TAXES	503	1,417	7,430
NET INCOME (LOSS)	$ 1,293	$ 3,590	$ (2,830)
NET INCOME (LOSS) PER SHARE:			
Basic	$ .17	$ .42	$ (.16)
Diluted	$ .17	$ .42	$ (.16)
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:			
Basic	7,686	8,535	17,515
Diluted	7,686	8,535	17,708

Reflects a 121.1387-for-one stock split effective on March 19, 1997

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 SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 1994	3,446,419	$ 34	$ 20	$ 4,251	$ 4,305
S Corporation distributions made by certain Pooled Companies	--	--	--	(137)	(137)
Net income	--	--	--	1,293	1,293
Pooled Companies not restated	847,808	8	60	2,135	2,203
Other	--	--	--	43	43
BALANCE AT DECEMBER 31, 1995	4,294,227	42	80	7,585	7,707
S Corporation distributions made by certain Pooled Companies	--	--	--	(613)	(613)
Adjustments to conform fiscal year-ends of Pooled Companies	--	--	--	376	376
Initial Capitalization	121,139	1	--	--	1
Net income	--	--	--	3,590	3,590
Pooled Companies not restated	213,179	2	11	500	513
Other	--	1	5	(223)	(217)
BALANCE AT DECEMBER 31, 1996	4,628,545	46	96	11,215	11,357
Issuance of Common stock:					
Proceeds of the Offering	7,015,000	70	79,805	--	79,875
Acquisition of Founding Companies	9,720,927	98	100,999	--	101,097
Issuance of management shares	4,118,708	41	11,556	--	11,597
Acquisition of Purchased Companies	1,092,489	11	13,253	--	13,264
S Corporation distributions made by certain Pooled Companies	--	--	--	(1,692)	(1,692)
Net loss	--	--	--	(2,830)	(2,830)
BALANCE AT DECEMBER 31, 1997	26,575,669	$ 266	$ 205,709	$ 6,693	$ 212,668

Reflects a 121.1387-for-one stock split effective on March 19, 1997

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

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

	YEAR ENDED DECEMBER 31, 1995	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 1,293	$ 3,590	$ (2,830)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --			
Depreciation and amortization expense	643	967	3,997
Bad debt expense	36	177	347
Compensation expense related to issuance of management shares	--	--	11,556
Deferred tax expense (benefit)	(24)	279	(663)
Loss (gain) on sale of property and equipment	11	4	(100)
Pooled Companies not restated	780	104	--
Adjustment to conform year-end of certain pooled companies	--	376	--
Changes in operating assets and liabilities, net of effects of acquisitions of Founding and Purchased Companies-- (Increase) decrease in --			
Receivables, net	(1,839)	(3,851)	(10,890)
Inventories	(16)	(422)	1,053
Prepaid expenses and other current assets	183	(1,285)	160
Cost and estimated earnings in excess of billings	(625)	1,312	(4,261)
Other noncurrent assets	(162)	221	(63)
Increase (decrease) in --			
Accounts payable and accrued liabilities	888	545	(478)
Billings in excess of costs and estimated earnings	(195)	1,434	402
Other, net	49	(184)	30
Net cash provided by (used in) operating activities	1,022	3,267	(1,740)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(785)	(1,865)	(3,930)
Proceeds from sales of property and equipment	79	43	474
Cash paid for Founding Companies, net of cash acquired	--	--	(42,295)
Cash paid for Purchased Companies, net of cash acquired	--	--	(11,781)
Net cash used in investing activities	(706)	(1,822)	(57,532)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt	(383)	(1,699)	(37,114)
Borrowings of long-term debt	1,684	1,455	26,453
S Corporation distributions paid by certain Pooled Companies	(137)	(613)	(1,591)
Proceeds from issuance of common stock, net of offering costs	--	--	79,916
Other	(42)	52	--
Net cash provided by (used in) financing activities	1,122	(805)	67,664
NET INCREASE IN CASH	1,438	640	8,392
CASH AND CASH EQUIVALENTS, beginning of year	4,063	5,501	6,141
CASH AND CASH EQUIVALENTS, end of year	$ 5,501	$ 6,141	$ 14,533

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 national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services. Founded in December 1996, the Company is consolidating the fragmented commercial and industrial HVAC markets, executing most of its applications within office buildings, retail centers, apartment complexes, hotels, manufacturing plants and government facilities. In addition to standard HVAC services, the Company also 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.

On June 27, 1997, Comfort Systems completed the initial public offering (the "Offering") of its common stock (the "Common Stock") and simultaneously acquired in separate concurrent transactions twelve companies (collectively referred to as the "Founding Companies") engaged in providing HVAC services. The Founding Companies had operations in ten states. Subsequent to June 30, 1997, and through December 31, 1997, the Company acquired 27 HVAC and related businesses. These companies added operating locations in an additional 10 states (which includes Puerto Rico). These acquisitions included six "tuck-in" operations which were combined with existing Comfort Systems locations in 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

For financial statement purposes, Comfort Systems has been identified as the accounting acquirer. Accordingly, the historical financial statements include those of Comfort Systems since December 1996. Of the 27 acquisitions noted above, 14 were accounted for as poolings-of-interests (the "Pooled Companies") and 13 were accounted for as purchases (the "Purchased Companies"). These consolidated financial statements reflect the acquisitions of the Founding Companies and Purchased Companies as of their respective acquisition dates and reflects eight of the Pooled Companies (the "Restated Companies") for all periods presented. Certain of the Pooled Companies are considered immaterial poolings based upon the relative significance of their individual operations and have not been restated for all periods presented. The acquisitions of the Founding and Purchased Companies were accounted for using the purchase method of accounting. The allocations of the purchase prices to the assets acquired and liabilities assumed of these companies have been recorded based on preliminary estimates of fair value and may be changed as additional information becomes available.

Prior to their acquisition by Comfort Systems, three of the Pooled Companies reported annual results based on fiscal year-ends other than December 31. An adjustment to conform the year-ends of these companies to December 31 year-ends was made in 1996 resulting in an increase of approximately $376,000 to retained earnings and cash flows for 1996.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Comfort Systems and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

CASH FLOW INFORMATION

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Cash paid for interest in 1995, 1996 and 1997 was approximately $242,000, $246,000, and $492,000, respectively. Cash paid for income taxes in 1995, 1996 and 1997 was approximately $228,000, $697,000, and $985,000, respectively.

The Company recorded capital leases in 1995, 1996 and 1997 of approximately $--, $--, and $114,000, respectively.

INVENTORIES

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the expected life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated over the remaining useful life of the equipment. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

GOODWILL

Goodwill represents the excess of the aggregate purchase price paid by the Company in acquisitions accounted for as purchases over the fair value of the net tangible assets acquired. Goodwill is amortized on a straight-line basis over 40 years.

The Company periodically evaluates the recoverability of the remaining balance of goodwill recorded from business acquisitions. The Company uses an estimate of future income from operations and cash flows, as well as other economic and business factors as a measure of recoverability of these assets.

As of December 31, 1997, accumulated amortization of goodwill was approximately $1.9 million.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and revenues, and their effects are recognized in the period in which the revisions are determined.

Receivable balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company typically warrants labor for the first year after installation on new air conditioning and heating systems. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company will file a consolidated return for federal income tax purposes. Income taxes are provided for under the liability method, which takes into account differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets represent the tax effect of activity that has been reflected in the financial statements but which will not be deductible for tax purposes until future periods. Deferred tax liabilities represent the tax effect of activity that has been reflected in the financial statements but which will not be taxable until future periods.

Certain of the Pooled Companies were S Corporations for income tax purposes and, accordingly, any income tax liabilities for the periods prior to the acquisition date are the responsibility of the respective stockholders. All acquired entities are subject to corporate income taxes subsequent to their acquisition.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of revenues, expenses, assets, liabilities and contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

CONCENTRATIONS OF CREDIT RISK

The Company provides services to a broad range of geographical regions. The Company's credit risk primarily consists of receivables from a variety of customers including, general contractors, property owners and developers, and commercial and industrial companies. The Company reviews its accounts receivable and provides allowances as deemed necessary.

IMPAIRMENT OF LONG-LIVED ASSETS

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to fair value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. BUSINESS COMBINATIONS:

POOLINGS

During 1997, the Company acquired all of the outstanding stock of the Pooled Companies in exchange for 4,507,406 shares of Common Stock. These acquisitions have been accounted for as poolings-of-interests as described in Note 2. These companies provide HVAC and related services.

The historical financial statements for 1995 and 1996 represent the operations of the Restated Companies prior to their acquisition by the Company. The combined revenues and net income of the Pooled Companies for the preacquisition period in 1997 were $94.6 million and $5.5 million, respectively.

PURCHASES

Subsequent to the Offering, Comfort Systems acquired the thirteen Purchased Companies, which were accounted for as purchase transactions. These companies provide HVAC and related services. The aggregate consideration paid in these transactions was $14.5 million in cash, 1,092,489 shares of Common Stock with a market value at the date of acquisition totaling $13.3 million and $5.0 million in the form of convertible subordinated notes (the "Notes"). These notes are convertible at various dates in 1998 or 1999 and thereafter into 225,473 or 220,449 shares of Common Stock, respectively. The accompanying balance sheet as of December 31, 1997 includes allocations of the respective purchase prices to the assets acquired and liabilities assumed based on preliminary estimates of fair value and is subject to final adjustment. The allocations resulted in $25.4 million of goodwill, which represents the excess of purchase price over the estimated fair value of the net assets acquired for the Purchased Companies. In conjunction with the acquisitions, goodwill was determined as follows (in thousands):

Fair value of assets acquired, net of cash acquired	$(21,677)
Liabilities assumed	17,010
Cash paid, net of cash acquired	11,781
Estimated market value of stock consideration	13,264
Issuance of convertible notes	4,978
Goodwill	$ 25,356

The unaudited pro forma data presented below consists of the income statement data presented in these consolidated financial statements plus (a) income statement data for the Founding Companies for the year ended December 31, 1996, and the six months ended June 30, 1997, and (b) income statement data for the Purchased Companies as if they were effective on January 1, 1996 through the respective dates of acquisitions (in thousands, except per share data):

	YEAR ENDED DECEMBER 31,	
	1996	1997
	(UNAUDITED)	
Revenues	$327,721	$381,528
Net income	16,374	19,294
Net income per share	0.64	0.76

Pro forma adjustments included in the preceding tables regarding the Founding Companies and the Purchased Companies primarily relate to (a) certain reductions in salaries and benefits to the former owners (the "Compensation Differential") of the Founding Companies, Pooled Companies and Purchased Companies which they agreed would take effect as of the acquisition date, (b) pro forma compensation expense of $430,000 for the six months ended June 30, 1997, to reflect the ongoing salaries received by corporate management as though these salaries were being paid prior to the Offering, (c) elimination of merger costs in connection with the acquisition of the Pooled Companies, (d) amortization of goodwill related to the Purchased and Founding Companies, (e) elimination of the non-recurring, non-cash compensation charge of $11.6 million recorded by Comfort Systems in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company, and (f) interest expense on borrowings of $11.0 million that would have been necessary to fund certain S Corporation distributions as if they had occurred at the beginning of each period presented. In addition, an incremental tax provision has been recorded as if all applicable Purchased and Founding Companies and Pooled Companies which were C Corporations had been subject to federal and state income taxes.

The pro forma combined results presented above are not necessarily indicative of actual results which might have occurred had the operations and management teams of the Company, the Founding Companies, the Purchased Companies and Pooled Companies been combined at the beginning of the periods presented.

ADDITIONAL ACQUISITIONS

Subsequent to December 31, 1997, and through February 25, 1998, the Company completed five additional acquisitions (the "Additional Acquisitions") for approximately $15.1 million in cash, 2,002,894 shares of Common Stock and approximately $1.3 million in Notes. The Company filed a Current Report on Form 8-K related to one of these Additional Acquisitions. Annualized revenues from the businesses acquired in the Additional Acquisitions were approximately $109 million. All of these acquisitions will be accounted for as purchase transactions.

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1996	DECEMBER 31, 1997
Land	N/A	$ --	$ 95
Transportation equipment	3-7	4,362	14,450
Machinery and equipment	3-15	2,130	7,211
Computer and telephone equipment	3-7	1,232	4,118
Buildings and leasehold improvements	3-20	869	3,174
Furniture and fixtures	3-10	677	2,625
		9,270	31,673
Less - Accumulated depreciation		5,907	19,627
Property and equipment, net		$ 3,363	$12,046

5. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consists of the following (in thousands):

	DECEMBER 31, 1996	DECEMBER 31, 1997
Balance at beginning of year	$ 196	$ 227
Additions for Bad debt expense	177	347
Deductions for recoveries and for uncollectible receivables, written off	(146)	(149)
Allowance for doubtful accounts of Founding and Purchased Companies at acquisition dates	--	609
Balance at end of year	$ 227	$ 1,034

Other current liabilities consist of the following (in thousands):

	DECEMBER 31, 1996	DECEMBER 31, 1997
Accrued warranty costs	$ 192	$ 1,743
Accrued insurance expense	118	549
Deferred income taxes	59	1,430
Deferred revenue	--	770
Other current liabilities	2,424	4,794
	$ 2,793	$ 9,286

Installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1996	DECEMBER 31, 1997
Costs incurred on contracts in progress	$25,829	$143,222
Estimated earnings, net of losses	5,947	38,966
	31,776	182,188
Less - Billings to date	34,060	180,238
	$(2,284)	$ 1,950
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 1,476	$ 12,050
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,760)	(10,100)
	$(2,284)	$ 1,950

6. LONG-TERM DEBT OBLIGATIONS:

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

	DECEMBER 31, 1996	DECEMBER 31, 1997
Revolving credit facility	$ --	$ 15,300
Notes	--	4,978
Other	3,087	917
Total long-term	3,087	21,195
Less: current maturities	1,770	869
	$ 1,317	$ 20,326

At December 31, 1997, future principal payments of long-term debt are as follows (in thousands):

Year Ending December 31 -

1998	$ 869
1999	315
2000	20,011
2001	--
2002	--
Thereafter	--
	$21,195

REVOLVING CREDIT AGREEMENT

In July 1997, the Company entered into a credit agreement with Bank One, Texas, N.A. (the "Credit Facility"). The Credit Facility was amended and restated in September 1997 primarily to provide for additional banks to lend to the Company under the Credit Facility. The Credit Facility provides the Company with an unsecured revolving line of credit of $75 million. The Company has a choice of two interest rate options when borrowing under the Credit Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus one-half percentage point or the bank's prime rate. An additional margin of zero to one-quarter percentage point is then added to the higher of these two rates. The additional margin depends on the ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization for the preceding twelve months ("EBITDA"). For purposes of this ratio, EBITDA may include the preceding twelve months' results for any companies acquired during the last year. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate the London Interbank Offered Rates or LIBOR, as published in major financial media) plus one to two percentage points, again depending on the ratio of debt to EBITDA. In addition, commitment fees of 0.125% to 0.375% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the line of credit. The Credit Facility prohibits the payment of dividends by the Company without lender's approval and requires the Company to comply with certain financial covenants. The Credit Facility expires on July 2, 2000, at which time all amounts outstanding under the facility are due.

As of December 31, 1997, the Company had borrowed $15.3 million under the Credit Facility at an average interest rate of approximately 6.7% per annum for the second half of 1997. As of March 24, 1998, $43.8 million (unaudited) was outstanding under this facility.

The Notes in the amount of $5 million referred to above were issued to former owners of certain Purchased Companies as partial consideration of the acquisition purchase price. The Notes bear interest, payable quarterly, at a weighted average interest rate of 6.0% and are convertible by the holder into shares of the Company's Common Stock at a weighted average price of $22.08 per share. The terms of the Notes require $0.3 million of principal payments in 1999 and $4.7 million of principal payments at maturity in 2000.

The Company estimates the fair value of long-term debt as of December 31, 1997, to be approximately the same as the recorded value.

7. INCOME TAXES:

The Company has implemented SFAS No. 109, "Accounting for Income Taxes," which provides for a liability approach to accounting for income taxes. The provision for income taxes consists of the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
Current -			
Federal	$ 379	$ 893	$6,346
State and Puerto Rico	148	245	1,747
	527	1,138	8,093
Deferred -			
Federal	9	243	(710)
State and Puerto Rico	(33)	36	47
	(24)	279	(663)
	$ 503	$ 1,417	$7,430

The difference in income taxes provided for and the amounts determined by applying the federal statutory tax rate to income before income taxes result from the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
Income tax expense at the statutory rate	$ 629	$ 1,752	$1,610
Increase (decrease) resulting from -			
State income taxes, net of related tax effect	47	142	1,217
Non-deductible expenses	26	30	401
Non-recurring, non-cash compensation charge	--	--	4,045
Effect of S Corporation income previously taxed to the former owners	(200)	(495)	(880)
Non-deductible goodwill amortization	--	--	633
Non-deductible acquisition costs related to Pooled Companies	--	--	201
Provision recognized upon termination of Subchapter S election	--	--	100
Other	1	(12)	103
	$ 503	$ 1,417	$7,430

Deferred income tax provisions result from current period activity that has been reflected in the financial statements but which is not includable in determining the Company's tax liabilities until future periods. Deferred tax assets and liabilities reflect the tax effect in future periods of all such activity to date that has been reflected in the financial statements but which is not includable in determining the Company's tax liabilities until future periods.

	DECEMBER 31,	
	1996	1997
Deferred income tax assets-	(IN THOUSANDS)	
Accounts receivable and allowance for doubtful accounts	$ (55)	$ (340)
Accrued liabilities and expenses	(579)	(1,623)
Other	(177)	(437)
Total deferred income tax assets	(811)	(2,400)
Deferred income tax liabilities -		
Property and equipment	47	309
Long-term installation contracts	1,490	1,883
Other	56	123
Total deferred income tax liabilities	1,593	2,315
Net deferred income tax (assets) liabilities	$ 782	$ (85)

The deferred tax assets and liabilities reflected above are included in the consolidated balance sheet at December 31, 1997, as $2.0 million of current deferred income tax assets in prepaid expenses and other, $0.5 million of non-current deferred income tax assets in other non-current assets, $1.4 million of current deferred income tax liabilities in other current liabilities and $1.0 million of non-current deferred income tax liabilities in deferred income taxes.

8. EMPLOYEE BENEFIT PLANS:

Certain of the Company's subsidiaries sponsor various retirement plans for most full-time and some part-time employees. These plans consist of defined contribution plans and multi-employer pension plans and cover employees at substantially all of the Company's operating locations. The defined contribution plans provide for contributions ranging from 1% to 5% of covered employees' salaries or wages and totaled $1.4 million for 1995, $1.8 million for 1996 and $1.4 million for 1997. Of these amounts, approximately $830,000 and $400,000 was payable to the plans at December 31, 1996, and December 31, 1997, respectively.

Certain of the Company's subsidiaries also participate in several multi-employer pension plans for the benefit of their employees who are union members. Company contributions to these plans were approximately $0.7 million for 1995, $0.6 million for 1996 and $0.8 million for 1997. The data available from administrators of the multi-employer pension plans is not sufficient to determine the accumulated benefit obligations, nor the net assets attributable to the multi-employer plans in which Company employees participate.

9. COMMITMENTS AND CONTINGENCIES:

LEASES

The Company leases certain facilities and equipment under noncancelable operating leases. Rent expense for the years ended December 31, 1995, 1996, and 1997 was $0.5 million, $0.5 million, and $1.8 million, respectively. Concurrent with the acquisitions of certain Founding, Pooled and Purchased Companies, the Company entered into various agreements with previous owners to lease land and buildings used in the Company's operations. The terms of these leases range from five years to twenty years and provide for certain escalations in the rental expenses each year. Included in the 1997 rent expenses above is approximately $1.0 million of rent paid to these related parties. The following represents future minimum rental payments under noncancelable operating leases (in thousands):

Year ending December 31 -	
1998	$3,948
1999	3,508
2000	3,089
2001	2,580
2002	2,165
Thereafter	9,204
	$24,494

CLAIMS AND LAWSUITS

The Company is from time to time 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 minimize financial risk associated with certain claims. The Company has provided accruals for probable losses and legal fees associated with certain of these actions in the accompanying consolidated financial statements.

10. STOCKHOLDER'S EQUITY:

COMMON STOCK AND PREFERRED STOCK

Comfort Systems effected a 121.1387-for-one stock split on March 19, 1997 for each share of Common Stock of the Company then outstanding. In addition, the Company increased the number of authorized shares of Common Stock to 52,969,912 and authorized 5,000,000 shares of $.01 par value preferred stock. The effects of the Common Stock split and the increase in the number of shares of authorized Common Stock have been retroactively reflected on the balance sheet and in the accompanying notes as applicable.

In connection with the organization and initial capitalization of Comfort Systems, the Company issued 121,139 shares of Common Stock at $.01 per share to Notre Captial Ventures II, L.L.C. ("Notre"). In January 1997, the Company issued 2,848,773 additional shares to Notre for $.01 per share.

In January and February 1997, the Company issued a total of 1,269,935 shares of Common Stock to management of and consultants to the Company at a price of $.01 per share. As a result, the Company recorded a non-recurring, non-cash compensation charge of $11.6 million in the first quarter of 1997, representing the difference between the amount paid for the shares and the estimated fair value of the shares on the date of sale.

RESTRICTED COMMON STOCK

In March 1997, Notre exchanged its 2,742,912 shares of Common Stock for an equal number of shares of restricted voting common stock ("Restricted Voting Common Stock"). The holder of Restricted Voting Common Stock is entitled to elect one member of the Company's Board of Directors and to 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.

EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share." SFAS No. 128 revises the methodology to be used in computing earnings per share (EPS) such that the computations previously required for primary and fully diluted EPS are to be replaced with "basic" and "diluted" EPS. Basic 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 in the same manner as fully diluted EPS, except that, among other changes, the average share price for the period is used in all cases when applying the treasury stock method to potentially dilutive outstanding options. The Notes are not included in the weighted average shares outstanding because they were not significant. The Company has adopted SFAS No. 128 and restated EPS for all periods presented.

The following table summarizes weighted average shares outstanding for each of the periods presented (in thousands):

	YEAR ENDED DECEMBER 31,		
	1995	1996	1997
Shares issued in connection with the acquisitions of Founding Companies............	--	--	5,008
Shares sold pursuant to the Offering.............	--	--	3,142
Shares held by Notre, management and consultants..	4,240	4,240	4,240
Shares issued in connection with the acquisitions of Pooled Companies..............	3,446	4,295	4,507
Shares issued in connection with the underwriter's overallotment	--	--	434
Shares issued in connection with the acquisitions of the Purchased Companies........	--	--	184
Weighted average shares outstanding - Basic......	7,686	8,535	17,515
Weighted average portion of shares related to stock options under the treasury stock method..................................	--	--	193
Weighted average shares outstanding - Diluted.....	7,686	8,535	17,708

11. STOCK OPTION PLANS:

LONG-TERM INCENTIVE PLAN

In March 1997, the Company's stockholders approved the Company's 1997 Long-Term Incentive Plan which provides for the granting or awarding of incentive or non-qualified stock options, stock appreciation rights, restricted or deferred stock, dividend equivalents or other incentive awards to directors, officers, key employees and consultants to the Company.

The Company's 1997 Long-Term Incentive Plan provides for the granting of options to key employees to purchase an aggregate of not more than 13% of the total number of shares of the Company's Common Stock outstanding at the time of grant. Such options have been issued by the Company at fair market value on the date of grant and become exercisable in five equal annual installments beginning on the first anniversary of the date of grant. The options expire after seven years from the date of grant if unexercised. Outstanding options may be canceled and reissued under terms specified in the plan.

The following table summarizes activity under the Company's stock option plan:

	1997
Options outstanding, beginning of year......................	--
Granted (range of exercise prices, \$13.00 to \$17.88).....	2,537,203
Forfeited (range of exercise prices, \$13.00 to \$17.88)...	--
Options outstanding, end of year...........................	2,537,203

The Company accounts for its stock-based compensation under Accounting Principles Board Statement No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under this accounting method, no expense in connection with a stock option is recognized in the consolidated statements of operations if the exercise price of the option is equal to the market price of the stock on the date of grant. In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which requires that if a company accounts for stock-based compensation in accordance with APB 25, the company must also disclose the effects on its results of operations as if an estimate of the value of stock-based compensation at the date of grant was recorded as an expense in the company's statement of operations. These effects for the Company are as follows (in thousands, except per share data):

		1997
Net Loss	As reported	$(2,830)
	Pro forma for SFAS No. 123	$(3,229)
Loss Per Share	As reported	$ (.16)
	Pro forma for SFAS No. 123	$ (.18)

Pro forma basic loss per share and diluted loss per share are the same for SFAS No. 123 purposes.

The effects of applying SFAS No. 123 in the pro forma disclosure may not be indicative of future amounts as additional awards in future years are anticipated. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	39.41%
Risk free interest rate	5.77% - 6.15%
Expected life of options	7 years

Options outstanding at December 31, 1997, had exercise prices ranging from $13.00 to $17.88, a weighted average remaining contractual life of 6.6 years, a weighted average fair value of $4.24 per option and a weighted average exercise price of $13.72 per option.

NON-EMPLOYEE DIRECTORS STOCK PLAN

In March 1997, the Company's stockholders approved the 1997 Non-Employee Directors' Stock Plan (the "Directors' Plan"), which provides for the granting or awarding of stock options and stock appreciation rights to non-employees. The number of shares authorized and reserved for issuance under the Directors' Plan is 250,000 shares. The Directors' Plan provides for the automatic grant of options to purchase 10,000 shares to each non-employee director serving at the commencement of the Offering.

Each non-employee director will be granted options to purchase 10,000 shares at the time of the initial election. In addition, each director will be automatically granted options to purchase an additional 5,000 shares at each annual meeting of the stockholders occurring more than two months after the date of the director's initial election. All options will be granted with an exercise price equal to the fair market value at the date of grant and are immediately vested upon grant.

Options have been granted to three current members of the board of directors to purchase 10,000 shares of Common Stock at the initial Offering price. These options will expire at the earlier of 10 years from the date of grant or one year after termination of service as a director.

The Directors' Plan allows non-employee directors to receive shares ("Deferred Shares") at future settlement dates in lieu of cash. The number of Deferred Shares will have an aggregate fair market value equal to the fees payable to the directors.

12. SIGNIFICANT VENDORS:

Significant vendors are defined as those that account for greater than 10% of the Company's purchases. For the year ended December 31, 1997, one vendor accounted for 10.9% of the Company's purchases. There were no significant vendors in 1996 or 1995. The Company believes that an interruption in supply from the significant vendor referred to above would not have a material adverse impact on the financial position or results of operations of the Company.

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

None.

PART III

ITEMS 10 TO 13 INCLUSIVE

These items have been omitted in accordance with the instructions to Form 10-K. The Company will file with the Commission a definitive proxy statement including the information to be disclosed under the items in the 120 days following December 31, 1997.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) Consolidated Financial Statements of the Company which are included at Item 8 of this report, and (2) Financial Statements of the Founding Companies.

(3) Exhibits.

		INCORPORATED BY REFERENCE TO THE EXHIBIT INDICATED BELOW AND TO THE FILING WITH THE COMMISSION INDICATED BELOW	
EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS	EXHIBIT NUMBER	FILING OR FILE NUMBER
3.1	-- Second Amended and Restated Certificate of Incorporation of Comfort Systems USA, Inc.	3.1	333-24021
3.2	-- Bylaws of Comfort Systems USA, Inc., as amended.	3.2	333-24021
4.1	-- Form of certificate evidencing ownership of Common Stock of Comfort Systems USA, Inc.	4.1	333-24021
10.1	-- Comfort Systems USA, Inc. 1997 Long-Term Incentive Plan	10.1	333-24021
10.2	-- Comfort Systems USA, Inc. 1997 Non-Employee Directors' Stock Plan.	10.2	333-24021
10.3	-- Form of Employment Agreement between Comfort Systems USA, Inc. and Fred M. Ferreira.	10.3	333-24021
10.4	-- Form of Employment Agreement between Comfort Systems USA, Inc. and J. Gordon Beittenmiller.	10.4	333-24021
10.5	-- Form of Employment Agreement between Comfort Systems USA, Inc. and William George, III.	10.5	333-24021
10.6	-- Form of Employment Agreement between Comfort Systems USA, Inc. and Reagan S. Busbee.	10.6	333-24021
10.7	-- Form of Employment Agreement between Comfort Systems USA, Inc., Accurate Air Systems, Inc. and Thomas J. Beaty.	10.7	333-24021
10.8	-- Form of Employment Agreement between Comfort Systems USA, Inc., Atlas Comfort Services USA, Inc. and Brian S. Atlas	10.8	333-24021
10.9	-- Form of Employment Agreement between Comfort Systems USA, Inc., Contract Service, Inc. and John C. Phillips.	10.9	333-24021
10.10	-- Form of Employment Agreement between Comfort Systems USA, Inc., Eastern Heating & Cooling, Inc. and Alfred J. Giardenelli, Jr.	10.10	333-24021
10.11	-- Form of Employment Agreement between Comfort Systems USA, Inc., Quality Air Heating & Cooling, Inc. and Robert J. Powers	10.11	333-24021
10.12	-- Form of Employment Agreement between Comfort Systems USA, Inc., S. M. Lawrence Company, Inc. and Samuel M. Lawrence III.	10.12	333-24021
10.13	-- Form of Employment Agreement between Comfort Systems USA, Inc., Tech Heating and Air Conditioning, Inc. and Robert R. Cook	10.13	333-24021
10.14	-- Form of Employment Agreement between Comfort Systems USA, Inc., Tri-City Mechanical, Inc. and Michael Nothum, Jr.	10.14	333-24021
10.15	-- Form of Employment Agreement between Comfort Systems USA, Inc., Western Building Services, Inc. and Charles W. Klapperich	10.15	333-24021
10.16	-- Employment Agreement between Comfort Systems USA, Inc., F&G Mechanical Corporation and Salvatore P. Giardina		February 1998 Form 8-K
10.17	-- Form of Agreement among certain stockholders	10.16	333-24021
10.18	-- Lease between M & B Interests, Inc. and Atlas Air Conditioning Company, Inc. dated October 1,1994.	10.17	333-32595

10.19 -- Lease between Thomas J. and Bonnie J. Beaty and Accurate Air Systems, Inc. dated July 1, 1997.	10.18	333-32595
10.20 -- Amended and Restated Agreement of Lease between Thomas J. and Bonnie J. Beaty and Accurate Air Systems, Inc. dated July 1, 1997.	10.19	333-32595
10.21 -- Lease between Nothum Development, L.L.C. and Tri-City Mechanical, Inc. dated July 1, 1997.	10.20	333-32595
10.22 -- Lease between Samuel Matthews Lawrence, Jr. and S.M. Lawrence Company, Incorporated dated November 1, 1996.	10.21	333-32595
10.23 -- Lease between K and P Warehouse #1 and Quality Trane Heating and Cooling, Inc. (n/k/a/ Quality Air Heating and Cooling, Inc.) dated April 1, 1986, together with amendments thereto.	10.22	333-32595
10.24 -- Lease between J&J Investments and Contract Service, Inc. dated March 1, 1997.	10.23	333-32595
10.25 -- Lease by Tech Heating and Air Conditioning, Inc. dated April 2, 1995 as amended by Amendment between Cook Properties, Inc. and Tech Heating and Air Conditioning, Inc. on March 13, 1997.	10.24	333-32595
10.26 -- First Amended and Restated Credit Agreement among the Company and its subsidiaries, Bank One, Texas, N.A., as agent and the banks listed therein dated September 22, 1997.	10.25	333-38009
10.27 -- Lease dated June 30, 1994, between Salpat Realty and F&G Mechanical Corp., together with lease modification agreements dated June 30, 1994 and February 12, 1998.		Filed herewith
10.28 -- Promissory Note dated February 12, 1998 by Sorce Properties LLC in favor of F&G Mechanical Corporation.		Filed herewith
10.29 -- Pledge Agreement dated February 12, 1998 by Salvatore Fichera and Salvatore P. Giardina in favor of F&G Mechanical Corporation.		Filed herewith
10.30 -- Form of Indemnity Agreement entered into by the Company with each of the following persons: Fred M. Ferreira, J. Gordon Beittenmiller, Reagan S. Busbee, William George, III, Steven S. Harter, Robert J. Powers, Michael Nothum, Jr., Robert R. Cook, Brian S. Atlas, Thomas J. Beaty, John C. Phillips, Samuel M. Lawrence III, Alfred J. Giardenelli, Jr., Charles W. Klapperich, Larry Martin and John Mercadante, Jr. on June 27, 1997.	10.26	333-32595
10.31 -- Indemnity Agreement between the Company and Notre Capital Ventures II, L.L.C.	10.27	333-32595
10.32 -- Comfort Systems USA, Inc. 1998 Employee Stock Purchase Plan.	10.28	333-38009
10.33 -- Agreement Regarding Sale of Stock between Fred M. Ferreira and the Registrant dated October 31, 1997.	10.1	Third Quarter 1997 Form 10-Q
10.34 -- Agreement Regarding Sale of Stock between Steve S. Harter and the Registrant dated October 31, 1997.	10.2	Third Quarter 1997 Form 10-Q
10.35 -- Agreement Regarding Sale of Stock between J. Gordon Beittenmiller and the Registrant dated October 31, 1997.	10.3	Third Quarter 1997 Form 10-Q
10.36 -- Agreement Regarding Sale of Stock between Thomas J. Beaty and the Registrant dated October 31, 1997.	10.4	Third Quarter 1997 Form 10-Q
10.37 -- Agreement Regarding Sale of Stock between Brain S. Atlas and the Registrant dated October 31, 1997.	10.5	Third Quarter 1997 Form 10-Q
10.38 -- Agreement Regarding Sale of Stock between John C. Phillips and the Registrant dated October 31, 1997.	10.6	Third Quarter 1997 Form 10-Q
10.39 -- Agreement Regarding Sale of Stock between Alfred J. Giardenelli, Jr. and the Registrant dated October 31, 1997.	10.7	Third Quarter 1997 Form 10-Q
10.40 -- Agreement Regarding Sale of Stock between Robert J. Powers and the Registrant dated October 31, 1997.	10.8	Third Quarter 1997 Form 10-Q
10.41 -- Agreement Regarding Sale of Stock between Samuel M. Lawrence and the Registrant dated October 31, 1997.	10.9	Third Quarter 1997 Form 10-Q
10.42 -- Agreement Regarding Sale of Stock between Michael Nothum, Jr. and the Registrant dated October 31, 1997.	10.10	Third Quarter 1997 Form 10-Q
10.43 -- Agreement Regarding Sale of Stock between Bob R. Cook and the Registrant dated October 31, 1997.	10.11	Third Quarter 1997 Form 10-Q

10.44	-- Agreement Regarding Sale of Stock between Charles W. Klapperich and the Registrant dated October 31, 1997.	10.12	Third Quarter 1997 Form 10-Q
10.45	-- Agreement Regarding Sale of Stock between Reagan S. Busbee and the Registrant dated October 31, 1997.	10.13	Third Quarter 1997 Form 10-Q
10.46	-- Agreement Regarding Sale of Stock between William George and the Registrant dated October 31, 1997.	10.14	Third Quarter 1997 Form 10-Q
10.47	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Accurate Acquisition Corp., Accurate Air Systems, Inc. and the Stockholder named therein.	2.1	333-24021
10.48	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Atlas Air Acquisition I Corp., Atlas Comfort Services USA, Inc. and the Stockholders named therein.	2.2	333-24021
10.49	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc. Contract Acquisition Corp., Contract Service, Inc. and the Stockholders named therein.	2.3	333-24021
10.50	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Eastern Acquisition Corp., Eastern II Acquisition Corp., Eastern Heating & Cooling, Inc. Eastern Refrigeration Co., Inc. and the Stockholder named therein.	2.4	333-24021
10.51	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc. Quality Acquisition Corp., Quality Air Hearing & Cooling, Inc. and the Stockholders named therein.	2.6	333-24021
10.52	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., S. M. Lawrence Acquisition Corp., S. M. Lawrence II Acquisition Corp., S. M. Lawrence Company, Inc., Lawrence Service, Inc. and the Stockholders named therein.	2.7	333-24021
10.53	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Tech I Acquisition Corp., Tech II Acquisition Corp., Tech Heating and Air Conditioning, Inc., Tech Mechanical, Inc. and the Stockholder named therein.	2.10	333-24021
10.54	-- Agreement and Plan of Organization dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Tri-City Acquisition Corp., Tri-City Mechanical, Inc. and the Stockholders named therein.	2.11	333-24021
10.55	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc. Western Building Acquisition Corp., Western Building Services, Inc. and the Stockholders named therein.	2.12	333-24021
10.56	-- Agreement and Plan of Merger dated February 12, 1998, by and among Comfort Systems USA, Inc., F&G Mechanical Corporation, Salvatore Fichera and Salvatore P. Giardina.	2.1	February 1998 Form 8-K
21.1	-- List of subsidiaries of Comfort Systems USA, Inc.		Filed herewith
23.1	-- Consent of Arthur Andersen L.L.P.		Filed herewith
27.1	-- Financial Data Schedule		Filed herewith

(b) Reports on Form 8-K: None

(c) Exhibits: As provided.

(d) The following financial statements are filed as part of this report, as set forth in the Index to Financial Statements beginning on Page F-1.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Quality Air Heating & Cooling, Inc.:

We have audited the accompanying balance sheets of Quality Air Heating & Cooling, Inc., as of March 31, 1995 and 1996, and December 31, 1996, and the related statements of operations, shareholders' equity and cash flows for the years ended March 31, 1995 and 1996, the nine months ended December 31, 1996, the year ended December 31, 1996, and the six months ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quality Air Heating & Cooling, Inc., as of March 31, 1995 and 1996, and December 31, 1996, and the results of their operations and their cash flows for the years ended March 31, 1995 and 1996, the nine months ended December 31, 1996, the year ended December 31, 1996, and the six months ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

QUALITY AIR HEATING & COOLING, INC.
BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	MARCH 31, 1995	MARCH 31, 1996	DECEMBER 31, 1996
		(UNAUDITED)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,669	$ 4,191	$ 2,651
Accounts receivable --			
Trade, net of allowance of $87, $80, and $80, respectively	4,510	4,188	5,260
Retainage	457	464	453
Other receivables	14	12	5
Inventories	445	480	541
Costs and estimated earnings in excess of billings on uncompleted contracts	1,192	964	1,312
Prepaid expenses and other current assets	92	63	17
Federal income tax deposit	506	654	691
Total current assets	8,885	11,016	10,930
PROPERTY AND EQUIPMENT, net	771	708	758
Total assets	$ 9,656	$ 11,724	$ 11,688
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 470	$ 613	$ 675
Accounts payable and accrued expenses	2,786	2,734	2,178
Dividends payable to shareholder	1,538	3,314	1,519
Billings in excess of costs and estimated earnings on uncompleted contracts	897	604	1,254
Unearned revenue	335	362	372
Total current liabilities	6,026	7,627	5,998
LONG-TERM DEBT, net of current maturities	2,444	1,392	646
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, no par value; 250,000 shares authorized and issued, 183,993 shares outstanding	22	22	22
Additional paid-in capital	6	6	6
Retained earnings	2,056	3,575	5,914
Treasury stock, 66,007 shares, at cost	(898)	(898)	(898)
Total shareholders' equity	1,186	2,705	5,044
Total liabilities and shareholders' equity	$ 9,656	$ 11,724	$ 11,688

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

QUALITY AIR HEATING & COOLING, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEARS ENDED MARCH 31, 1995	YEARS ENDED MARCH 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
REVENUES	$ 24,434	$ 32,594	$ 23,282	$ 29,597	$ 16,747
COST OF SERVICES	15,634	20,850	14,176	18,467	9,854
Gross profit	8,800	11,744	9,106	11,130	6,893
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,646	6,791	5,032	6,640	3,879
Income from operations	2,154	4,953	4,074	4,490	3,014
OTHER INCOME (EXPENSE):					
Interest expense	(36)	(218)	(101)	(154)	(72)
Other	53	98	60	97	24
NET INCOME	$ 2,171	$ 4,833	$ 4,033	$ 4,433	$ 2,966

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

QUALITY AIR HEATING & COOLING, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT				
BALANCE, March 31, 1994.................	250,000	$ 22	$ 6	$ 3,636	$--	$ 3,664
Purchase of treasury stock.........	--	--	--	--	(898)	(898)
Distributions to shareholders......	--	--	--	(3,751)	--	(3,751)
Net income.........................	--	--	--	2,171	--	2,171
BALANCE, March 31, 1995.................	250,000	22	6	2,056	(898)	1,186
Distributions to shareholders......	--	--	--	(3,314)	--	(3,314)
Net income.........................	--	--	--	4,833	--	4,833
BALANCE, March 31, 1996.................	250,000	22	6	3,575	(898)	2,705
Distributions to shareholders......	--	--	--	(1,694)	--	(1,694)
Net income.........................	--	--	--	4,033	--	4,033
BALANCE, December 31, 1996..............	250,000	22	6	5,914	(898)	5,044
Distribution to shareholders.......	--	--	--	(8,538)	--	(8,538)
Net income.........................	--	--	--	2,966	--	2,966
BALANCE, June 30, 1997..................	250,000	$ 22	$ 6	$ 342	$ (898)	$ (528)

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

QUALITY AIR HEATING & COOLING, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED MARCH 31 1995	YEARS ENDED MARCH 31 1996	NINE MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 2,171	$ 4,833	$ 4,033	$ 4,433	$ 2,966
Adjustments to reconcile net income to net cash provided by (used in) operating activities --					
Depreciation and amortization	359	371	242	370	200
Loss (gain) on sale of property and equipment	7	--	25	25	--
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	(1,334)	317	(1,054)	335	(338)
Inventories	(6)	(35)	(61)	(76)	(76)
Costs and estimated earnings in excess of billings on uncompleted contracts	(804)	228	(348)	(253)	504
Prepaid expenses and other current assets	(15)	29	46	(3)	(53)
Federal income tax deposit	50	(148)	(37)	(185)	(709)
Increase (decrease) in --					
Accounts payable and accrued expenses	470	(52)	(556)	(481)	(132)
Billings in excess of costs and estimated earnings on uncompleted contracts	477	(293)	650	269	(522)
Unearned revenue	(15)	27	10	26	33
Net cash provided by operating activities	1,360	5,277	2,950	4,460	1,873
CASH FLOWS FROM INVESTING ACTIVITIES:					
Sale (purchase) of property and equipment, net	(446)	(308)	(317)	(441)	(197)
Net cash used in investing activities	(446)	(308)	(317)	(441)	(197)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings of long-term debt	3,000	--	--	--	6,068
Payments of long-term debt	(226)	(909)	(684)	(903)	--
Distributions to shareholders	(3,088)	(1,538)	(3,489)	(3,488)	(9,845)
Purchase of treasury stock	(898)	--	--	--	--
Net cash used in financing activities	(1,212)	(2,447)	(4,173)	(4,391)	(3,777)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(298)	2,522	(1,540)	(372)	(2,101)
CASH AND CASH EQUIVALENTS, beginning of period	1,967	1,669	4,191	3,023	2,651
CASH AND CASH EQUIVALENTS, end of period	$ 1,669	$ 4,191	$ 2,651	$ 2,651	$ 550
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 44	$ 201	$ 107	$ 152	$ 55

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

QUALITY AIR HEATING & COOLING, INC.
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Quality Air Heating & Cooling, Inc., a Michigan corporation, (the "Company") focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems primarily for mid-sized to large commercial facilities. Quality primarily operates throughout western Michigan.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems"), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating systems. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholders report their share of the Company's taxable earnings or losses in their personal tax returns. The Company will terminate its S Corporation status concurrently with the effective date of this Offering. Included in current assets are deposits to prepay certain of the shareholders' federal income taxes.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	MARCH 31, 1995	MARCH 31, 1996	DECEMBER 31, 1996
Transportation equipment	5	$ 1,449	$ 1,554	$1,725
Machinery and equipment	7	480	453	465
Computer and telephone equipment	5-7	80	87	90
Leasehold improvements	5	838	834	859
Furniture and fixtures	7	435	414	459
Less -- Accumulated depreciation and amortization		(2,511)	(2,634)	(2,840)
Property and equipment, net		$ 771	$ 708	$ 758

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS (IN THOUSANDS):

Activity in the Company's allowance for doubtful accounts consists of the following:

	MARCH 31, 1995	MARCH 31, 1996	DECEMBER 31, 1996
Balance at beginning of year	$ 70	$ 87	$ 80
Additions to costs and expenses	142	35	2
Deductions for uncollectible receivables written off and recoveries	(125)	(42)	(2)
	$ 87	$ 80	$ 80

Accounts payable and accrued expenses consist of the following:

	MARCH 31, 1995	MARCH 31, 1996	DECEMBER 31, 1996
Accounts payable, trade	$ 1,353	$ 1,145	$ 921
Accrued compensation and benefits	540	693	426
Other accrued expenses	893	896	831
	$ 2,786	$ 2,734	$2,178

Installation contracts in progress are as follows:

	MARCH 31, 1995	MARCH 31, 1996	DECEMBER 31, 1996
Costs incurred on contracts in progress	$ 5,240	$ 7,697	$ 7,231
Estimated earnings, net of losses	1,556	2,588	2,433
	6,796	10,285	9,664
Less -- Billings to date	6,501	9,925	9,606
	$ 295	$ 360	$ 58
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 1,192	$ 964	$ 1,312
Billings in excess of costs and estimated earnings on uncompleted contracts	(897)	(604)	(1,254)
	$ 295	$ 360	$ 58

5. LONG-TERM DEBT:

Long-term debt consists of a note payable to a bank. The debt is secured by certain equipment, accounts receivable, inventory, a $1,000,000 life insurance policy on the president and the personal guaranty of the president limited to 50 percent of the outstanding balance of the loan. The note is payable in monthly installments of $63,000 including interest at the prime lending rate less .25 percent (8 percent at December 31, 1996). The Company has restrictive and various financial covenants with which the Company was in compliance at December 31, 1996.

The maturities of long-term debt as of December 31, 1996, are as follows (in thousands):

Year ending December 31,	
1997	$ 675
1998	646
	$ 1,321

The Company has a $2,000,000 line of credit with a bank. The line of credit expires August 1, 1997, and bears interest at one-half percent below the prime lending rate. The line of credit is secured by accounts receivable, inventory, a $1,000,000 life insurance policy, and machinery and equipment. There was no balance outstanding under this line of credit at March 31, 1995 and 1996, and December 31, 1996.

6. LEASES:

The Company leases a facility from a company which is owned by one of the Company's shareholders. The lease expires on April 30, 2005. Quality has an option to renew the lease for one additional three-year term on the same terms. The rent paid under this related-party lease was approximately $221,000 for each of the years ended March 31, 1995 and 1996, and December 31, 1996, and $110,400 for the six months ended June 30, 1997. The Company also leases a facility from a third party, which expires on June 30, 1998. The rent paid under this lease was approximately $20,000 for each of the years ended March 31, 1995 and 1996, and December 31, 1996. The Company has guaranteed the payment of two series of public bonds issued in 1985 and 1990, respectively, by the Michigan Strategic Fund on behalf of two real property development entities owned by a shareholder, the proceeds of which were used to fund the construction of the Company's leased warehouse facility and a second adjacent warehouse. As of March 1997, approximately $1.6 million of the bond debt remained outstanding.

Future minimum lease payments under these non-cancellable operating leases are as follows (in thousands):

Year ending December 31,	
1997	$ 241
1998	231
1999	221
2000	221
2001	221
Thereafter	718
	$ 1,853

7. RELATED-PARTY TRANSACTIONS:

The Company paid management fees to an entity owned by its majority shareholder through December 31, 1995. Total management fees paid amounted to $260,000 and $190,000 for the years ended March 31, 1995 and 1996, respectively.

8. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit sharing plan. The plan provides for the Company to match one-half of the first 4 percent contributed by each employee. Total contributions by the Company under the plan were approximately $104,000, $110,000 and $125,000 for the years ending March 31, 1995 and 1996, and December 31, 1996, respectively. The Company may also make discretionary contributions. The Company made discretionary contributions of $200,000 and $300,000 for the years ended March 31, 1995 and 1996, and had accrued approximately $169,000 at December 31, 1996, for contributions to be funded in 1997, along with approximately $116,000 for the six months ended June 30, 1997.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, a line of credit, notes payable and debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

10. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including business auto liability, general liability and an umbrella policy. The Company has not incurred significant claims or losses on any of these insurance policies.

The Company is self-insured for medical claims up to $30,000 per year per covered individual. Additionally, the Company is part of the state's workers' compensation plan and is responsible for claims up to $275,000 per accident with a maximum aggregate exposure for twenty-four months of $648,000. Claims in excess of these amounts are covered by a stop-loss policy. Under the state's policy, the Company has a $300,000 letter of credit which expires December 31, 1997. The Company has recorded reserves for its portion of self-insured claims based on estimated claims incurred through March 31, 1995 and 1996 and December 31, 1996.

ROYALTY AGREEMENT

The Company is obligated to pay royalties ranging from 1 percent to 4.5 percent based on the level of service revenues through December 1, 2001, for management systems support. Royalties paid under this agreement were approximately $157,000, $159,000 and $165,000 for the years ended March 31, 1995 and 1996 and December 31, 1996, and approximately $76,000 for the six months ended June 30, 1997.

11. SHAREHOLDERS' EQUITY:

On February 15, 1995, the Company acquired 66,007 shares of common stock from its majority shareholder for approximately $898,000.

As of June 30, 1997, the Company distributed $8,326,000 in cash and $85,000 in property to its shareholders. The Company distributed approximately $127,000 subsequent to the merger which has been reflected in the accompanying financial statements.

12. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Atlas Comfort Services USA, Inc.:

We have audited the accompanying consolidated balance sheets of Atlas Comfort Services USA, Inc. (a Texas corporation) and its subsidiary (the Company) as of June 30, 1995 and 1996 and December 31, 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1994, 1995 and 1996, the six months ended December 31, 1996, and the six months ended June 30, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atlas Comfort Services USA, Inc., and its subsidiary as of June 30, 1995 and 1996, and December 31, 1996, and the consolidated results of their operations and their cash flows for the three years ended June 30, 1994, 1995 and 1996 for the six months ended December 31, 1996, and for the six months ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 427	$ 391	$ 101
Accounts receivable --			
Trade, net of allowance of $60, $60, and $100, respectively	2,920	3,953	2,604
Retainage	904	1,327	1,208
Officers, employees and other receivables	114	172	159
Inventories	1,685	2,000	1,770
Costs and estimated earnings in excess of billings on uncompleted contracts	1,050	681	676
Current deferred income taxes	155	164	145
Prepaid expenses and other current assets	40	27	82
Total current assets	7,295	8,715	6,745
PROPERTY AND EQUIPMENT, net	231	484	499
OTHER ASSETS:			
Goodwill, net	24	23	22
Deferred income tax	167	105	88
Total assets	$ 7,717	$ 9,327	$7,354
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Line of credit	$ 500	$ 600	$ --
Current maturities of notes payable to affiliates	200	102	107
Current obligations under capital leases	32	92	101
Current maturities of long-term debt	9	348	356
Accounts payable and accrued expenses	3,522	3,295	2,246
Income tax payable	363	390	752
Billings in excess of costs and estimated earnings on uncompleted contracts	1,115	1,947	523
Total current liabilities	5,741	6,774	4,085
NOTES PAYABLE TO AFFILIATES, net of current portion	1,271	149	98
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	44	133	121
LONG-TERM DEBT, net of current portion	21	1,225	1,058
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, no par value; 5,000 shares authorized, 1,000 issued and outstanding	1	1	1
Retained earnings	639	1,045	1,991
Total shareholders' equity	640	1,046	1,992
Total liabilities and shareholders' equity	$ 7,717	$ 9,327	$7,354

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

ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1995	YEAR ENDED JUNE 30, 1996	SIX MONTHS ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
REVENUES	$ 21,848	$ 22,444	$ 29,174	$ 15,545	$ 13,962
COST OF SERVICES	19,657	19,635	25,449	12,508	11,166
Gross profit	2,191	2,809	3,725	3,037	2,796
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,086	2,166	2,843	1,432	1,740
Income from operations	105	643	882	1,605	1,056
OTHER INCOME (EXPENSE):					
Interest expense	(156)	(168)	(185)	(107)	(105)
Other	2	28	(11)	78	67
Income (loss) before income taxes, extraordinary item, and cumulative effect of a change in accounting principle	(49)	503	686	1,576	1,018
Provision for income taxes (benefit)	(2)	199	280	630	402
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle	(47)	304	406	946	616
Extraordinary item -- gain on extinguishment of debt, net of deferred taxes of $167,000 (Note 5)	273	--	--	--	--
Income before cumulative effect of a change in accounting principle	226	304	406	946	616
Cumulative effect on prior years of a change in accounting for income taxes (Note 7)	141	--	--	--	--
NET INCOME	$ 367	$ 304	$ 406	$ 946	$ 616

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

ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT FOR SHARE INFORMATION)

	COMMON STOCK			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
BALANCE, December 31, 1993	1,000	$ 1	$ (32)	$ (31)
Net income	--	--	367	367
BALANCE, June 30, 1994	1,000	1	335	336
Net income	--	--	304	304
BALANCE, June 30, 1995	1,000	1	639	640
Net income	--	--	406	406
BALANCE, June 30, 1996	1,000	1	1,045	1,046
Net income	--	--	946	946
BALANCE, December 31, 1996	1,000	1	1,991	1,992
Net income	--	--	616	616
BALANCE, June 30, 1997	1,000	$ 1	$ 2,607	$ 2,608

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

ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED JUNE 30,			SIX MONTHS ENDED DECEMBER 31,	SIX MONTHS ENDED JUNE 30,
	1994	1995	1996	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 367	$ 304	$ 406	$ 946	$ 616
Adjustments to reconcile net income to net cash provided by (used in) operating activities --					
Depreciation and amortization	104	124	92	84	71
Cumulative effect of a change in accounting principle	(141)	--	--	--	--
Extraordinary gain on extinguishment of debt	(440)	--	--	--	--
Deferred income tax provision	167	(196)	54	36	--
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	(1,672)	148	(1,514)	1,481	(550)
Inventories	(264)	(554)	(315)	230	(275)
Costs and estimated earnings in excess of billings on uncompleted contracts	(145)	(266)	369	5	(276)
Prepaid expenses and other current assets	121	(14)	13	(55)	(111)
Increase (decrease) in --					
Accounts payable and accrued expenses	1,320	(417)	(227)	(1,049)	710
Income tax payable	--	363	27	362	391
Billings in excess of costs and estimated earnings on uncompleted contracts	585	437	834	(1,424)	(242)
Net cash provided by (used in) operating activities	2	(71)	(261)	616	334
CASH FLOWS FROM INVESTING ACTIVITIES:					
Sale (purchase) of property and equipment, net	(139)	(67)	(121)	(50)	(226)
Net cash used in investing activities	(139)	(67)	(121)	(50)	(226)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net borrowings on line of credit	400	100	100	(600)	--
Principal payments on notes payable to affiliates	(38)	(261)	(1,219)	(50)	(205)
Borrowings on notes payable to affiliates	1,202	100	--	3	--
Principal payments on long-term debt	(1,067)	(14)	(150)	(176)	--
Borrowings on long-term debt	41	--	1,689	15	126
Additions to (principal payments on) capital lease obligations	(29)	(37)	(74)	(48)	14
Cash paid for dividends	--	--	--	--	--
Net cash provided by (used in) financing activities	509	(112)	346	(856)	(65)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	372	(250)	(36)	(290)	43
CASH AND CASH EQUIVALENTS, beginning of period	305	677	427	391	101
CASH AND CASH EQUIVALENTS, end of period	$ 677	$ 427	$ 391	$ 101	$ 144
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ --	$ --	$ --	$ --	$ 105
Income Taxes	$ --	$ 30	$ 200	$ 224	$ --

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

1. BUSINESS AND ORGANIZATION:

Atlas Comfort Services USA, Inc., a Texas corporation, and its subsidiary (the "Company") is a leading provider of HVAC installation services for apartment complexes, condominiums and hotels in the United States and also provides maintenance, repair and replacement of HVAC systems. Atlas primarily operates in the southwest, northeast, and the mid-Atlantic regions of the United States.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems"), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The consolidated financial statements include the accounts and results of operations of the Company and its subsidiary which are under common control and management of two individuals. All significant intercompany transactions and balances have been eliminated in combination.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the

Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating units. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating units. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GOODWILL

Goodwill, in the amount of $33,000, represents the excess of cost over the fair value of net assets acquired and is amortized using the straight-line method over 40 years. The Company assesses the recoverability of its goodwill whenever adverse events occur and believes that no material impairment exists.

NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
Transportation equipment	5	$ 741	$ 987	$1,043
Machinery and equipment	5	116	140	137
Leasehold improvements	3	28	28	28
Furniture and fixtures	5	266	286	212
Less -- Accumulated depreciation and amortization		(920)	(957)	(921)
Property and equipment, net		$ 231	$ 484	$ 499

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS (IN THOUSANDS):

Activity in the Company's allowance for doubtful accounts consists of the following:

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
Balance at beginning of year	$ 60	$ 60	$ 60
Additions to costs and expenses	75	77	42
Deductions for uncollectible receivables written off and recoveries	(75)	(77)	(2)
	$ 60	$ 60	$ 100

Accounts payable and accrued expenses consist of the following:

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
Accounts payable, trade	$ 2,935	$ 2,409	$1,582
Accrued compensation and benefits	197	231	163
Accrued warranty expense	250	300	310
Other accrued expenses	140	355	191
	$ 3,522	$ 3,295	$2,246

Installation contracts in progress are as follows:

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
Costs incurred on contracts in progress	$ 11,884	$ 12,526	$ 12,643
Estimated earnings, net of losses	2,666	2,589	2,582
	14,550	15,115	15,225
Less -- Billings to date	14,615	16,381	15,072
	$ (65)	$ (1,266)	$ 153
Costs and estimated earnings in excess of billings on uncompleted contracts	1,050	681	676
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,115)	(1,947)	(523)
	$ (65)	$ (1,266)	$ 153

5. DEBT:

LINE OF CREDIT

The Company has a $700,000 revolving line-of-credit facility with a bank at the prime lending rate plus 1 percent with interest payable monthly. This credit facility is secured by the Company's cash, accounts receivable, inventory, and unpledged property and equipment. The credit facility is guaranteed by two of the Company's officers and is also secured by investment accounts of certain affiliates. The credit facility had an outstanding balance of $500,000, $600,000, and $0 at June 30, 1995 and 1996 and December 31, 1996, respectively, and matures in January 1998. The Company paid approximately $8,000, $33,000 and $35,000 of interest relating to the revolving credit line for the years ended June 30, 1994, 1995 and 1996 and $18,500 for the six months ended December 31, 1996.

NOTES PAYABLE TO FINANCIAL INSTITUTIONS

Long-term debt is summarized as follows:

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
		(IN THOUSANDS)	
Note payable to a financial institution with interest at prime plus 1%, payable in monthly installments of $26,667 plus interest through January 1999, when the entire balance of unpaid principal and accrued interest shall be due and payable	$ --	$ 1,467	$1,306
Vehicle notes with interest at rates ranging from 7.9% to 9.4%, payable in monthly installments through March 2001	30	106	108
	30	1,573	1,414
Less -- Current maturities	9	348	356
	$ 21	$ 1,225	$1,058

The note payable to a financial institution is secured by cash, accounts receivable, inventory, property and equipment, and the personal guarantee of the two shareholders. In addition, investment accounts of the shareholders and of certain affiliates of the shareholders are pledged as collateral for the note. The Company paid interest of $3,000, $3,000 and $73,500 for the years ended June 30, 1994, 1995 and 1996, respectively, and $73,000 for the six months ended December 31, 1996.

In September 1993, the Company and a bank reached a settlement agreement in which the bank released the Company from its total obligation of approximately $1,500,000 related to a revolving line of credit, installment notes, equipment notes and related accrued interest, for a lump sum payment of $1,100,000. The payment was funded by the proceeds from the notes payable to affiliates mentioned below. This early extinguishment of debt generated a gain aggregating $440,000. The Company paid approximately $77,000 in interest during the year ended June 30, 1994 related to these extinguished notes.

NOTES PAYABLE TO AFFILIATES

Notes payable to affiliates are summarized as follows:

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
	(IN THOUSANDS)		
Note payable to a related party in monthly installments of $5,500 including interest at 10% through March 1998, collateralized by stock of the Company	$ 159	$ 105	$ 78
Unsecured note payable to an affiliate in monthly installments of $2,500 including interest at 6% through September 1996	326	--	--
Notes payable to Company officers in monthly installments of $4,812 including interest at 10% through June 1999	186	146	127
Notes payable to Company officers with interest due monthly at the prime rate through September 1996, secured by accounts receivable, certain property and equipment, and intangible assets	700	--	--
Unsecured note payable to Company officers with interest and any unpaid principal balance due August 8, 1995, at the rate of 9%	100	--	--
	1,471	251	205
Less -- Current maturities	200	102	107
	$ 1,271	$ 149	$ 98

The Company paid interest of $116,400, $112,600 and $68,000 related to notes payable to affiliates for the years ended June 30, 1994, 1995 and 1996, respectively, and $12,600 for the six months ended December 31, 1996.

The aggregate maturities of notes payable to financial institutions and affiliates are as follows (in thousands):

Year ending December 31,	
1997	$ 463
1998	424
1999	718
2000	13
2001 and thereafter	1
	$ 1,619

6. LEASES:

The Company leases vehicles and warehouse facilities under capital and operating leases expiring through October, 2000. Total rent expense related to operating leases amounted to $95,000, $143,000 and $180,000 for the years ended June 30, 1994, 1995 and 1996, respectively, and $60,000 for the six months ended December 31, 1996, and $245,000 for the six months ended June 30, 1997.

Future minimum lease payments for capital and noncancelable operating leases are as follows (in thousands):

	CAPITAL LEASES	NONCANCELABLE OPERATING LEASES
Year ended December 31,		
1997	$ 117	$ 142
1998	98	23
1999	44	--
2000	6	--
Total minimum lease payments	265	165
Amounts representing interest	43	
Present value of net minimum lease payments	222	
Less -- Current portion	101	
Long-term obligation	$ 121	

7. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

	YEAR ENDED JUNE 30,			SIX MONTHS ENDED DECEMBER 31,
	1994	1995	1996	1996
Federal --				
Current	$ (2)	$ 331	$ 193	$ 504
Deferred	141	(164)	43	28
State --				
Current	--	64	34	90
Deferred	26	(32)	10	8
	$ 165	$ 199	$ 280	$ 630

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 34 percent to income (loss) before income taxes as follows:

	YEAR ENDED JUNE 30,			SIX MONTHS ENDED DECEMBER 31,
	1994	1995	1996	1996
Provision at the statutory rate	$ (16)	$ 171	$ 233	$ 536
Increase resulting from --				
Permanent differences, mainly meals and entertainment	164	7	19	29
State income tax, net of benefit for federal deduction	17	21	28	65
	$ 165	$ 199	$ 280	$ 630

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences, representing deferred tax assets and liabilities, result principally from the following:

	JUNE 30,		DECEMBER 31,
	1995	1996	1996
Accounting for long-term contracts	$ 159	$ 74	$ (11)
Warranty reserves	100	123	127
Inventory	32	38	40
Allowance for doubtful accounts	36	30	51
Other accrued expenses not deducted for tax purposes	25	62	90
Bases differences on property and equipment and capital lease accounting	(30)	(58)	(64)
Net deferred tax assets	$ 322	$ 269	$ 233

The net deferred tax assets and liabilities are comprised of the following:

	JUNE 30,		DECEMBER 31,
	1995	1996	1996
Deferred tax assets --			
Current	$ 209	$ 240	$ 293
Long-term	221	171	149
Total	430	411	442
Deferred tax liabilities --			
Current	(54)	(76)	(148)
Long-term	(54)	(66)	(61)
Total	(108)	(142)	(209)
Net deferred income tax assets	$ 322	$ 269	$ 233

The Company adopted the provisions of SFAS No. 109 in fiscal year 1994 resulting in a cumulative effect of a change in accounting principle of $141,000.

8. RELATED-PARTY TRANSACTIONS:

Two shareholders lease to the Company the main office facility. Total payments made under this lease agreement amounted to $90,000 for each of the years ended June 30, 1994, 1995 and 1996, respectively, and $45,000 for the six months ended December 31, 1996. The Company is in the process of entering into an agreement with these shareholders to lease land on which a new facility will be built. This lease agreement is anticipated to have a twenty year term.

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal action will have a material adverse effect on the Company's financial position or consolidated results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

10. EMPLOYEE BENEFIT PLAN

The Company sponsors a Profit Sharing and Savings Plan (the "Plan") which covers substantially all employees. The employees who participate in the Plan may contribute 1 percent to 20 percent of their base compensation, and the Company may make discretionary matching contributions. The Company did not make any contributions for the years ended December 31, 1994 and 1995. The Company made $18,248 in contributions for the year ended June 30, 1996 and $12,667 for the six months ended December 31, 1996.

11. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, notes receivable, notes payable, a line of credit and long-term debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

12. SIGNIFICANT CUSTOMERS AND VENDORS:

Significant customers are those that account for greater than ten percent of the Company's revenues. For the year ended June 30, 1996 and the six months ended December 31, 1996, one customer, a publicly traded Real Estate Investment Trust, accounted for 14% and 20% of the Company's revenues, respectively. Receivables outstanding from this customer represented 13% and 12% of the Company's trade and retainage receivables as of June 30, 1996 and December 31, 1996, respectively. In addition, one of the Company's shareholders has less than 1% ownership in this customer.

During the years ended June 30, 1994, 1995 and 1996 and the six months ended December 31, 1996, two vendors accounted for 12% and 11%; 29% and 17%; 20% and 17%; and 15% and 12% of the Company's purchases, respectively.

13. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

Concurrently with the merger, the Company entered into agreements with the shareholders to lease land and buildings used in the Company's operations for $204,000 a year for three five-year renewable terms.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Tri-City Mechanical, Inc.:

We have audited the accompanying balance sheets of Tri-City Mechanical, Inc. as of December 31, 1995 and 1996, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996, and the six months ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-City Mechanical, Inc. as of December 31, 1995 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, and the six months ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

TRI-CITY MECHANICAL, INC.
BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,551	$1,958
Restricted cash	383	325
Investments	--	493
Accounts Receivable --		
Trade, net of allowance of $130, and $30, respectively	4,495	3,734
Retainage	831	756
Other receivables	2	11
Inventories	1,183	762
Costs and estimated earnings in excess of billings on uncompleted contracts	306	288
Prepaid expenses and other current assets	1	12
Total current assets	9,752	8,339
PROPERTY AND EQUIPMENT, net	508	656
Total assets	$ 10,260	$8,995
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 2,683	$2,179
Billings in excess of costs and estimated earnings on uncompleted contracts	2,207	667
Total current liabilities	4,890	2,846
PAYABLE TO SHAREHOLDER	--	--
LONG-TERM DEBT, net of current maturities	--	--
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $10 par 2,500 shares authorized, 2,500 issued and outstanding	25	25
Additional paid-in capital	105	105
Retained earnings	5,240	6,019
Total shareholders' equity	5,370	6,149
Total liabilities and shareholders' equity	$ 10,260	$8,995

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

TRI-CITY MECHANICAL, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,
	1994	1995	1996	1997
REVENUES	$ 16,883	$ 25,030	$ 24,237	$17,016
COST OF SERVICES	14,271	19,298	18,561	14,528
Gross profit	2,612	5,732	5,676	2,488
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,219	3,193	3,903	1,346
Income from operations	393	2,539	1,773	1,142
OTHER INCOME (EXPENSE):				
Interest expense	(2)	(1)	--	--
Interest income	50	132	152	70
Other	24	81	89	3
NET INCOME	$ 465	$ 2,751	$ 2,014	$ 1,215

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

TRI-CITY MECHANICAL, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
BALANCE, December 31, 1993	2,500	$ 25	$ 105	$ 2,577	$ 2,707
Distributions to shareholders	--	--	--	(338)	(338)
Net income	--	--	--	465	465
BALANCE, December 31, 1994	2,500	25	105	2,704	2,834
Distributions to shareholders	--	--	--	(215)	(215)
Net income	--	--	--	2,751	2,751
BALANCE, December 31, 1995	2,500	25	105	5,240	5,370
Distributions to shareholders	--	--	--	(1,235)	(1,235)
Net income	--	--	--	2,014	2,014
BALANCE, December 31, 1996	2,500	25	105	6,019	6,149
Distributions to shareholders	--	--	--	(7,437)	(7,437)
Net income	--	--	--	1,215	1,215
BALANCE, June 30, 1997	2,500	$ 25	$ 105	$ (203)	$ (73)

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

TRI-CITY MECHANICAL, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	1995	1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 465	$ 2,751	$ 2,014	$ 1,215
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation	131	134	102	52
Deferred income taxes	(218)	--	--	--
Loss (gain) on sale of property and equipment	--	1	(10)	--
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Restricted cash	(73)	(75)	58	325
Accounts receivable	(231)	(1,306)	827	(1,697)
Inventories	(329)	(801)	421	489
Costs in excess of billings and estimated earnings on uncompleted contracts	17	(90)	18	(809)
Prepaid expenses and other current assets	(14)	28	(11)	(78)
Increase (decrease) in --				
Accounts payable and accrued expenses	864	519	(504)	2,143
Billings in excess of costs and estimated earnings on uncompleted contracts	1,360	508	(1,540)	163
Net cash provided by operating activities	1,972	1,669	1,375	1,803
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sales (purchase) of property and equipment, net	(311)	139	(240)	(23)
Purchase (sale) of investment, net	--	--	(493)	493
Net cash (used in) provided by investing activities	(311)	(139)	(733)	470
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in payable to shareholders	(210)	--	--	591
Borrowings on line of credit	19	1	--	3,112
Payments on line of credit	(17)	(15)	--	--
Distributions to shareholders	(338)	(215)	(1,235)	(7,437)
Net cash used in financing activities	(546)	(229)	(1,235)	(3,734)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,115	1,301	(593)	(1,461)
CASH AND CASH EQUIVALENTS, beginning of period	135	1,250	2,551	1,958
CASH AND CASH EQUIVALENTS, end of period	$ 1,250	$ 2,551	$ 3,425	$ 497
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest	$ 2	$ 1	$ --	$ --

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

TRI-CITY MECHANICAL, INC.
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Tri-City Mechanical, Inc., an Arizona corporation, (the "Company") focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems primarily for large commercial and industrial facilities, as well as process piping for industrial facilities. Tri-City primarily operates in Arizona, California and Nevada.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems") pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

RESTRICTED CASH

The Company also maintains restricted cash which consists of certificates of deposit. These certificates of deposit are held in a joint checking account between the contractors and Tri-City for the retainage balance due from contractors at the completion of the job.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

INVESTMENTS

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires that investments in debt securities and marketable equity securities be designated as trading, held-to-maturity or available-for-sale. At December 31, 1996, investments have been categorized as held-to-maturity, are stated at cost, and are classified in the balance sheet as current assets. Investments at December 31, 1996 consist of U.S. Treasury Bills.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating systems. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholders report their share of the Company's taxable earnings or losses in their personal tax returns. The Company will terminate its S Corporation status concurrently with the effective date of the Offering.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996
Transportation equipment	5	$ 521	$ 623
Machinery and equipment	10	639	680
Computer and telephone equipment	5	121	157
Leasehold improvements	5	48	48
Furniture and fixtures	6	54	54
		1,383	1,562
Less -- Accumulated depreciation		(875)	(906)
Property and equipment, net		$ 508	$ 656

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consists of the following (in thousands):

	DECEMBER 31, 1994	1995	1996
Balance at beginning of year	$ 100	$ 130	$ 130
Additions to costs and expenses	184	1	48
Deductions for uncollectible receivables written off and recoveries	(154)	(1)	(148)
	$ 130	$ 130	$ 30

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	1996
Accounts payable, trade	$ 2,178	$ 1,749
Accrued compensation and benefits	181	97
Warranty reserve	301	278
Other accrued expenses	23	55
	$ 2,683	$ 2,179

Installation contracts in progress are as follows (in thousands):

	DECEMBER 31,	
	1995	1996
Costs incurred on contracts in progress	$ 14,659	$ 8,615
Estimated earnings, net of losses	3,865	2,471
	18,524	11,086
Less -- Billings to date	20,425	11,465
	$ (1,901)	$ (379)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 306	$ 288
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,207)	(667)
	$ (1,901)	$ (379)

5. LONG-TERM DEBT:

The Company has a $1.0 million line of credit with a financial services company. The line of credit expires October 31, 1997, and bears interest at 9 percent per annum. The line of credit is secured by a lien on accounts receivable. There was no balance outstanding under this line of credit at December 31, 1995 or 1996.

6. LEASES:

The Company leases facilities from a company which is wholly owned by one of the shareholders. The lease expires June 30, 1998. The rent paid under this related-party lease was approximately $109,000 for the year ended 1996. The lease requires the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The lease contains renewal and termination provisions.

The Company leases vehicles for certain key members of management. The leases expire October 1, 1999. The lease payments under these vehicle leases were approximately $6,000, $15,000 and $16,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

Future minimum lease payments for operating leases are as follows (in thousands):

Year ending December 31 --	
1997	$ 142
1998	65
1999	3
	$ 210

7. EMPLOYEE BENEFIT PLANS:

The Company has adopted a 401(k) plan. The plan provides for the Company to match 20 percent of the first 6 percent contributed by each employee. Total contributions by the Company under this plan were approximately $13,000, $22,000 and $24,000 during 1994, 1995 and 1996, respectively. Amounts due to this plan were approximately $ --, $ -- and $4,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

8. RELATED-PARTY TRANSACTIONS:

The Company provides accounting services and building maintenance at no cost to Nothum Properties & SMAC companies which are wholly owned by the shareholders. The estimated value of the services provided during the years ended December 31, 1994, 1995 and 1996 was $25,000, $28,000 and $30,000, respectively.

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, investments, and a line of credit. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

11. SALES TO SIGNIFICANT CUSTOMER:

For the years ended December 31, 1994, 1995 and 1996, a customer accounted for approximately 17, 11 and 11 percent, respectively, of the Company's sales.

12. SHAREHOLDERS' EQUITY:

As of June 30, 1997, the Company distributed $6,846,000 from the Company's S Corporation accumulated adjustment account. The Company distributed approximately $388,000 subsequent to the merger which has been reflected in the accompanying financial statements.

13. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

Concurrently with the merger, the Company entered into agreements with the shareholders to lease land and buildings used in the Company's operations for a negotiated amount and term.

Tri-City has a commitment with a limited liability corporation owned by Mr. Nothum, Jr. and his father to construct new office, operations and warehouse facilities. The Company believes that the rent for its current and future property does not and will not exceed fair market value.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To S. M. Lawrence Inc.:

We have audited the accompanying combined balance sheets of S. M. Lawrence Inc. and related company as of October 31, 1995 and 1996, and the related combined statements of operations, shareholders' equity and cash flows for the three years ended October 31, 1996, and the eight months ended June 30, 1997. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of S. M. Lawrence Inc. and related company as of October 31, 1995 and 1996, and the results of their operations and their cash flows for the three years ended October 31, 1996, and the eight months ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

S. M. LAWRENCE INC. AND RELATED COMPANY
COMBINED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	OCTOBER 31, 1995	OCTOBER 31, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 680	$ 327
Accounts receivable --		
Trade	1,457	2,493
Retainage	454	896
Other receivables	1	1
Note receivable from shareholder	50	75
Inventories	215	253
Costs and estimated earnings in excess of billings on uncompleted contracts	66	358
Prepaid expenses and other current assets	39	61
Total current assets	2,962	4,464
PROPERTY AND EQUIPMENT, net	459	644
OTHER NONCURRENT ASSETS	138	132
Total assets	$ 3,559	$ 5,240
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit	$ 10	$ --
Note payable to affiliate	--	--
Accounts payable and accrued expenses	1,153	2,737
Income tax payable	--	--
Billings in excess of costs and estimated earnings on uncompleted contracts	299	344
Total current liabilities	1,462	3,081
LONG-TERM DEBT, net of current maturities	--	--
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, no par value, 3,000 shares authorized, 1,480 shares issued and outstanding	161	161
Treasury stock, at cost	(15)	(15)
Retained earnings	1,951	2,013
Total shareholders' equity	2,097	2,159
Total liabilities and shareholders' equity	$ 3,559	$ 5,240

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

S.M. LAWRENCE INC. AND RELATED COMPANY
COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEARS ENDED OCTOBER 31,			EIGHT MONTHS ENDED JUNE 30,
	1994	1995	1996	1997
REVENUES	$ 12,758	$ 12,568	$ 17,163	$ 11,575
COST OF SERVICES	9,797	9,142	12,211	8,156
Gross profit	2,961	3,426	4,952	3,419
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,849	3,477	4,885	3,460
Income (loss) from operations	112	(51)	67	(41)
OTHER INCOME (EXPENSE):				
Interest income, net	32	55	47	3
Other	(41)	34	8	39
INCOME (LOSS) BEFORE INCOME TAXES	103	38	122	1
PROVISION (BENEFIT) FOR INCOME TAXES	50	30	60	--
NET INCOME (LOSS)	$ 53	$ 8	$ 62	$ 1

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

S.M. LAWRENCE INC. AND RELATED COMPANY
COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK				
	SHARES	AMOUNT	RETAINED EARNINGS	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
BALANCE, October 31, 1993............	1,480	$ 161	$ 1,890	$ (15)	$ 2,036
Net income......................	--	--	53	--	53
BALANCE, October 31, 1994............	1,480	161	1,943	(15)	2,089
Net income......................	--	--	8	--	8
BALANCE, October 31, 1995............	1,480	161	1,951	(15)	2,097
Net income......................	--	--	62	--	62
BALANCE, October 31, 1996............	1,480	161	2,013	(15)	2,159
Net income......................	--	--	1	--	1
BALANCE, June 30, 1997...............	1,480	$ 161	$ 2,014	$ (15)	$ 2,160

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

S.M. LAWRENCE INC. AND RELATED COMPANY
COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED OCTOBER 31, 1994	1995	1996	EIGHT MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 53	$ 8	$ 62	$ 1
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --				
Depreciation and amortization	263	121	200	152
Gain on sale of property and equipment	--	--	--	(128)
Changes in operating assets and liabilities				
(Increase) decrease in --				
Accounts receivable	262	203	(1,502)	115
Inventories	(18)	(26)	(38)	42
Costs and estimated earnings in excess of billings on uncompleted contracts	42	26	(292)	80
Prepaid expenses and other assets	46	(13)	3	(206)
Increase (decrease) in --				
Accounts payable and accrued expenses	(156)	143	1,584	(778)
Billings in excess of costs on uncompleted contracts	33	(171)	45	380
Net cash provided by (used in) operating activities	525	291	62	(342)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments of (additions to) cash surrender value of insurance	(38)	(45)	(19)	--
Sales (purchases) of property and equipment, net	(74)	(380)	(386)	(123)
Net cash used in investing activities	(112)	(425)	(405)	(123)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on note receivable from shareholder	--	(2)	(10)	--
Proceeds received on note from shareholder	--	12	--	--
Payments on note payable to shareholder	(181)	--	--	--
Borrowings on long-term debt	--	--	--	300
Net cash provided by (used in) financing activities	(181)	10	(10)	300
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	232	(124)	(353)	(165)
CASH AND CASH EQUIVALENTS, beginning of period	572	804	680	327
CASH AND CASH EQUIVALENTS, end of period	$ 804	$ 680	$ 327	$ 162
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest	$ 14	$ --	$ 5	$--
Income taxes	--	16	14	--

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

1. BUSINESS AND ORGANIZATION:

S.M. Lawrence Inc., a Tennessee corporation (the "Company") focuses on providing "design and build" installation services and process piping primarily for industrial facilities and maintenance, repair and replacement of commercial and industrial HVAC systems. S.M. Lawrence primarily operates in Tennessee and the immediately surrounding states.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems") pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The financial statements include the accounts and results of operations of S.M. Lawrence Inc. and Lawrence Services, Inc. which are under common control and management of two individuals. All significant intercompany transactions and balances have been eliminated in combination.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using an accelerated method of depreciation. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor and parts for one year after installation of new air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes are recorded based upon the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	OCTOBER 31, 1995	OCTOBER 31, 1996
Transportation equipment	5	$ 774	$ 907
Machinery and equipment	7	648	677
Furniture and fixtures	5	145	210
Leasehold improvements	32	122	231
Construction in process		81	--
		1,770	2,025
Less -- Accumulated depreciation and amortization		(1,311)	(1,381)
Property and equipment, net		$ 459	$ 644

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Accounts payable and accrued expenses consist of the following (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996
Accounts payable, trade	$ 620	$ 1,560
Accrued compensation and benefits	466	1,091
Other accrued expenses	67	86
	$ 1,153	$ 2,737

Installation contracts in progress are as follows (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996
Costs incurred on contracts in progress	$ 13,475	$ 15,503
Estimated earnings, net of losses	4,193	5,641
	17,668	21,144
Less -- Billings to date	17,901	21,130
	$ (233)	$ 14
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 66	$ 358
Billings in excess of costs and estimated earnings on uncompleted contracts	(299)	(344)
	$ (233)	$ 14

5. LINE OF CREDIT:

The Company had an unsecured bank line of credit at October 31, 1995 and 1996, with an outstanding balance of $0 for all years. The available balance was $800,000 for 1995 and $850,000 for 1996. The line of credit is secured by guarantees and is payable upon demand. Interest is payable on the line of credit at prime plus 1 percent.

6. LEASES:

The Company leases facilities from a company which is owned by one of the shareholders. The lease is for a one-year period and is renewed annually. For each year ended October 31, 1994, 1995 and 1996, the rent expense under this related-party lease was $110,400, and $74,000 for the eight months ended June 30, 1997.

7. INCOME TAXES:

Federal and state income taxes are as follows (in thousands):

	OCTOBER 31, 1994	OCTOBER 31, 1995	OCTOBER 31, 1996
Federal --			
Current	$ 25	$ 24	$ 54
Deferred	17	1	(3)
State --			
Current	5	4	10
Deferred	3	1	(1)
	$ 50	$ 30	$ 60

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 34 percent to income before income taxes for 1994 and 1995 and 35 percent for 1996 as follows (in thousands):

	OCTOBER 31, 1994	OCTOBER 31, 1995	OCTOBER 31, 1996
Provision at the statutory rate	$ 35	$ 13	$ 39
Increase resulting from --			
State income tax, net of benefits for federal deduction	5	3	6
Other	10	14	15
	$ 50	$ 30	$ 60

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996
Accruals and reserves not deductible until paid	$ (1)	$ 2
Net deferred income tax assets (liabilities)	$ (1)	$ 2

The net deferred tax assets and liabilities are comprised of the following (in thousands):

	OCTOBER 31, 1995	OCTOBER 31, 1996
Deferred tax assets --		
Current	$ --	$ 2
Total	--	2
Deferred tax liabilities --		
Current	(1)	--
Total	(1)	--
Net deferred income tax assets (liabilities)	$ (1)	$ 2

8. RELATED-PARTY TRANSACTIONS:

The Company loans one of the shareholders money annually. In 1994, the shareholder signed a promissory note for $44,695 to be paid on demand, accruing interest at eight percent. The entire balance remained outstanding at year-end 1994. The entire note was repaid during fiscal year 1995. In fiscal year 1995, the shareholder signed a promissory note for $50,435 to be paid on demand, accruing interest at eight percent. The entire amount remained outstanding at year-end 1995. The entire note was repaid during fiscal year 1996. In 1996, the shareholder signed a promissory note for $75,435 to be paid on demand, accruing interest at eight percent. The entire balance remained outstanding at year-end 1996.

The Company entered into a non-compete agreement with a former major shareholder on November 1, 1991 for $542,562. Under this agreement, the former shareholder agreed not to compete with the Company for a period of 36 months beginning with November 1, 1991. The principal to be paid was recorded as an asset and was fully amortized over 36 months. The last payment of $180,854 was made during fiscal 1994.

In September 1995, the Company entered into an agreement to purchase equipment from a related party. The terms of the agreement included a $2,776 cash down payment and a note payable due in one year for $11,852. Payments on the note were $1,975 and $9,877 during 1995 and 1996, respectively.

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

The Company has adopted a partially self-funded medical plan. Under this plan, the Company pays up to $20,000 per year per employee. The Company's insurance copay pays the remaining amount. For the years ended December 31, 1994, 1995, and 1996 the Company contributed $102,647, $82,866 and $143,788, respectively. For the eight months ended June 30, 1997, the Company contributed $114,000. For claims incurred but not yet reported the Company accrued $25,000 for the years ended December 31, 1995 and 1996.

10. EMPLOYEE BENEFIT PLANS:

The Company has adopted a 401(k) retirement plan which provides for 100 percent matching contribution by the Company, up to a maximum liability of 5 percent of each participating employee's annual compensation. The Company has the right to make additional discretionary contributions. Total contributions by the Company under this plan to provide contributions and pay expenses were $57,434, $141,105 and $368,377 during 1994, 1995, and 1996, respectively, and approximately $111,000 for the eight months ended June 30, 1997. Amounts due to this plan were approximately $117,508 and $397,000 for the years ended December 31, 1995 and 1996, respectively, and approximately $98,000 for the eight months ended June 30, 1997.

11. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, notes receivable, investments, notes payable and a line of credit. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

12. SALES TO SIGNIFICANT CUSTOMER:

During 1996, one customer accounted for approximately 19 percent of the Company's sales.

13. INVESTMENT IN AIRCRAFT

In December 1996, the Company entered into an agreement to purchase a one-third interest in an investment. The investment is a partnership and will own an aircraft, available for use by any of the partners. The Company's cost for this investment was $100,000. In connection with the agreement, the Company signed a note payable to the partnership on December 31, 1996 for $100,000 with interest of 7 percent. This note was fully paid in 1997.

14. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company

Concurrently with the merger, the Company entered into agreements with the shareholders to lease land and buildings used in the Company's operations for $125,000 for a one-year period beginning January 1, 1998.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Accurate Air Systems, Inc.:

We have audited the accompanying balance sheets of Accurate Air Systems, Inc. as of June 30, 1995, December 31, 1995 and 1996, and the related statements of operations, shareholder's equity and cash flows for each of the years ended June 30, 1994 and 1995, for the six months ended December 31, 1995, for the year ended December 31, 1996, and for the six months ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accurate Air Systems, Inc., as of June 30, 1995, December 31, 1995 and 1996, and the results of their operations and their cash flows for the years ended June 30, 1994 and 1995, for the six months ended December 31, 1995, for the year ended December 31, 1996, and for the six months ended June 30, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

ACCURATE AIR SYSTEMS, INC.
BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	JUNE 30, 1995	DECEMBER 31, 1995	DECEMBER 31, 1996
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 50	$ 33	$ 79
Accounts receivable --			
Trade, net of allowance of $70, $70, and $33, respectively	1,385	1,671	1,778
Retainage	550	321	725
Other receivables	8	16	18
Inventories	122	129	104
Costs and estimated earnings in excess of billings on uncompleted contracts	275	212	231
Prepaid expenses and other current assets	181	81	--
Total current assets	2,571	2,463	2,935
PROPERTY AND EQUIPMENT, net	804	1,014	925
DEFERRED TAX ASSET	14	--	--
Total assets	$3,389	$3,477	$3,860
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 88	$ 109	$ 42
Accounts payable and accrued expenses	1,707	1,355	1,236
Line of credit	374	600	500
Note payable -- shareholder	--	--	630
Billings in excess of costs and estimated earnings on uncompleted contracts	229	206	312
Total current liabilities	2,398	2,270	2,720
LONG-TERM DEBT, net of current maturities	56	175	133
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDER'S EQUITY:			
Common stock $1 par, 250,000 shares authorized, 1,000 shares issued and outstanding	1	1	1
Retained earnings	934	1,031	1,006
Total shareholder's equity	935	1,032	1,007
Total liabilities and shareholder's equity	$3,389	$3,477	$3,860

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

ACCURATE AIR SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEARS ENDED JUNE 30, 1994	YEARS ENDED JUNE 30, 1995	SIX MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
REVENUES	$9,763	$ 12,171	$5,585	$ 16,806	$6,204
COSTS OF SERVICES	7,204	8,998	4,312	13,270	4,776
Gross profit	2,559	3,173	1,273	3,536	1,428
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,681	2,960	1,131	3,037	1,200
Income (Loss) from operations	(122)	213	142	499	228
OTHER INCOME/(EXPENSE):					
Interest expense	(21)	(48)	(41)	(80)	(65)
Other	(9)	(9)	(4)	14	7
INCOME (LOSS) BEFORE INCOME TAXES	(152)	156	97	433	170
PROVISION (BENEFIT) FOR INCOME TAXES	(54)	60	--	--	--
NET INCOME (LOSS)	$ (98)	$ 96	$ 97	$ 433	$ 170

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

ACCURATE AIR SYSTEMS, INC.
STATEMENTS OF SHAREHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL SHAREHOLDER'S EQUITY
BALANCE, June 30, 1993	1,000	$ 1	$ 941	$ 942
Net loss	--	--	(98)	(98)
BALANCE, June 30, 1994	1,000	1	843	844
Distribution to shareholder	--	--	(5)	(5)
Net income	--	--	96	96
BALANCE, June 30, 1995	1,000	1	934	935
Net income	--	--	97	97
BALANCE, December 31, 1995	1,000	1	1,031	1,032
Distributions to shareholder	--	--	(458)	(458)
Net income	--	--	433	433
BALANCE, December 31, 1996	1,000	$ 1	$1,006	$ 1,007
Distributions to shareholders	--	--	(101)	(101)
Net income	--	--	170	170
BALANCE, June 30, 1997	1,000	$ 1	$1,075	$ 1,076

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

ACCURATE AIR SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1995	SIX MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ (98)	$ 96	$ 97	$ 433	$ 170
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization	128	124	85	186	110
Deferred income tax provision	(150)	(70)	81	--	--
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable	127	(395)	(66)	(513)	(16)
Costs and estimated earnings in excess of billings on uncompleted contracts	(90)	(58)	63	(19)	(99)
Prepaid expenses and other current assets	(1)	(44)	31	81	(12)
Inventories	(22)	(16)	(7)	25	(37)
Increase (decrease) in --					
Accounts payable and accrued expenses	365	419	(350)	(119)	278
Billings in excess of costs and estimated earnings on uncompleted contracts	64	119	(22)	106	(162)
Net cash provided by (used in) operating activities	323	175	(88)	180	232
CASH FLOWS FROM INVESTING ACTIVITIES:					
Sales (purchase) of property and equipment	(100)	(347)	(295)	(97)	(52)
Net cash provided by (used in) investing activities	(100)	(347)	(295)	(97)	(52)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Borrowings of long-term debt	--	183	192	--	239
Payments of long-term debt	(186)	(39)	(52)	(109)	--
Borrowings of short-term debt	--	--	--	630	--
Borrowings on line of credit	50	--	226	--	--
Payments on line of credit	--	(76)	--	(100)	--
Distributions to shareholder	--	(5)	--	(458)	(290)
Net cash provided by (used in) financing activities	(136)	63	366	(37)	(51)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	87	(109)	(17)	46	129
CASH AND CASH EQUIVALENTS, beginning of period	72	159	50	33	79
CASH AND CASH EQUIVALENTS, end of period	$ 159	$ 50	$ 33	$ 79	$ 208
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for --					
Interest	$ 21	$ 48	$ 41	$ 79	$ 66
Income taxes	53	34	--	--	--

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

ACCURATE AIR SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Accurate Air Systems, Inc., a Texas corporation, (the "Company") focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems for commercial facilities. Accurate primarily operates in Texas and Oklahoma.

The Company and its shareholder intend to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems") pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CHANGE IN FISCAL YEAR END

Effective July 1, 1995, the Company changed its fiscal year end from June 30 to December 31. The statements of operations, shareholder's equity and cash flows for the six months ended December 31, 1995 are presented in the accompanying financial statements. The results of operations for the six month period are not necessarily indicative of the results for a full year period.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the weighted-average method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating systems. The Company generally warrants labor for 90 days after the servicing of existing air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

Effective July 1, 1995, the Company elected S Corporation status as defined by the Internal Revenue Code whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, each shareholder reports his share of the Company's taxable earnings or losses in his personal federal and state tax returns. The balance in the deferred tax liability account at July 1, 1995 was credited to income during the six month period ended December 31, 1995.

Prior to July 1, 1995, the Company followed the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. Under this method, deferred income taxes were recorded based upon differences between the financial reporting and tax bases of assets and liabilities and were measured using the enacted tax rates and laws that would have been in effect when the underlying assets or liabilities were recovered or settled.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	JUNE 30, 1995	DECEMBER 31, 1995	DECEMBER 31, 1996
Land	--	$ 200	$ 200	$ 200
Buildings	31.5	205	213	213
Transportation equipment	5	414	336	241
Machinery and equipment	5 - 7	262	477	510
Leasehold improvements	15 - 18	57	60	61
Furniture and fixtures	5 - 7	74	122	133
Less -- Accumulated depreciation and amortization		(408)	(394)	(433)
Property and equipment, net		$ 804	$ 1,014	$ 925

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS (IN THOUSANDS):

Activity in the Company's allowance for doubtful accounts consist of the following:

	JUNE 30, 1995	DECEMBER 31, 1995	DECEMBER 31, 1996
Balance at beginning of year	$ 57	$ 70	$ 70
Additions to costs and expenses	19	--	--
Deductions for uncollectible receivables written off and recoveries	(6)	--	(37)
	$ 70	$ 70	$ 33

Accounts payable and accrued expenses consist of the following:

	JUNE 30, 1995	DECEMBER 31, 1995	DECEMBER 31, 1996
Accounts payable, trade	$ 537	$ 871	$ 685
Accrued compensation and benefits	509	179	288
Other accrued expenses	575	243	190
Warranty reserve	86	62	73
	$1,707	$ 1,355	$ 1,236

Installation contracts in progress are as follows:

	JUNE 30, 1995	DECEMBER 31, 1995	DECEMBER 31, 1996
Costs incurred on contracts in progress	$4,113	$ 2,468	$ 5,514
Estimated earnings, net of losses	1,428	726	1,760
Less -- Billings to date	5,495	3,188	7,355
	$ 46	$ 6	$ (81)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 275	$ 212	$ 231
Billings in excess of costs and estimated earnings on uncompleted contracts	(229)	(206)	(312)
	$ 46	$ 6	$ (81)

5. SHORT-TERM DEBT:

On October 15, 1996, the Company executed a renewal and extension of its revolving line of credit with its bank. The new agreement provides for maximum borrowings of up to $900,000 with interest payable monthly on the amount outstanding at the rate of prime plus one percent, not to exceed 18 percent. The agreement provides that the Company may borrow up to 70 percent of its accounts receivable that are less than sixty days past due. The revolving line of credit is secured by accounts receivable and the personal guaranty of the sole shareholder, and requires the Company to maintain certain minimum tangible net worth and cash flow ratios. Balances outstanding relating to the line are approximately $374,000, $600,000, and $500,000 as of June 30, 1995, and December 31, 1995 and 1996, respectively. The Company was in compliance with all covenants at each applicable year end.

On December 27, 1996, the Company borrowed $630,000 from the Company's shareholder. Interest is payable monthly at a rate of 9 percent on the outstanding balance. The note matures on June 30, 1997. The entire balance was outstanding as of December 31, 1996.

6. LONG-TERM DEBT:

	JUNE 30, 1995	DECEMBER 31, 1995	DECEMBER 31, 1996
	(IN THOUSANDS)		
Note payable, secured by real estate, payable in twenty-four installments of $2,540 including interest at 9.50% per annum with the final payment due January 28, 1997.......	$ 44	$ 31	$ --
Notes payable, secured by transportation and operating equipment, monthly installments of various amounts, including interest at rates ranging from 9.00% to 9.75% per annum until 1997.........	100	69	21
Note payable, secured by operating equipment, payable in thirty-five installments of $3,177 including interest at a rate of prime plus one percent. A final payment of $128,696 due on August 1, 1998.....	--	184	154
	144	284	175
Less -- Current maturities...........	88	109	42
	$ 56	$ 175	$ 133

The aggregate maturities of long-term debt as of December 31, 1996, are as follows (in thousands):

1997................................	$ 42
1998................................	133
	$ 175

7. LEASES:

The Company leases facilities from a company which is partially owned by the shareholder. The lease expires in April 1999. The rent paid under this related-party lease was approximately $15,000, $60,000, $30,000 and $60,000 for the years ended June 30, 1994 and 1995, the six months ended December 31, 1995 and the year ended December 31, 1996 respectively. The Company also leased a facility from a third party, which expired on December 31, 1996. The rent paid under this lease was approximately $12,000, $12,000, $6,000 and $13,200 for the years ended June 30, 1994 and 1995, the six months ended December 31, 1995, and the year ended December 31, 1996, respectively. The leases require the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased properties.

The Company also leases vehicles for operations which expire in 1998. The payments under these vehicle leases were approximately $--, $1,400, $26,000, $94,000, and $103,000, for the years ended June 30, 1994 and 1995, the six months ended December 31, 1995, the year ended December 31, 1996, and the six months ended June 30, 1997, respectively.

Concurrently with the merger, the Company entered into new agreements with a company partially owned by the shareholder to lease land and buildings owned by such party used in the Company's operations for $84,700 per year for five years commencing on June 27, 1997.

Future minimum lease payments for operating leases are as follows (in thousands):

	DECEMBER 31, 1996
Year Ended	
1997	$ 197
1998	60
1999	15
	$ 272

8. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1995
Federal --		
Current	$ (37)	$ 111
Deferred	(9)	(60)
State --		
Current	(7)	20
Deferred	(1)	(11)
	$ (54)	$ 60

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 34 percent to income before income taxes as follows:

	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1995
Provision at the statutory rate	$ (52)	$ 53
Increase (decrease) resulting from --		
State income tax, net of benefit for federal deduction	(2)	6
Other	--	1
	$ (54)	$ 60

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities result principally from the following:

	JUNE 30, 1995
Depreciation and amortization	$ 14
Accruals and reserves not deductible until paid	121
State taxes	(4)
Cash to accrual adjustments	(50)
Net deferred income tax assets	$ 81

The net deferred tax assets and liabilities are comprised of the following:

	JUNE 30, 1995
Deferred tax assets --	
Current	$ 114
Long-term	14
Total	128
Deferred tax liabilities --	
Current	47
Long-term	--
Total	47
Net deferred income tax assets	$ 81

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

Effective January 1, 1995, the Company became self-insured for medical claims up to $30,000 per year per covered individual per event. Claims in excess of these amounts are covered by a stop-loss policy. The Company has recorded reserves for self-insured claims based on estimated claims incurred through June 30, 1995, six months ended December 31, 1995 and the year ended December 31, 1996.

10. EMPLOYEE BENEFIT PLANS:

The Company has adopted a 401(k) plan which provides for 10 percent matching contributions by the Company, up to a maximum of 6 percent of each participating employee's annual compensation. The Company has the right to make additional discretionary contributions. Employees become 100 percent vested in the employer's contribution after 7 years of service. Total contributions by the Company under this plan to provide contributions and pay expenses were approximately $118,000, $131,000, $12,000 and $199,000 during the years ended June 30, 1994 and 1995, the six months ended December 31, 1995 and the year ended December 31, 1996, respectively. Amounts due to this plan were approximately $109,000, $--and $173,000 for the year ended June 30, 1995, the six months ended December 31, 1995 and the year ended December 31, 1996, respectively.

The Company also adopted a discretionary profit-sharing plan under which the Company may contribute up to 25 percent of a participant's compensation, up to a maximum contribution of $30,000. Employees become 100 percent vested in the employer's contributions after 7 years of service. The Company's contributions and administrative expenses were approximately $5,000, $8,000, $-- and $--, for the years ended June 30, 1994 and 1995, and six months ended December 31, 1995 and the year ended December 31, 1996, respectively.

11. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, notes payable, a line of credit, and debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

12. CAPITAL STOCK:

In addition to the 250,000 authorized shares of $1 par value voting common stock, the Company has the following classes of authorized capital stock. None of these three classes have been issued.

	SHARES AUTHORIZED	PAR VALUE
Nonvoting Common	250,000	$ 1
Voting Preferred	250,000	$ 1
Nonvoting Preferred	250,000	$ 1

In connection with the merger, the Company transferred certain assets to the shareholder, consisting of land, buildings, and automobiles, with a total carrying value of approximately $370,000 as of June 30, 1997. The Company also distributed approximately $101,000 to its shareholder as of June 30, 1997.

13. SALES TO SIGNIFICANT CUSTOMERS:

For the years ended June 30, 1994 and 1995, the six months ended December 31, 1995, and year ended December 31, 1996 one customer accounted for approximately 12, 25, 13, and 0 percent, respectively, of the Company's revenue.

14. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholder entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Eastern Heating and Cooling, Inc.:

We have audited the accompanying balance sheet of Eastern Heating and Cooling, Inc., as of December 31, 1996, and the related statements of operations, shareholder's equity and cash flows for the year then ended, and the six months ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Heating and Cooling, Inc., as of December 31, 1996, and the results of its operations and its cash flows for the year then ended, and the six months ended June 30, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

EASTERN HEATING AND COOLING, INC.
BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1996
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 83
Accounts receivable --	
Trade, net of allowance of $25	1,214
Retainage	43
Other receivables	13
Inventories	100
Costs and estimated earnings in excess of billings on uncompleted contracts	66
Prepaid expenses and other current assets	--
Total current assets	1,519
PROPERTY AND EQUIPMENT, net	604
OTHER NONCURRENT ASSETS	144
Total assets	$2,267
LIABILITIES AND SHAREHOLDER'S EQUITY	
CURRENT LIABILITIES:	
Current maturities of long-term debt	$ 302
Accounts payable and accrued expenses	826
Line of credit	140
Billings in excess of costs and estimated earnings on uncompleted contracts	102
Total current liabilities	1,370
PAYABLE TO SHAREHOLDER	--
LONG-TERM DEBT, net of current maturities	431
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDER'S EQUITY:	
Common stock, no par value, 200 shares authorized, 100 shares issued and outstanding	50
Retained earnings	416
Total shareholder's equity	466
Total liabilities and shareholder's equity	$2,267

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

EASTERN HEATING AND COOLING, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
REVENUES	$ 7,944	$3,465
COST OF SERVICES	5,276	2,112
Gross profit	2,668	1,353
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,237	1,144
Income from operations	431	209
OTHER INCOME (EXPENSE):		
Interest expense	(87)	(43)
Other	40	34
NET INCOME	$ 384	$ 200

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

EASTERN HEATING AND COOLING, INC.
STATEMENTS OF SHAREHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED	TOTAL SHAREHOLDER'S
	SHARES	AMOUNT	EARNINGS	EQUITY
BALANCE, December 31, 1995...........	100	$ 50	$ 356	$ 406
Distributions to shareholder....	--	--	(324)	(324)
Net income......................	--	--	384	384
BALANCE, December 31, 1996...........	100	$ 50	$ 416	$ 466
Distributions to shareholder....	--	--	(616)	(616)
Net income......................	--	--	200	200
BALANCE, June 30, 1997...............	100	$ 50	$--	$ 50

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

EASTERN HEATING AND COOLING, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 384	$ 200
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization	144	79
Gain on sale of property and equipment	(31)	13
Changes in operating assets and liabilities --		
(Increase) decrease in --		
Accounts receivable	(434)	3
Inventories	4	(13)
Costs and estimated earnings in excess of billings on uncompleted contracts	123	(384)
Other noncurrent assets	80	(181)
Increase (decrease) in --		
Accounts payable and accrued expenses	246	701
Billings in excess of costs and estimated earnings on uncompleted contracts	10	(4)
Net cash provided by operating activities	526	414
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchase) of property and equipment, net	(224)	(126)
Net cash used in investing activities	(224)	(126)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	208	265
Borrowings from shareholder	--	465
Payments of long-term debt	(280)	--
Borrowings on line of credit	140	--
Distributions to shareholder	(325)	(616)
Net cash provided by (used in) financing activities	(257)	114
NET INCREASE IN CASH AND CASH EQUIVALENTS	45	402
CASH AND CASH EQUIVALENTS, beginning of period	38	83
CASH AND CASH EQUIVALENTS, end of period	$ 83	$ 485
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for --		
Interest	$ 52	$ 43

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

1. BUSINESS AND ORGANIZATION:

Eastern Heating and Cooling, Inc., a New York corporation, (the "Company") focuses on providing "design and build" installation and maintenance, repair and replacement of HVAC systems for commercial and industrial facilities. Eastern also offers continuous monitoring and control systems for commercial facilities. Eastern primarily operates in the area within a 75 mile radius of Albany, New York.

The Company and its shareholder intends to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems") pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of parts and supplies held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provision in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating systems. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholder reports his share of the Company's taxable earnings or losses in his personal tax returns. The Company will terminate its S Corporation status concurrently with the effective date of this Offering.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1996
Transportation equipment	7	$ 957
Machinery and equipment	10	54
Computer and telephone equipment	3-5	6
Leasehold improvements	20	36
Furniture and fixtures	7-10	126
		1,179
Less -- Accumulated depreciation and amortization		(575)
Property and equipment, net		$ 604

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consists of the following (in thousands):

	DECEMBER 31, 1996
Balance at beginning of year	$ 16
Additions to costs and expenses	25
Deductions for uncollectible receivables written off and recoveries	(16)
	$ 25

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1996
Accounts payable, trade	$ 611
Accrued compensation and benefits	120
Other accrued expenses	95
	$ 826

Installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1996
Costs incurred on contracts in progress	$ 749
Estimated earnings, net of losses	235
	984
Less -- Billings to date	1,020
	$ (36)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 66
Billings in excess of costs and estimated earnings on uncompleted contracts	(102)
	$ (36)

5. LONG-TERM DEBT:

Long-term debt consists of the following:

The Company has a term note payable to a financial institution with an outstanding balance of approximately $133,000 at December 31, 1996. The term note matures in April 1999, and bears interest at prime plus 2 percent (10.25 percent at December 31, 1996) which is payable along with principal of $4,583 monthly. The note is secured by substantially all assets of the Company and is guaranteed by the Company's shareholder.

The Company has various installment notes with several financial institutions which are secured by transportation equipment. The terms of the notes range from 48 months to 60 months with monthly payments of principal and interest of approximately $12,300. The notes bear interest at rates ranging from 6.5 percent to 10.5 percent and mature from 1997 to 2001.

The Company has a note payable to its former owner with an outstanding balance of $288,444 at December 31, 1996. The note payable was calculated using an implied interest rate of 9 percent. The note payable is due in installments of $159,385 on January 1, 1997 and $168,948 on January 1, 1998, including interest.

The aggregate maturities of long-term debt as of December 31, 1996, are as follows (in thousands):

Year ending December 31 --	
1997	$ 302
1998	296
1999	85
2000	42
2001	8
	$ 733

6. LINE OF CREDIT:

The Company has a $500,000 line of credit with a financial services company. The line of credit is due on demand and bears interest at prime plus 1 percent per annum (9.25 percent at December 31, 1996). The line of credit is secured by substantially all assets of the Company. The balance outstanding under this line of credit at December 31, 1996 was $140,000.

7. LEASES:

The Company leases a facility from a company which is 50 percent owned by the Company's shareholder. The lease expires in December 1999. The rent paid under this related-party lease was approximately $50,000 and $39,000 for the year ended December 31, 1996, and six months ended June 30, 1997, respectively.

Additionally, the Company rents other facilities from non-related parties. Future minimum lease payments under non-cancellable operating leases are as follows (in thousands):

Year Ended December 31 --	
1997	$ 55
1998	55
1999	50
	$ 160

8. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

9. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, investments, notes payable, a line of credit, and debt. The Company believes that the carrying value of these instruments on the Investment in RECC, Inc. accompanying balance sheet approximates their fair value.

10. SALES TO SIGNIFICANT CUSTOMER:

During 1996, one customer accounted for approximately 12 percent of the Company's sales.

11. INTEREST IN RECC, INC.:

Effective January 2, 1997, an affiliate of the Company acquired the business and certain operating assets of RECC, Inc., a New York corporation. This affiliate agreed to pay $10,000 over a period of one year.

12. SHAREHOLDERS' EQUITY

As of June 30, 1997, the Company distributed $454,000 from the accumulated adjustment account. The Company distributed approximately $162,000 subsequent to the merger which has been reflected in the accompanying financial statements.

13. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholder entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

Concurrently with the merger, the Company entered into agreements with the shareholders to lease land and buildings used in the Company's operations for a negotiated amount and term.

Eastern intends to enter into a 10-year lease with 60 Loudonville Road Associates for a new building and terminate the existing lease. Eastern has agreed to install the HVAC systems in the new building at a price which the Company believes to be at a fair market value. The Company's annual rental in the new building will be at fair market value, as determined by appraisal.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Contract Service, Inc.:

We have audited the accompanying balance sheets of Contract Service, Inc., as of December 31, 1995 and 1996, and the related statements of operations, shareholders' equity and cash flows for the three years ended December 31, 1996, and the six months ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Contract Service, Inc., as of December 31, 1995 and 1996, and the results of their operations and their cash flows for the three years ended December 31, 1996, and the six months ended June 30, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

CONTRACT SERVICE, INC.
BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 116	$ 207
Accounts receivable --		
Trade, net of allowance of $11, $22, respectively	651	680
Retainage	10	26
Other	--	--
Inventories	306	362
Costs and estimated earnings in excess of billings on uncompleted contracts	104	110
Prepaid expenses and other current assets	11	4
Total current assets	1,198	1,389
PROPERTY AND EQUIPMENT, net	549	642
OTHER NONCURRENT ASSETS	14	16
Total assets	$ 1,761	$ 2,047
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 100	$ 100
Accounts payable and accrued expenses	576	691
Billings in excess of costs and estimated earnings on uncompleted contracts	149	136
Total current liabilities	825	927
PAYABLE TO SHAREHOLDERS	--	--
LONG-TERM DEBT, net of current maturities	263	429
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $1 par value, 20,000 shares authorized, 8,946 shares issued and outstanding	9	9
Retained earnings	664	682
Total shareholders' equity	673	691
Total liabilities and shareholders' equity	$ 1,761	$ 2,047

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

CONTRACT SERVICE, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997 (UNAUDITED)
REVENUES	$ 6,502	$ 6,361	$ 7,842	$3,828
COST OF SERVICES	4,393	4,413	5,201	2,535
Gross profit	2,109	1,948	2,641	1,293
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,228	1,500	1,660	865
Income from operations	881	448	981	428
OTHER INCOME (EXPENSE):				
Interest expense	(5)	(9)	(29)	(43)
Other	29	38	51	16
NET INCOME	$ 905	$ 477	$ 1,003	$ 401

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

CONTRACT SERVICE, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		RETAINED	TOTAL SHAREHOLDERS'
	SHARES	AMOUNT	EARNINGS	EQUITY
BALANCE, December 31, 1993	8,946	$ 9	$ 660	$ 669
Distributions to shareholders	--	--	(911)	(911)
Net income	--	--	905	905
BALANCE, December 31, 1994	8,946	9	654	663
Distributions to shareholders	--	--	(467)	(467)
Net income	--	--	477	477
BALANCE, December 31, 1995	8,946	9	664	673
Distributions to shareholders	--	--	(985)	(985)
Net income	--	--	1,003	1,003
BALANCE, December 31, 1996	8,946	9	682	691
Distributions to shareholders	--	--	(1,083)	(1,083)
Net income	--	--	401	401
BALANCE, June 30, 1997	8,946	$ 9	$--	$ 9

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

CONTRACT SERVICE, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	1995	1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 905	$ 477	$ 1,003	$ 401
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation	97	120	138	66
Gain (loss) on sale of property and equipment	8	(5)	--	--
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Accounts receivable	(219)	(96)	(45)	(50)
Inventories	20	(49)	(57)	(124)
Costs and estimated earnings in excess of billings on uncompleted contracts	(44)	35	(6)	(48)
Prepaid expenses and other current assets	(9)	(2)	7	(7)
Other noncurrent assets	(8)	5	(2)	(11)
Increase (decrease) in --				
Accounts payable and accrued expenses	(27)	(3)	115	58
Billings in excess of costs and estimated earnings on uncompleted contracts	12	17	(13)	99
Net cash provided by operating activities	735	499	1,140	384
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sale (purchase) of property and equipment	(138)	(193)	(230)	(100)
Net cash used in investing activities	(138)	(193)	(230)	(100)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings from shareholders	--	--	--	529
Borrowings of long-term debt	102	201	166	327
Distributions to shareholders	(911)	(467)	(985)	(1,083)
Collections of advances to officers and shareholders	86	--	--	--
Net cash (used in) financing activities	(723)	(266)	(819)	(227)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(126)	40	91	57
CASH AND CASH EQUIVALENTS, beginning of period	202	76	116	207
CASH AND CASH EQUIVALENTS, end of period	$ 76	$ 116	$ 207	$ 264
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for --				
Interest	$ 6	$ 30	$ 41	$ 41

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

CONTRACT SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Contract Service, Inc., a Utah corporation, (the "Company") focuses on providing comprehensive maintenance, repair and replacement of HVAC systems for commercial and residential facilities primarily in Utah.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems"), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor for the first year after installation of new air conditioning and heating units. The Company generally warrants labor for 30 days after the servicing of existing air conditioning and heating units. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholders report their share of the Company's taxable earnings or losses in their personal tax returns. The Company will terminate its S Corporation status concurrently with the effective date of the Offering.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996
Transportation equipment..........	5-10	$ 690	$ 907
Machinery and equipment...........	5-30	126	127
Furniture and fixtures...........	5-20	178	189
Less -- Accumulated depreciation..		(445)	(581)
Property and equipment, net..		$ 549	$ 642

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Balance at beginning of year.........	$ 11	$ 11
Additions to costs and expenses......	18	26
Deductions for uncollectible receivables written off and recoveries........................	(18)	(15)
	$ 11	$ 22

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Accounts payable, trade	$ 242	$ 256
Accrued compensation	219	312
Other accrued expenses	115	123
	$ 576	$ 691

Installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Costs incurred on contracts in progress	$ 1,998	$ 2,534
Estimated earnings, net of losses	741	978
	2,739	3,512
Less -- Billings to date	2,784	3,538
	$ (45)	$ (26)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 104	$ 110
Billings in excess of costs and estimated earnings on uncompleted contracts	(149)	(136)
	$ (45)	$ (26)

5. LONG-TERM DEBT:

Long-term debt consists of ten unsecured promissory notes to the Company's shareholders of which two are demand notes. All notes, except the demand notes, are due 10 years from the date of the note. The notes bear an interest rate of 10 percent. Monthly interest payments are made to the shareholders with the principal due at the date of maturity.

The aggregate maturities of long-term debt are as follows (in thousands):

Year ending December 31,	
1997	$ 100
1998	--
1999	--
2000	--
2001	--
Thereafter	429
	$ 529

6. LEASES:

The Company leases its facilities from a company owned by its two shareholders. The lease is currently on a month-to-month basis. The rent paid under this related-party lease was approximately $66,000, $106,000 and $120,000 for the years ended December 31, 1994, 1995 and 1996, respectively, and approximately $65,000 for the six months ended June 30, 1997.

Future minimum lease payments for operating leases are as follows (in thousands):

Year ending December 31,	
1997	$ 120
1998	120
1999	120
2000	120
2001	120
	$ 600

7. RELATED-PARTY TRANSACTIONS:

At December 31, 1994, 1995 and 1996, the Company held notes payable to the shareholders in the amount of $162,000, $363,000 and $529,000, respectively. (See Note 5.) The notes bear interest at 10 percent. Interest paid during the years ended December 31, 1994, 1995 and 1996 related to these loans was $6,000, $29,000 and $41,000, respectively, and approximately $30,000 for the six months ended June 30, 1997.

8. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal action will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

9. EMPLOYEE BENEFIT PLAN:

Beginning January 1, 1994, the Company adopted a 401(k) plan. The plan allows employees to contribute a portion of their gross wages into the plan as a salary deferral and requires the Company to match 25 percent of the employee contribution up to 5 percent of employee's gross wages. The Company's matching contributions for the years ended December 31, 1995 and 1996 were $17,000 and $19,000 respectively.

The Company has also adopted a cafeteria plan pursuant to Section 125 of the Internal Revenue Code that covers all employees from 90 days after the commencement of employment. Under this plan, the employees may reduce their compensation to fund medical, dental and dependent care/day care benefits. The funds withheld are used to pay actual claims or medical insurance, based on the employees' elections.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, and debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

11. SHAREHOLDERS' EQUITY:

As of June 30, 1997, the Company distributed approximately $1,083,000 which represents the Company's S Corporation accumulated adjustment account.

12. EVENT SUBSEQUENT TO DATE OF AUDITORS' REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Tech Heating and Air Conditioning, Inc.:

We have audited the accompanying combined balance sheets of Tech Heating and Air Conditioning, Inc., and related company as of December 31, 1995 and 1996, and the related combined statements of operations, shareholders' equity and cash flows for the years then ended, and the six months ended June 30, 1997. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Tech Heating and Air Conditioning, Inc., and related company as of December 31, 1995 and 1996, and the combined results of their operations and their cash flows for the years then ended, and the six months ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

TECH HEATING AND AIR CONDITIONING, INC.,
AND RELATED COMPANY
COMBINED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 313	$ 611
Accounts receivable --		
Trade, net of allowance of $45, $40, respectively	1,244	1,723
Retainage	92	48
Other receivables	--	7
Inventories	67	208
Prepaid expenses and other current assets	7	33
Costs and estimated earnings in excess of billings on uncompleted contracts	--	--
Total current assets	1,723	2,630
PROPERTY AND EQUIPMENT, net	368	500
Total assets	$ 2,091	$ 3,130
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ --	$ 62
Accounts payable and accrued expenses	1,048	757
Line of credit	88	190
Total current liabilities	1,136	1,009
LONG-TERM DEBT, net of current maturities	48	60
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, no par value, 1,000 shares authorized, 500 shares issued	1	1
Treasury stock	(3)	(3)
Retained earnings	909	2,063
Total shareholders' equity	907	2,061
Total liabilities and shareholders' equity	$ 2,091	$ 3,130

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

TECH HEATING AND AIR CONDITIONING, INC.,
AND RELATED COMPANY
COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,
	1995	1996	1997
REVENUES	$ 6,960	$ 7,537	$3,904
COST OF SERVICES	4,212	3,996	2,229
Gross profit	2,748	3,541	1,675
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,800	1,861	1,059
Income from operations	948	1,680	616
OTHER INCOME (EXPENSE):			
Interest expense	(12)	(18)	(29)
Other	20	31	(19)
NET INCOME	$ 956	$ 1,693	$ 568

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

TECH HEATING AND AIR CONDITIONING, INC.,
AND RELATED COMPANY
COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		TREASURY	RETAINED	TOTAL SHAREHOLDERS'
	SHARES	AMOUNT	STOCK	EARNINGS	EQUITY
BALANCE, December 31, 1994	500	$ 1	$ (3)	$ 575	$ 573
Distributions to shareholders	--	--	--	(622)	(622)
Net income	--	--	--	956	956
BALANCE, December 31, 1995	500	1	(3)	909	907
Distributions to shareholders	--	--	--	(539)	(539)
Net income	--	--	--	1,693	1,693
BALANCE, December 31, 1996	500	1	(3)	2,063	2,061
Distributions to shareholders	--	--	--	(2,581)	(2,581)
Net income	--	--	--	568	568
BALANCE, June 30, 1997	500	$ 1	$ (3)	$ 50	$ 48

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

TECH HEATING AND AIR CONDITIONING, INC., AND RELATED COMPANY
COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 956	$ 1,693	$ 568
Adjustments to reconcile net income to net cash provided by (used in) operating activities --			
Depreciation	89	142	71
Changes in operating assets and liabilities --			
(Increase) decrease in --			
Accounts receivable	581	(442)	2
Inventories	(42)	(141)	(20)
Prepaid expenses and other current assets	7	(26)	(20)
Costs and estimated earnings in excess of billings on uncompleted contracts	--	--	(50)
Increase (decrease) in --			
Accounts payable and accrued expenses	(513)	(291)	182
Net cash provided by (used in) operating activities	1,078	935	733
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale (purchase) of property and equipment	(127)	(274)	106
Net cash provided by (used in) investing activities	(127)	(274)	106
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on line of credit	76	102	--
Borrowings on long-term debt	--	205	1,594
Payments on long-term debt	(100)	(131)	--
Distributions to shareholders	(622)	(539)	(2,639)
Net cash provided by (used in) financing activities	(646)	(363)	(1,045)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	305	298	(206)
CASH AND CASH EQUIVALENTS, beginning of period	8	313	611
CASH AND CASH EQUIVALENTS, end of period	$ 313	$ 611	$ 405
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for --			
Interest	$ 12	$ 18	$ 37

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

1. BUSINESS AND ORGANIZATION:

Tech Heating and Air Conditioning, Inc., an Ohio corporation, and related company (collectively, the "Company") focuses on providing "design and build" installation and services, maintenance, repair and replacement of HVAC systems for commercial and industrial facilities. Tech also offers continuous monitoring and control services for commercial facilities. The Company's customers are primarily in the greater Cleveland, Ohio area.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems, USA, Inc. ("Comfort Systems") pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The combined financial statements include the accounts and results of operations of Tech Heating and Air Conditioning, Inc., and its related company, Tech Mechanical which are under common control and management of two individuals. All significant intercompany transactions and balances have been eliminated in combination.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the combined statements of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provisions in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

WARRANTY COSTS

The Company warrants labor for the first year after installation of new air conditioning and heating systems. The Company generally warrants labor for 30 days after the servicing of existing air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholders report their share of the Company's taxable earnings or losses in their personal tax returns. The Company will terminate its S Corporation status concurrently with the effective date of the Offering.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or combined results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996
Transportation equipment	5	$ 462	$ 553
Machinery and equipment	7	61	159
Computer and telephone equipment	5	107	190
Furniture and fixtures	5-7	145	128
Less -- Accumulated depreciation		(407)	(530)
Property and equipment, net		$ 368	$ 500

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consists of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Balance at beginning of year	$ 25	$ 45
Additions to costs and expenses	20	--
Deductions for uncollectible receivables written off and recoveries	--	(5)
	$ 45	$ 40

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Accounts payable, trade	$ 428	$ 388
Accrued compensation and benefits	337	226
Other accrued expenses	283	143
	$ 1,048	$ 757

At December 31, 1995 and 1996 billings to customers generally equalled work performed which resulted in no costs and estimated earnings in excess of billings or billings in excess of costs and estimated earnings on uncompleted contracts.

5. LONG-TERM DEBT AND NOTES PAYABLE:

Long-term debt consists of installment notes payable for transportation equipment. The debt is secured by the related transportation equipment. The terms of the notes range from 24 months to 36 months with monthly payments of principal and interest of approximately $8,000. The notes bear interest at rates ranging from 7.5 percent to 9.95 percent.

The aggregate maturities of long-term debt as of December 31, 1996, are as follows (in thousands):

Year ending December 31 --	
1997	$ 252
1998	55
1999	5
	$ 312

The Company has a $1,500,000 line of credit with a financial services company. The line of credit expires in July 1997 and bears interest at prime plus .25 percent per annum (8.5 percent at December 31, 1996). The line of credit is secured by a lien on accounts receivable and inventory and is guaranteed by the shareholders. There was $190,000 outstanding under this line of credit at December 31, 1996.

6. LEASES:

The Company leases facilities from a company which is partially owned by one of the shareholders. The lease expires in April of 2000. The rent paid under this related-party lease was approximately $84,000, and $42,000 for the year ended December 31, 1996, and the six months ended June 30, 1997, respectively.

The lease requires the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The lease contains renewal provisions.

The Company leases a vehicle for a key member of management. The lease payments under this vehicle lease totaled approximately $6,700 for the year ended December 31, 1996.

Future minimum lease payments for operating leases are as follows (in thousands):

Year ending December 31	
1997	$ 100
1998	91
1999	86
2000	28
	$ 305

7. EMPLOYEE BENEFIT PLANS:

The Company has adopted a retirement plan which qualifies under Section 401(k) of the Internal Revenue Code. The Company has the right to make discretionary contributions. Total contributions by the Company under this plan were approximately $18,000 and $12,000 for 1995 and 1996, respectively.

8. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents and debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or combined results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

10. SHAREHGOLDERS' EQUITY:

As of June 30, 1997, the Company distributed $2,639,000 from the accumulated adjustment account through increased borrowings on the line of credit of $900,000 with the remainder paid from cash on hand.

11. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

Concurrently with the merger, the Company cancelled its sole vehicle lease.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Seasonair, Inc.:

We have audited the accompanying balance sheet of Seasonair, Inc. as of December 31, 1996, and the related statements of operations, shareholders' equity and cash flows for the year then ended, and the six months ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seasonair, Inc., as of December 31, 1996, and the results of its operations and its cash flows for the year then ended, and the six months ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

SEASONAIR, INC.
BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	DECEMBER 31, 1996
(UNAUDITED)	
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 69
Accounts receivable --	
Trade, net of allowance of $ --	961
Retainage	17
Other receivables	--
Inventories	190
Costs on uncompleted contracts in excess of billings	75
Deferred tax asset	104
Prepaid expenses and other current assets	96
Total current assets	1,512
PROPERTY AND EQUIPMENT, net	63
OTHER NONCURRENT ASSETS	83
Total assets	$1,658
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current maturities of long-term debt	34
Accounts payable and accrued expenses	810
Billings in excess of costs and estimated earnings on uncompleted contracts	156
Total current liabilities	1,000
LONG-TERM DEBT, net of current maturities	76
DEFERRED TAX LIABILITY	17
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY:	
Common stock, no par value, 2,000,000 shares authorized, 1,244,000 shares issued and outstanding	78
Additional paid-in capital	1
Retained earnings	721
Treasury stock	(235)
Total shareholders' equity	565
Total liabilities and shareholders' equity	$1,658

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

SEASONAIR, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
REVENUES	$6,737	$3,767
COST OF SERVICES	4,006	2,339
Gross profit	2,731	1,428
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,597	1,244
Income from operations	134	184
OTHER INCOME (EXPENSE):		
Interest expense	(21)	(6)
Other	82	30
INCOME BEFORE INCOME TAXES	195	208
PROVISION FOR INCOME TAXES	69	83
NET INCOME	$ 126	$ 125

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

SEASONAIR, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT				
BALANCE, December 31, 1995	1,214,724	$ 78	$ 1	$ 632	$ (269)	$ 442
Sales of treasury stock	29,503	--	--	--	34	34
Distributions to shareholders	--	--	--	(37)	--	(37)
Net income	--	--	--	126	--	126
BALANCE, December 31, 1996	1,244,227	78	1	721	(235)	565
Purchase of treasury stock	(266)	--	--	--	--	--
Net income	--	--	--	125	--	125
BALANCE, June 30, 1997	1,243,961	$ 78	$ 1	$ 846	$ (235)	$ 690

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

SEASONAIR, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 126	$ 125
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation	28	11
Gain on sale of property and equipment	(4)	--
Changes in operating assets and liabilities --		
(Increase) decrease in --		
Accounts receivable	49	(62)
Inventories	(35)	4
Prepaid expenses and other current assets	(171)	(13)
Costs of uncompleted contracts in excess of billings	58	(24)
Other noncurrent assets	(71)	(32)
Increase (decrease) in --		
Accounts payable and accrued expenses	(74)	47
Billings in excess of costs on uncompleted contracts	(23)	(34)
Deferred tax liability	30	(6)
Net cash provided by (used in) operating activities	(87)	16
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (purchase) of property and equipment, net	(11)	(4)
Net cash provided by (used in) investing activities	(11)	(4)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	--	--
Borrowings of long-term debt	--	44
Payments of long-term debt	(105)	--
Distributions to shareholders	(37)	--
Cash received for sale of treasury shares	34	--
Net cash provided by (used in) financing activities	(108)	44
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(206)	56
CASH AND CASH EQUIVALENTS, beginning of period	275	69
CASH AND CASH EQUIVALENTS, end of period	$ 69	$ 125
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for --		
Interest	$ 22	$ 43
Income taxes	163	--

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

1. BUSINESS AND ORGANIZATION:

Seasonair, Inc., a Maryland corporation, (the "Company") focuses on providing installation services and maintenance, repair and replacement of HVAC systems for light commercial facilities. Seasonair primarily operates in Maryland, the District of Columbia and Virginia.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems, USA, Inc. ("Comfort Systems") pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the weighted-average method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using an accelerated method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenue from construction contracts is recognized on the completed-contract method. This method is used because the typical contract is completed within a twelve-month period, and the Company's current financial position and results of operations do not vary significantly from those which would result from use of the percentage-of-completion method. A contract is considered complete when all costs except insignificant items have been incurred, and the installation is operating according to specifications or has been accepted by the customer.

The balances billed but not paid by customers pursuant to retainage provision in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

Contract costs include all direct equipment, material, labor, and subcontract costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating systems. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating systems. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes". Under this method, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1996
Transportation equipment	5	$ 17
Machinery and equipment	5	208
Leasehold improvements	39	15
Furniture and fixtures	7	16
		256
Less -- Accumulated depreciation and amortization		(193)
Property and equipment, net		$ 63

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Activity in the Company's allowance for doubtful accounts consist of the following (in thousands):

	DECEMBER 31, 1996
Balance at beginning of year	$ --
Additions to costs and expenses	5
Deductions for uncollectible receivables written off and recoveries	(5)
	$ --

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1996
Accounts payable, trade	$ 353
Accrued compensation and benefits	321
Warranty reserve	37
Other	99
	$ 810

5. LONG-TERM DEBT:

Long-term debt consists of two notes payable to officers and an installment note payable for transportation equipment, which is secured by the related transportation equipment. The terms of the notes range from 51 months to 80 months with monthly payments of principal and interest of approximately $3,598. The notes bear interest at rates ranging from 10 percent to 12.7 percent.

The aggregate maturities of long-term debt as of December 31, 1996, are as follows (in thousands):

Year ending December 31 --	
1997	$ 34
1998	37
1999	38
2000	1
	$ 110

The Company has a $150,000 line of credit with a financial services company. The line of credit expires August 5, 1997, and bears interest at prime plus one percent per annum. There was no balance outstanding under this line of credit at December 31, 1996.

6. LEASES:

The Company leases facilities from a partnership which is partially owned by one of the shareholders. The lease expires in October, 2006. The rent paid under this lease was approximately $62,640 for the year ended December 31, 1996, and $31,320 for the six months ended June 30, 1997. The lease requires the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property.

The Company leases vehicles for operations. The payments under these vehicle leases were approximately $189,000 for the year ended December 31, 1996, and $92,500 for the six months ended June 30, 1997 .

Future minimum lease payments for operating leases are as follows (in thousands):

Year ending December 31 --	
1997	$ 241
1998	202
1999	158
2000	105
2001	65
	$ 771

7. INCOME TAXES:

Federal and state income taxes for the year ended December 31, 1996, are as follows (in thousands):

Federal --	
Current	$ 50
Deferred	7
State --	
Current	11
Deferred	1
	$ 69

Actual income tax expense for the year ended December 31, 1996, differs from income tax expense computed by applying the U.S. federal statutory corporate tax rate of 35% to income before income taxes as follows (in thousands):

Provision at the statutory rate	$ 68
Increase (decrease) resulting from --	
State income tax, net of benefits for federal deduction	8
Other	(7)
	$ 69

Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for tax purposes. The tax effects of these temporary differences representing deferred tax assets and liabilities as of December 31, 1996, result principally from the following (in thousands):

Depreciation and amortization	$ (18)
Accruals and reserves not deductible until paid	110
State taxes	(5)
Net deferred income tax asset	$ 87

The net deferred tax assets and liabilities at December 31, 1996, are comprised of the following (in thousands):

Deferred tax assets --	
Current	$ 104
Long-term	--
Total	104
Deferred tax liabilities --	
Current	--
Long-term	17
Total	17
Net deferred income tax asset	$ 87

8. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal action will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

9. EMPLOYEE BENEFIT PLAN:

The Company has a 401(k) profit-sharing plan which provides for the Company to match employee contributions up to a maximum of $260 per person per year as well as an employee stock ownership plan. Total contributions for both plans by the Company under the plan were approximately $80,000 for purchase of treasury stock for the employee stock ownership plan, and $5,000 for the 401(k) plan for the year ended December 31, 1996.

10. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, notes receivable, investments, notes payable, and debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

11. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the exchange of shares by the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Western Building Services, Inc.:

We have audited the accompanying balance sheets of Western Building Services, Inc. as of December 31, 1995 and 1996, and the related statements of operations, shareholders' equity and cash flows for the years then ended, and the six months ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Building Services, Inc. as of December 31, 1995 and 1996, and the results of their operations and cash flows for the years then ended, and the six months ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 1998

WESTERN BUILDING SERVICES, INC.
BALANCE SHEETS
(IN THOUSANDS, EXCEPT FOR SHARE INFORMATION)

	DECEMBER 31, 1995	DECEMBER 31, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ --	$ 177
Accounts receivable --		
Trade	726	661
Retainage on uncompleted contracts	78	183
Other receivables	133	3
Inventories	71	86
Costs and estimated earnings in excess of billings on uncompleted contracts	65	26
Prepaid expenses and other current assets	31	30
Total current assets	1,104	1,166
PROPERTY AND EQUIPMENT, net	150	191
OTHER NONCURRENT ASSETS	22	129
Total assets	$ 1,276	$ 1,486
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit	$ 231	$ --
Notes payable	--	6
Current maturities of long-term debt	86	73
Current portion of capital leases	17	21
Accounts payable and accrued expenses	732	556
Billings in excess of costs and estimated earnings on uncompleted contracts	76	151
Total current liabilities	1,142	807
PAYABLE TO SHAREHOLDERS	--	--
LONG-TERM DEBT, net of current maturities	179	261
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common Stock, $.10 par value, 4,000,000 shares authorized, 2,600 and 2,700 shares issued and outstanding	1	1
Additional paid-in capital	61	62
Retained earnings (deficit)	(107)	355
Total shareholders' equity (deficit)	(45)	418
Total liabilities and shareholders' equity	$ 1,276	$ 1,486

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

WESTERN BUILDING SERVICES, INC.
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
REVENUES	$ 4,112	$ 6,494	$ 2,174
COST OF SERVICES	3,408	4,662	1,641
Gross profit	704	1,832	533
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	855	1,088	457
Income (loss) from operations	(151)	744	76
OTHER INCOME (EXPENSE):			
Interest expense	(35)	(51)	(22)
Other	6	(21)	(13)
NET INCOME (LOSS)	$ (180)	$ 672	$ 41

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

WESTERN BUILDING SERVICES, INC.
STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
BALANCE, December 31, 1994..........	2,600	$ 1	$ 61	$ 73	$ 135
Net loss........................	--	--	--	(180)	(180)
BALANCE, December 31, 1995..........	2,600	1	61	(107)	(45)
Distributions to shareholders...	--	--	--	(210)	(210)
Net income......................	--	--	--	672	672
Common stock issuance...........	100	--	1	--	1
BALANCE, December 31, 1996..........	2,700	1	62	355	418
Distributions to shareholders	--	--	--	(385)	(385)
Net income......................	--	--	--	41	41
BALANCE, June 30, 1997..............	2,700	$ 1	$ 62	$ 11	$ 74

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

WESTERN BUILDING SERVICES, INC.
STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (180)	$ 672	$ 41
Adjustments to reconcile net income to net cash provided by (used in) operating activities --			
Depreciation and amortization	51	51	50
Gain on sale of assets	--	--	(1)
Changes in operating assets and liabilities --			
(Increase) decrease in --			
Accounts receivable	(179)	91	59
Inventories	(35)	(15)	4
Costs and estimated earnings in excess of billings on uncompleted contracts	(5)	39	(111)
Prepaid expenses and other current assets	5	1	8
Other noncurrent assets	(15)	(106)	7
Increase (decrease) in --			
Accounts payable and accrued expenses	186	(177)	(42)
Billings in excess of costs and estimated earnings on uncompleted contracts	17	74	(130)
Net cash provided by (used in) operating activities	(155)	630	(115)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale (purchases) of property and equipment, net	--	20	--
Additions of property and equipment	(40)	(113)	(41)
Net cash used in investing activities	(40)	(93)	(41)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock	--	1	--
Borrowings of long-term debt	206	175	99
Payments of long-term debt	(259)	(96)	--
Net borrowings in line of credit	230	(230)	--
Distributions to shareholders	--	(210)	(68)
Net cash provided by (used in) financing activities	177	(360)	31
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18)	177	(125)
CASH AND CASH EQUIVALENTS, beginning of period	18	--	177
CASH AND CASH EQUIVALENTS, end of period	$ --	$ 177	$ 52
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for --			
Interest	$ 35	$ 51	$ 19

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

WESTERN BUILDING SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

Western Building Services, Inc., a Colorado corporation, (the "Company") focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems for commercial facilities. Western also offers continuous monitoring and control services for commercial facilities. The Company primarily operates in Colorado.

The Company and its shareholders intend to enter into a definitive agreement with Comfort Systems USA, Inc. ("Comfort Systems"), pursuant to which all outstanding shares of the Company's common stock will be exchanged for cash and shares of Comfort Systems common stock concurrently with the consummation of the initial public offering (the "Offering") of the common stock of Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt investments purchased with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories consist of duct materials, air conditioning equipment, refrigeration supplies and accessories held for use in the ordinary course of business and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, and depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations.

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The balances billed but not paid by customers pursuant to retainage provision in construction contracts will be due upon completion of the contracts and acceptance by the customer. Based on the Company's experience with similar contracts in recent years, the retention balance will be billed and collected in the upcoming fiscal year.

Revenues of approximately $783,000 and $2,291,000 with gross profits of $339,000 and $874,000 were recognized by the Company in 1995 and 1996, respectively, for energy conversions and new installations related to an incentive program developed by the Public Service Company of Colorado (PSC).

The Demand Side Management program provided incentives for PSC customers to convert from electric heat to gas/steam heat in order to reduce peak demand for electricity. This program ended November 1996.

WARRANTY COSTS

The Company warrants labor for the first year after installation on new air conditioning and heating units. The Company generally warrants labor for 30 days after servicing of existing air conditioning and heating units. A reserve for warranty costs is recorded upon completion of installation or service.

INCOME TAXES

The Company has elected S Corporation status as defined by the Internal Revenue Code, whereby the Company is not subject to taxation for federal purposes. Under S Corporation status, the shareholders report their share of the Company's taxable earnings or losses in their personal tax returns. The Company will terminate its S Corporation status concurrently with the effective date of this Offering.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Accordingly, in the event that facts and circumstances indicate that property and equipment, and intangible or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value is necessary. Adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (dollars in thousands):

	ESTIMATED USEFUL LIVES IN YEARS	DECEMBER 31, 1995	DECEMBER 31, 1996
Transportation equipment	5	$ 47	$ 47
Machinery and equipment	6-7	133	68
Computer and telephone equipment	5	120	145
Leasehold improvements	3	21	71
Furniture and fixtures	7	28	20
		349	351
Less -- Accumulated depreciation and amortization		(199)	(160)
Property and equipment, net		$ 150	$ 191

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

Other noncurrent assets consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Covenant not to compete	$ --	$ 75
Life insurance surrender value	14	27
Other noncurrent assets	8	27
	$ 22	$ 129

At December 31, 1996, the Company acquired the contract rights of a competitor for $75,000 through a covenant not to compete agreement. This agreement will be amortized over its three year term which expires at December 31, 1999.

Accounts payable and accrued expenses consist of the following (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Accounts payable, trade	$ 403	$ 249
Accrued compensation and benefits	108	86
Accrued warranty expense	82	82
Other accrued expenses	139	139
	$ 732	$ 556

Installation contracts in progress are as follows (in thousands):

	DECEMBER 31, 1995	DECEMBER 31, 1996
Costs incurred on contracts in progress	$ 335	$ 530
Estimated earnings, net of losses	206	160
	541	690
Less -- Billings to date	552	815
	$ (11)	$ (125)
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 65	$ 26
Billings in excess of costs and estimated earnings on uncompleted contracts	(76)	(151)
	$ (11)	$ (125)

5. LONG-TERM DEBT:

Long-term debt consists of installment notes payable for transportation equipment. The debt is secured by the related transportation equipment. The terms of the notes range from 36 months to 48 months with monthly payments of principal and interest of approximately $8,600. The notes bear interest at rates ranging from 9 percent to 13 percent.

Long-term debt also consists of term loans and capital leases. The term loans were issued in the amounts of $175,000 and $200,000 in 1996 and 1995, respectively. The $175,000 term loan is secured by equipment, inventory, accounts receivable and all contract rights. The $200,000 term loan is secured by all inventory and equipment and bears interest at prime plus 2 percent per annum. These term loans are also guaranteed by the Company president.

The capital leases relate to computer equipment and printers. The terms of the leases range from 12 to 36 months. The interest rates on these leases range from 10 to 12 percent.

The aggregate maturities of long-term debt as of December 31, 1996, are as follows (in thousands):

Year ending December 31	
1997	$ 85
1998	89
1999	98
2000	89
	$ 361

The Company has a $300,000 line of credit with a financial institution. The line of credit expires September 28, 1997, and bears interest at prime plus 2 percent per annum. The line of credit is secured by accounts receivable and inventory and is guaranteed by the Company president. There was no balance outstanding under this line of credit at December 31, 1996.

6. LEASES:

The Company leases its facility from a third party, which expires in 1999. The rent paid under this lease was approximately $43,000 and $66,500 for the years ended December 31, 1995 and 1996, and approximately $39,000 for the six months ended June 30, 1997. The lease requires the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The lease contains renewal provisions.

The Company leases vehicles for operating purposes. The lease payments under these vehicle leases totaled approximately $47,000 and $71,000 for the years ended December 31, 1995 and 1996, respectively, and approximately $37,000 for the six months ended June 30, 1997.

Future minimum lease payments for operating leases are as follows (in thousands):

Year ending December 31	
1997	$ 144
1998	132
1999	19
	$ 295

7. EMPLOYEE BENEFIT PLANS:

The Company has adopted a 401(k) plan which allows the Company to make discretionary contributions and discretionary profit sharing contributions. No contributions were made by the Company under this plan in 1995 and 1996. However, expenses of $2,733 and $3,903 were incurred by the Company during 1995 and 1996, respectively.

8. FINANCIAL INSTRUMENTS:

The Company's financial instruments consist of cash and cash equivalents, investments, notes payable, a line of credit, and debt. The Company believes that the carrying value of these instruments on the accompanying balance sheet approximates their fair value.

9. RELATED-PARTY TRANSACTIONS:

At December 31, 1995, the Company had a receivable of $109,500 due from the president and vice president. At December 31, 1996, this balance was $173,500. The Company offset this balance with the dividends payable of $210,315 at December 31, 1996, resulting in a remaining dividend payable of $36,875 to two shareholders and one director.

10. COMMITMENTS AND CONTINGENCIES:

LITIGATION

The Company is involved in legal actions arising in the ordinary course of business. Management does not believe the outcome of such legal actions will have a material adverse effect on the Company's financial position or results of operations.

INSURANCE

The Company carries a broad range of insurance coverage, including general and business auto liability, commercial property, workers' compensation and a general umbrella policy. The Company has not incurred significant claims or losses on any of its insurance policies.

11. SHAREHOLDER'S EQUITY:

As of June 30, 1997, the Company distributed $68,000 to its shareholders. The Company distributed approximately $317,000 subsequent to the merger which has been reflected in the financial statements.

12. SUBSEQUENT EVENTS:

In March 1997, the Company and its shareholders entered into a definitive agreement with a wholly-owned subsidiary of Comfort Systems, providing for the merger of the Company with the subsidiary of Comfort Systems. On July 2, 1997, Comfort Systems completed its initial public offering and the merger with the Company.

In connection with the merger, Comfort Systems assumed all debt of the Company. Subsequent to the IPO, substantially all of the debt has been repaid.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMFORT SYSTEMS USA, INC.

By: /s/ FRED M. FERREIRA
FRED M. FERREIRA
CHIEF EXECUTIVE OFFICER

Date: March 27, 1998

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
/s/ FRED M. FERREIRA FRED M. FERREIRA	Chairman of the Board, Chief Executive Officer and President	March 27, 1998
/s/ J. GORDON BEITTENMILLE J. GORDON BEITTENMILLER	Senior Vice President, Chief Financial Officer and Director (PRINCIPAL ACCOUNTING OFFICER)	March 27, 1998
/s/ MICHAEL NOTHUM, JR. MICHAEL NOTHUM, JR.	Chief Operating Officer and Director	March 27, 1998
/s/ STEVEN S. HARTER STEVEN S. HARTER	Director	March 27, 1998
/s/ BRIAN S. ATLAS BRIAN S. ATLAS	Director	March 27, 1998
/s/ THOMAS J. BEATY THOMAS J. BEATY	Director	March 27, 1998
/s/ ROBERT R. COOK ROBERT R. COOK	Director	March 27, 1998
/s/ ALFRED J. GIARDENELLI, JR. ALFRED J. GIARDENELLI, JR.	Director	March 27, 1998
/s/ CHARLES W. KLAPPERICH CHARLES W. KLAPPERICH	Director	March 27, 1998
/s/ SAMUEL M. LAWRENCE III SAMUEL M. LAWRENCE III	Director	March 27, 1998

/s/ LARRY MARTIN LARRY MARTIN	Director	March 27, 1998
/s/ JOHN MERCADANTE, JR. JOHN MERCADANTE, JR.	Director	March 27, 1998
/s/ JOHN C. PHILLIPS JOHN C. PHILLIPS	Director	March 27, 1998
/s/ ROBERT J. POWERS ROBERT J. POWERS	Director	March 27, 1998
/s/ SALVATORE P. GIARDINA SALVATORE P. GIARDINA	Director	March 27, 1998

EXHIBIT 10.27

SECOND LEASE MODIFICATION AGREEMENT

THIS AGREEMENT made this 12th day of February 1998 between Salpat Realty, Inc., a Sub-Chapter S New Jersey Corporation, having an office at 348 New County Road, Secaucus, New Jersey 07094 (hereinafter referred to as "Landlord") and F & G Mechanical Corporation, a New Jersey Corporation having an address at 348 New County Road, Secaucus, New Jersey (hereinafter referred to as "Tenant").

W I T N E S S E T H:

WHEREAS, as Landlord and Tenant have entered into a lease at certain premises located at Secaucus, New Jersey pursuant to a lease dated June 30, 1994, as amended by the First Lease Modification Agreement dated June 30, 1994 (together, the "Lease"); and

WHEREAS, as a condition to and concurrent with the sale of the capital stock of Tenant, the Tenant desires to and Landlord agrees to amend such lease to more clearly delineate the responsibilities of the parties with regard to certain matters.

1. Amendment. The Lease is hereby amended by the insertion, immediately following Article 12 and 38, of the following text, respectively:

Article 12A: Insurance

Any policies required hereunder shall contain a waiver of subrogation provision.

Article 39: Hazardous Substances

Tenant shall indemnify, protect and hold harmless Landlord and each of its respective subsidiaries from and against all costs and damages incurred by Landlord in connection with the presence, emanation, migration, disposal, release or threatened release of any oil or other petroleum products or hazardous materials or substances on, within, or to or from the Premises as a result of (i) the operations of the Tenant, (ii) the activities of third parties affiliated with Tenant or invited on the Premises by Tenant, and (iii) the activities of any unrelated third parties on the Premises at any time during Term. Landlord shall indemnify, protect and hold harmless Tenant and each of its respective subsidiaries from and against all costs and damages incurred by Tenant in connection with the presence, emanation, migration, disposal, release or threatened release of any oil or other petroleum products or hazardous materials or substances on, within, or to or from the Premises as a result of (i) any activity or action prior to the Commencement Date, (ii) the condition of the Premises prior to the Commencement Date, including any future manifestations of such conditions, (iii) the activities of Landlord or (iv) the activities

of any unrelated third party not on the Premises. Each party agrees that such party will promptly give written notice to the other party of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Premises and any hazardous substance or environmental law of which such party has actual notice.

2. No Other Modifications

Except as expressly modified herein, the terms of the Lease (including the riders thereto) are hereby confirmed and shall remain in full force and effect and are hereby incorporated herein as if set forth more particularly at length herein.

3. Miscellaneous

All terms used herein shall have the same meaning as proved in the Lease unless a different meaning is expressly provided for herein. This agreement shall be governed by and construed under the laws of the State of New Jersey. This Agreement shall be binding upon and inure to the benefit of the parties thereto, their successors and permitted assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their proper corporate officers as of the day and year first above written.

Landlord:

SALPAT REALTY, INC.

By: /s/ SALVATORE P. GIARDINA

Tenant:

F & G MECHANICAL CORPORATION

By: /S/ SALVATORE FICHERA

FIRST LEASE MODIFICATION AGREEMENT

THIS AGREEMENT made this 30th day of June, 1994 between Salpat Realty, Inc. a Sub-Chapter S New Jersey Corporation, having an office at 348 New County Road, Secaucus, New Jersey 07094, (hereinafter referred to as "Landlord") and F & G Mechanical Corporation, a New Jersey Corporation having an address at 348 New County Road, Secaucus, New Jersey (hereinafter referred to "Tenant").

W I T N E S S E T H:

WHEREAS, the Landlord and Tenant desire to amend the lease dated June 30, 1994 (the "Lease"); and

WHEREAS, the Landlord and Tenant desire to amend the lease to amend the term of the lease pursuant to Article 2.1 of said lease.

NOW THEREFORE, in consideration of $10.00 in hand, well and truly paid and the covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. LEASE TERM

a) The subject Lease is hereby extended to December 31, 2002.

2. NO OTHER MODIFICATIONS

Except as expressly modified herein, the terms of the Lease (including the riders thereto) are hereby confirmed and shall remain in full force and effect and are hereby incorporated herein as is set forth more particularly at length herein.

3. MISCELLANEOUS

1. All terms used herein shall have the same meaning as proved in the Lease unless a different meaning is expressly provided for herein. This Agreement shall be governed by and construed under the laws of the State of New Jersey. This Agreement shall be binding upon and inure at the benefit of the parties thereto, their successors and permitted assigns.

I WITNESS THEREOF, the parties hereto have caused this Agreement to be signed by their proper corporate officers as of the day and year first above written.

Landlord:
Salpat Realty, Inc.

By: /s/ SALVATORE P. GIARDINA

Tenant:
F & G Mechanical Corporation

By: /s/ SALVATORE FICHERA

THIS LEASE, made this 30th day of June, 1994 between SALPAT REALTY, INC. a New Jersey Corporation, having an office at 348 New County Road, Secaucus, New Jersey 07094 (hereinafter called the "Landlord") and F&G MECHANICAL CORP. having an address at 348 New County Road, Secaucus, New Jersey (hereinafter called "Tenant").

W I T N E S S E T H

Article 1: PREMISES

Landlord hereby leases to Tenant, and Tenant hereby hires from Landlord, upon and subject to the terms, covenants and conditions herein set forth, a portion of the lands and of the Building containing a total of approximately 38,000 square feet of space therein by Landlord (hereinafter called the "Building") in Secaucus, New Jersey to be renovated in accordance with plans and specifications annexed hereto as Exhibit B. Said portion of the lands and Building, containing approximately 7,264 square feet of office space and 7,311 square feet of warehouse space (outlined in red on the site plan attached hereto as Exhibit A), are hereinafter referred to as the "Premises" or Demised Premises";

SUBJECT TO (a) any and all existing encumbrances, conditions, rights, covenants, easements, restrictions, and right of way, of record, and other matters of record, if any, applicable zoning and building laws, regulations and codes, and such matters as may be disclosed by inspection or survey provided, however Landlord represents that the Premises may be used and occupied for the purposes set forth herein; (b) easements now or hereinafter created by Landlord in under, over, across and upon strips of land running along all lot lines of the Demised Premises for sewer, water, electric, gas, and other utility lines and services new or hereinafter installed.

TO HAVE AND TO HOLD the Demised Premises for the term, at the rents, and upon the conditions as hereinafter provided.

Landlord and Tenant hereby expressly covenant to keep, perform and conditions contained herein on their respective parts to be kept, performed, and observed.

Article 2: TERM; COMMENCEMENT

2.1 Subject to the provisions of Article 38 the term of this Lease is five

(5) years beginning on the Commencement Date (as in hereafter defined)plus the fractional month, if any, between the Commencement Date if it falls on a day other than the first day of the month, and the first day of the following month. If the Commencement Date is not the first day of the month, the term shall end on the last day of the month in which the fifth (5th) anniversary of the Commencement Date. For purposes of this lease, a lease year shall be each consecutive period of 12 calendars months of the term plus any fractional month at the beginning of the term.

2.2 For purposes of this Lease the phrase "Commencement Date" shall mean the date on which the last of all the following shall have occurred or been performed:

(i) The Landlord's architect or engineer shall have certified to Tenant in writing that the Landlord's work is (as hereinafter defined) in the Demised Premises are substantially complete in accordance with the plans and specifications therefore, and that they shall substantially complete and reasonable ready for use and occupancy by Tenant, for purposes of performing Tenant's work (as hereinafter defined);

2.3 The Landlord's work at the Demised Premises shall be deemed substantially complete and ready for use and occupancy be Tenant for the performance of Tenant's Work when the conditions referred to in paragraph 2.2 have occurred and been performed notwithstanding that insubstantial items of construction, installation, finishing work or mechanical adjustment remain to be done which (or the completion of which) will not unreasonably interfere with the Tenant's use and occupancy. Landlord, shall, however diligently complete all such incomplete items in an unreasonable manner. For purposes of this lease Landlord's Work shall be the work to be completed by Landlord at Landlord's expense as provided in the Building Design Criteria included in Exhibit B annexed hereto.

2.4 Tenant shall be notified of the projected Commencement Date and Tenant shall be notified when the Premises are sufficiently ready for Tenant to enter upon the premises for the purpose of installing its trade fixtures and making premises ready for its occupancy (hereunder referred to as "Tenant's Work"); provided, however, Tenants shall not interfere with Landlord's Work in completing the premises and shall employ only under labor in connection therewith. In the event Tenant is permitted to enter the premises to install its fixtures and equipment prior to the Commencement Date of this Lease, a certificate of insurance covering Tenant or its subcontracts is required.

2.5 Notwithstanding the foregoing, in the event Tenant occupies or uses the Premises for the conduct of its business prior to the Commencement Date, the Commencement Data and the Rent Commencement Date shall be accelerated to the date of the commencement of such use by Tenant. Tenant's use of the Premises for the purposes set forth in Article 2.4 shall not constitute the use of the premises for the conduct of its business.

Article 3: PLANS AND CONSTRUCTION

3.1 The parties have approved and signed for purposes of identification outline plans and specifications for the renovation of the Demised Premises which are attached hereto as Exhibit B and made a part hereof.

3.2 Landlord shall diligently prosecute the Landlord's Work in accordance with the final plans in a good and workmanlike manner, by mechanics skilled in their respective trades, and in accordance with all applicable laws. The Commencement Date of this lease shall not be deferred for any period of delay in the substantial completion of the Demised Premises caused by Tenant, its agents, contractors of employees.

3.3 Landlord shall not be a default under this lease or liable to Tenant in any manner for any damages by reason of delays in the performance of any covenant or condition of this Lease if such delay is caused by Tenant or its agents, contractors or employees, present or future governmental regulations, restrictions or controls, strikes, lockouts, or other labor disputes, shortages or unavailability of material or labor, acts of God, civil commotion or other causes or conditions, whether similar or not to be foregoing, which are beyond the reasonable control of the Landlord.

Article 4: RENT

4.1 Tenant agrees to pay to Landlord commencing on the date which is the later to occur of the Commencement Date or June 30, 1994 (hereinafter referred to as the "Rent Commencement Date") a Fixed Annual Net Rent at the rates set forth on the Rent Schedule annexed hereto as Exhibit C in equal monthly installments shall be payable in advance on the first day of each month during the term hereof without notice of demand, and without deduction, abatement, or set off for any reason whatsoever, except as in this Lease specifically provided. The first monthly installment shall be paid on the date hereof. If the Rent Commencement Date shall be on a day other than the first day of a calendar month, the Fixed Rent of such first fractional month shall be prorated and shall be paid by Tenant to Landlord on said date. All amounts payable hereunder, as well as other amounts payable by Tenant to Landlord under the terms of this lease, shall be paid at the office of the Landlord set forth above or at such other places as Landlord may from time to time designate by notice to Tenant.

4.2 Upon substantial completion of the Building, Landlord's architect shall certify in writing to Landlord and Tenant the number of square feet of floor area contained in the Demised Premises measured from exterior wall to exterior wall.

4.3 It is intended that the Fixed Rent provided for in paragraph 4.1 shall be absolutely net return to Landlord throughout the term hereof, free of any expense charge or other deduction whatsoever, with respect to the Demised Premises, the Building and/or the ownership, leasing, operation, management, maintenance, repair, rebuilding, use or occupation thereof or any portion thereof with respect to any interest of Landlord therein.

4.4 In the event that any installment of rent due hereunder is not received when due a "late charge" of $.04 for each dollar so overdue may be charged by Landlord for each month or part thereof that the same remains overdue. This charge shall be in addition and not in lieu of any other remedy the Landlord may have under the circumstances and it its in addition to any reasonable fees and charges of any agents or attorneys Landlord may employ on any rental default hereunder whether authorized herein or by law. Any such "late charges" if not previously paid shall, at the option of the Landlord, be added to and become part of the succeeding rental payment to be made hereunder.

Article 5: REAL ESTATE TAXES

5.1 Throughout the term of this lease, Tenant agrees to pay to Landlord, or directly to the appropriate governmental authority as provided in Article 5.3, as additional rent hereunder five (5) days in advance of the final due date therefore without interest or penalty, in immediately available funds for its proportionate share of all real estate taxes, assessments, sewer rents, water charged and all other taxes and charges in the same categories and any payment in lieu of real estate taxes payable with respect to the Demised Premises (sometimes hereinafter referred to collectively as "Impositions" levied, assessed, imposed, or attributable to the Land and Building or arising from the use, occupancy or possession of the Demised Premises. If any assessment is payable in annual installments or in a lump sum,, there shall be added to the amount of the real estate taxes payable for the calendar year in which such assessment is payable and each subsequent calendar year only that amount of such assessment, together with such interest thereon, as would have been payable to the municipality in said calendar year if Landlord had elected to pay said assessment in annual installments.

5.2 The Land and Building presently constitute part of a single tax lot. The impositions to be paid by Tenant under this Article shall be determined as follows: (a) (i) real estate taxes shall be the sum of (1) such taxes attributable to the Building and related improvements calculated by multiplying the assessed valuation thereof by the then applicable tax rate (provided, however, that is such assessed valuation covers buildings and improvements other than the Building, such taxes attributable to the Building and related improvements shall be determined by apportioning the same based upon the square footage of the Building and related improvements as compared to the total square footage of all buildings and improvements which constitute a part of said tax lot measured as provided in paragraph 4.2 above, and taking into account the character of such other buildings and improvements) and apportioning the result in a square footage basis and (2) such taxes attributable to the Land calculated by multiplying the assessed valuation of the entire Land portion of the tax lot by then the applicable tax rate and apportioning the result on a square footage basis, or (ii) such charges payable twice respect to the land and Building in lieu of real estate taxes (including charges levied pursuant to any real estate tax abatement) apportioned on a square footage basis as foresaid: and (b) other Imposition not separated fixed shall be equitably apportioned on a square foot basis.

5.3 If such separate tax lot, assessment and bill is obtained for the Land and Building , Tenant agrees to pay all Impositions directly to the appropriate governmental authority as and when the same become due. Tenant shall furnish to Landlord within 10 days after the date on which any such Imposition is due and payable satisfactory evidence of any payment thereof.

5.4 Impositions, as is allocable to the demised term, provided however, that such apportionment shall be subject to set-off by Landlord if Tenant shall then be in default of any term, covenant or condition of this lease.

5.5 Tenant, at its own cost and expense, may contest any such Impositions in any manner permitted by law, in Tenant's name, and whenever necessary, in Landlord's name. Landlord will cooperate with Tenant and execute any document of pleadings required for such purpose.. Such contest may include appeals from any judgment, decreed or orders until a final determination is made by a court of governmental department or authority having final jurisdiction in the matter. However, notwithstanding, such contest, Tenant shall pay the contest Imposition in the manner and on the dates provided for in this Article. Any tax refund with respect to Impositions paid by Tenant shall be property of the Tenant.

5.6 Subject to the provisions of Article 35, Tenant shall not be obligated or required to pay for any franchise, excise, corporate, estate, inheritance, succession capital levy of transfer tax of Landlord, or any income, profit or revenue tax upon the income ort receipts of Landlord, or any other tax, assessment, charge or levy upon the rent reserved under this Lease, or any tax or other Imposition, charge or levy (i) not commonly deemed to be a real estate tax, and (ii) not arising solely from the ownership, occupation or operation of the Demised Premises, although the same may be or become a lien upon the real property or improvements thereon, nor shall Tenant be obligated or required hereunder to pay interest, amortization or principal on any mortgage governing or affecting the fee or Ground Lease of the Demised Premises.

5.7 If during the term if this lease there shall be levied or assessed any Imposition in rents or against the Fixed Rent or against Landlord or the Demised Premises and substitute in whole or in part of real setae taxes on land or buildings, such Imposition shall be included within those payable by Tenant pursuant to paragraphs 5.1 an 5.3 above.

Article 6: PUBLIC UTILITY CHARGES

Tenant shall pay all charges for gas, water, sewer, electricity, heat or other utility or service supplied to the Demised Premises (including Tenant's proportionate share, on a square footage basis, of all common areas, if any), and the cost of repair, maintenance, replacement, and reading of any meters measuring Tenant's consumption thereof. In the event separate water meters are not obtained, Tenant shall pay its proportionate share of such charges, on a square footage basis. Tenant expressly agrees that Landlord shall not be responsible for the failure to supply to Tenant any of the aforesaid, or any other utility service, Landlord shall not be responsible for any public or private telephone service to be installed in the space.

Article 7: USE AND COMPLIANCE WITH LAWS, ETC.

7.1 Tenant shall use and occupy the Demised Premises for an office and warehouse facility. Tenant shall not use, permit or suffer the use of the Demised Premises, or any part thereof for any hazardous or illegal purpose.

7.2 Tenant shall, at its expense, promptly comply, or cause compliance, with all laws and orders, rules, regulations and requirements of all federal, state, county and municipal governments, and appropriate departments, commissions, boards and offices thereof, foreseen or unforeseen, ordinary as well as extraordinary, and whether or not the same shall presently by within the contemplation of the parties hereto or shall involve any change of governmental policy or require extraordinary or structural repairs (other than those which Landlord is required to make under paragraph 9.2), alterations, equipment or addictions or any work of any kind and irrespective of the cost thereof which may be applicable to Demised Premises, including, without limitation , the fixtures and equipment thereof and the sidewalks, curbs and walks, if any, adjoining the Demised Premises, for the purposes to which the Premises are put, or manner of use the Premises at the commencement of or during the terms.

7.3 Tenant, after notice to Landlord may contest by appropriate legal proceedings, without cost or expense to Landlord, the validity of any law, ordinance, order, rule, regulation or requirement of nature herein referred to, provided, however, that (a) such non-compliance shall not constitute a crime on the part of the Landlord, (b) Tenant shall first reasonably satisfy Landlord concerning its financial ability to comply with such law, ordinance, order, rule, regulation or requirement, and (c) Tenant shall indemnify Landlord against any and all liability loss and damage which Landlord may sustain by reason of Tenants' failure to delay in complying therewith. Tenant shall prosecute such contest and Tenant shall cooperate with Landlord in prosecuting such contest and Landlord may, if required, continue in Tenant's name. In any event, however constitute a default of any of the provisions of any mortgage reasonably with Tenant, and to use execute any documents or pleading reasonably required for the purpose of any such contest, provided that the same shall be without cost or expense to Landlord. Landlord shall have the right, but not the obligation to contest by appropriate legal proceedings, at Landlord's expense, and such law, ordinance, rule, regulation or requirement.

7.4 No abatement, diminution or reduction of the annual rent, or of any additional rent or other charges required to be paid by Tenant pursuant to the terms of the Lease, shall be claimed by or allowed to, the Tenant for any inconvenience, interruption, cessation or loss of business or otherwise caused directly or indirectly by any present or future laws, rules, requirements, orders, directions, ordinances, or regulations of the United States of America, or of the State, County or City government or of any other municipal, governmental, or lawful authority whatsoever, or by priorities, rationing, or curtailment, of labor, or materials, or by war, civil commotion, strikes or riots, or any matter or thing resulting therefrom, or by any other or causes beyond the control of the Landlord, nor shall this Lease be affected by and such causes. Subject to the provisions of paragraph 4.2, no diminution of the amount of space used by Tenant caused by legally required change in the construction, equipment, operation or use of the Demised Premises shall entitle Tenant to nay reduction or abatement of the annual rent, additional rent or any other charges required to be paid by Tenant hereunder, the provisions of this paragraph are expressly made subject to the provisions of Article 14 hereof.

Article 8: INDEMNIFICATION; COSTS IN OBTAINING POSSESSION:

8.1 Tenant covenants and agrees at its sole cost and expense to indemnify and save harmless Landlord against and from any loss, cost expense, and liability, from claims by third parties including without being limited to, reasonable attorney's' fees and court costs, arising from or in connection with (a) the conduct or management of, or from, any work, or thing whatsoever, done in or on the Demised Premises prior to or during the demised term (other than any work or thing done by or at the instance of Landlord or its servants or employees : (b) any breach or default on the part of Tenant in the performance of any covenant of agreement on the part of Tenant to be performed pursuant to the terms of this Lease; (c) any act or negligence of Tenant , or any its agents, contractors, servants, employees or licensees, of (d) any accident , injury or damage whatsoever caused to any person , firm or corporation occurring during the demised term, in or on the Demised Premises except to the extent caused y Landlord's negligence; and in case any action or proceeding is brought against Landlord by reason of any claims covered by the foregoing indemnity, Tenant, upon notice from Landlord agrees to resist or defend such action or proceeding by counsel reasonably satisfactory to Landlord. Counsel for Tenant's insurance carrier shall be deemed satisfactory.

8.2 Tenant agrees to pay, and to indemnify Landlord against all legal cost and charges, including counsel fees, lawfully and reasonably incurred in obtaining possession of the Demised Premises after default of Tenant, or upon expiration of earlier termination of the demised term, or in enforcing any covenant or agreement of Tenant herein contained.

Article 9: MAINTENANCE AND REPAIRS, COVENANT AGAINST WASTE AND RIGHT OF INSPECTION

9.1 Tenant shall, throughout the demised term and at no expense whatsoever to Landlord, take good care of the Demised Premises (including Tenant's proportionate share of all common areas, if any), and shall not do or suffer any repairs to the Demised Premises, including but not limited to, all Building equipment, heating, air conditioning, plumbing, and electrical systems, of every kind and nature, interior and exterior, ordinary as well as extraordinary, foreseen as well as unforeseen (other than those which Landlord is obligated to make) necessary to keep Premises in good and lawful order and condition. When used in the Article, the term "repairs" shall include replacement, restoration and/or renewals when necessary. The provisions and conditions of Article 11 applicable to changes or alterations shall similarly apply to repairs required to be done by Tenant under this Article. Tenant shall keep and maintain all portions of the Demised Premises (including Tenant's proportionate share of all common areas, if any,) including, without limitation, all Building equipment, heating, air conditioning, plumbing, and electrical systems .and the sidewalks, landscaping and lawn areas adjoining same, in a clean and orderly condition, free of accumulation of dirt and rubbish, and Tenant shall mot permit of suffer any overloading of the floors of the Demised Premises. Tenant shall keep the interior and exterior walls and areas of the Demised Premises clean and in good order and condition. Tenant shall, at its expense, remove or plow all snow and refuse from the premises. In the event Tenant plows snow, same shall be done in a manner so as not to interfere with the use and occupancy of the Building by any other tenants or their invitees.

9.2 Landlord shall make available to Tenant all warranties and guarantees on materials, equipment and systems received by it in connection with the construction of the Building.

9.3 Tenet shall permit Landlord and the authorized representative of Landlord, upon notice which is reasonable under the circumstances, to enter the Demised Premises at reasonable times during usual business hours for the purpose of exhibiting or inspecting the same and or curing any defaults on the part of Tenant in making any necessary repairs to the Demised Premises, or in the performance of any work therein that may be necessary to comply with any laws, ordinances, rules, regulations or requirements, of any public authority, or that may be necessary in case of emergency. Nothing in this Section 9.3 shall imply any duty upon the part of the Landlord to any such work or make any alterations or repairs, additions or improvements to the Demised Premises, of any kind whatsoever except as in the lease specifically provided. The performance thereof by failing to perform the dame. Unless caused by Landlord's inconvenience, annoyance, disturbance, loss of business or other consequential damage of the Tenant or any other occupant of the Demised Premises or part thereof, by reason of making repairs or the performance of any work on the Demised Premises or on account of bringing material, supplies and equipment into or through the Demised Premises during the course thereof and the obligations of Tenant under this Lease shall not thereby be affected in any manner whatsoever, Landlord will exercise due diligence not to interfere with Tenant's business operation, but shall not be required to employ overtime labor to avoid such interference.

Article 10: MECHANIC'S LIENS

10.1 Tenant shall not suffer or permit any liens to stand against the Demised Premises or any part thereof by reason of work, labor, services or materials done for, or supplied, or claimed to have been done for, or supplied to, Tenant or anyone holding the Demised Premises or any part thereof through under Tenant. If such lien shall at any time be field against the Demised Premises, Tenant shall cause the same to be discharged of record within 15 days after the date of filing the dame, by either payment, deposit or bond. If Tenant shall fail to discharge any such lien within such period (or such period as may be required by any mortgagee to which this lease is subordinated), then, in addition to any other right or remedy of Landlord, Landlord may, but shall not be obligated , procure the discharge of the same either by paying the amount claimed to be due buy deposit in court or bonding, and/or Landlord shall be entitled , if Landlord so elects, to compel the prosecution of an action for the foreclosure of such lien by the linear with interest, costs, and allowances. Any amount paid or deposited by Landlord for any of the aforesaid purposes, and all legal and other expensed by Landlord , including reasonable counsel fees, in defending any such action or in or about procuring the discharge of such lien, with all necessary disbursements in connection therewith, together with interest thereon at the then maximum legal rate per annum from the date of payment or deposit, shall become due and payable forthwith by Tenant to Landlord, or, at the option of Landlord, shall be payable by Tenant to Landlord as additional rent,, as provided in Article 15 hereof.

10.2 Nothing in this Lease shall be deemed to be, or construed in any way as constituting, the consent or request of Landlord, expressed or implied, by inference or otherwise, to any person , firm or corporation for the performance of any labor or the furnishing of any material s for any construction, rebuilding, alteration or repair of or to the Demised Premises or any part thereof, nor as giving Tenant any right, power or authority to contract for or permit the rendering of any services for the furnishing of any materials which might in any way give rise to the right to file any lien against Landlord's interest in the Demised Premises. Landlord shall have the right to post and keep posted at all reasonable times on the Demised Premises any notices which Landlord shall be required to so post for the protection of Landlord and Demised Premises from any such lien.

Article 11: ALTERATIONS

11.1 Tenant shall not make, or cause, or permit the making of (a) any structural alterations, additions, or improvements in or to the Demised Premises or (b) any non-structural alterations, additions or improvements equal to or exceeding a cost of $50,000.00 for any one project, or in the Demised Premises without obtaining Landlord's prior written consent thereto in each instance, which consent shall not be unreasonably withheld in the case of non-structural alterations, or improvements costing less than said amount Landlord's consent will be required if the same should reduce the value, size, or generality of the same building or would not be of architectural harmony with the Building . In addition, any approval by Landlord as aforesaid may be upon condition that Tenant furnishes to Landlord such evidence of Tenant's financial ability to assure completion as Landlord may reasonably require. If Landlord shall so elect (upon approval of such alterations, or if approval has not required, then at any time prior to the termination of the lease), Tenant shall, at its sole cost and expense, remove any structural or non-structural alterations, additions, and improvements at the expiration of or other termination if this Lease and repair all damage caused by removal and restore the Premises to the condition they were in prior to the installation f any such alteration, addition, or improvement. Nothing herein contained shall be construed in any way to restrict Tenant's right to make any alterations, additions, or improvements in Tenant's right to make any alterations, additions, or improvement, in Tenant's won movable trade fixtures. The provisions of this Article 11 are subject to the terms and conditions of any mortgagee is required for such work, such consent shall be obtained by Tenant before any such work is commenced. Preliminary plans and specifications showing such proposed alterations, additions, and improvements shall be submitted to Landlord for approval upon the application for its consent, if required: together with a contractor's estimate of the cost thereof any changes in said plans and specifications shall be submitted to Landlord for approval.

11.2 In connection with any alteration, addition or improvement, by this Article, and any repairs or restoration work contemplated by this other terms and conditions of this Lease, Tenant shall comply with all applicable laws, regulations, ordinances, and order and shall procure all requisite permits at its expense. The originals of all such approvals, authorizations and permits shall be delivered to retained by Landlord. Landlord will, on written request from Tenant, execute any documents unnecessary to b e signed on its part to obtain any such permit, provided that Tenant shall discharge any expense or liability of Landlord in connection therewith, All alterations, additions, and improvements made hereunder by Tenant shall be performed using union labor, in a first class, workmanlike manner.

11.3 All alterations, changes and additions (other than Tenant's trade fixtures) made by Tenant shall upon installation immediately be and become part of the realty and the sole absolute property of Landlord and shall remain upon and be surrendered with the Demised Premises at the expiration or other termination of the Lease unless Landlord shall have elected as provided in paragraph 11.1 above that any such alterations, changes, and additions be removed, in which event they shall be removed by Tenant and the premises restored to their original condition at Tenant's expense upon or prior to the expiration of the term.

Article 12: INSURANCE

During the term hereof, Tenant shall at its own cost and expense provide and keep in force the following insurance:

a) Comprehensive public liability insurance for the mutual benefit of Landlord and Tenant against claims for bodily injury, death or property damage occurring in or about the Demised Premises and the Building (including, without limitation bodily injury, death, or property damage resulting directly or indirectly from or in connection with any change, alteration, improvement, or repair thereof.) with limits of not less than $3,000,000 for bodily injury or death to any one person and $5,000,000 for bodily injury or death to any number of persons, and property damage with limits of not less than $250,000 which insurance may be carried under a so-called "blanket policy". Commencing with the second lease year and continuing thereafter for each lease year during the term of this Lease the amounts of Comprehensive public liability insurance to be carried by Tenant hereunder shall be increased by the yearly percentage increase in the consumer price index (for urban wage earners and clerical workers for New York, N.Y. and Northeastern new Jersey) over said years; in the event said index decreases, the insurance coverage shall be maintained in the same amount as the preceding year.

b) Insurance covering the Demised Premises against loss or damage by fire and lightning and such risks as are customarily included in extended coverage endorsements attached to fire insurance policies covering property similar to such Premises in an amount equal to 100% of the full replacement value thereof as same might increase from time to time or such higher amount as either may be required by he holder o any mortgage covering the Premises or is necessary to prevent Landlord and/or Tenant from becoming a co-insurer.

c) Rent insurance with broad from extended coverage endorsement in an amount equal to the Fixed Rent, Impositions, and all other charges payable by Tenant pursuant to this Lease for a period of one year.

d) Such other insurance, in such amounts that may from time to time be reasonably requested by Landlord against other insurable hazards which at the time are reasonably available and commonly insured against in the case of Premises, its construction, use and occupancy, including but not limited to, war damage, boiler insurance (if applicable) and machinery insurance.

12.2 All insurance to be provided and kept in force by Tenant under the provisions hereof shall name the insured Landlord and Tenant as their respective interests may appear, except that the insurance carried pursuant to Article 12.1 (b) shall also be carried in favor of the Ground Lessor and the holder of any mortgagee clause shall be attached to the appropriate policies, Insurance carried pursuant to the Article 12.1 (b) provide that the loss, if any, shall be adjusted with and payable to the party who will perform the work of restoration pursuant to Article 12 and such mortgagee as their interests may appear.

12.3 All policies shall be obtained by Tenant certificate thereof of valid company binders shall be delivered to Landlord upon executing hereof and shall be taken in responsible companies reasonably satisfactory to Landlord and authorized to do business in the State of New Jersey. All policies shall be for period of not less than one year and shall contain a provision whereby the same cannot be cancelled unless Landlord is given at Lease 10 days written notice of such cancellation. Tenant shall procure and pay for renewals of such insurance from time to time and Tenant shall promptly deliver to Landlord certificate thereof or valid company under at least 30 days before the expiration thereof.

12.4 Tenant hereby releases Landlord from any and all liability or responsibility to or anyone claiming through or under it by way of subrogation or otherwise, fir any loss or damage caused by fire, lightning, or any of the extended coverage casualties, whiter or nor insured, even if such fire or other casualty shall have been caused by the fault or negligence of Landlord, or anyone for whom Landlord may be responsible.

Article 13: DAMAGE OR DESTRUCTION

If the premises shall be damaged by fire or any other cause , Tenant shall, at the election of Landlord, cause same to be restored, subject to an in accordance after the date of damage to perform the work of restoration with the proceeds of any insurance covering the Premises. If the cost of restoration as estimated by Landlord (a copy of which estimate shall be delivered by Landlord to Tenant within 90 days after the date of such loss) shall equal or exceed twenty-five percent (25%) of the replacement value of the Premises in their condition just prior to the occurrence of the damage, Landlord may, no than the 120th day following the damage , give Tenant a notice stating that it reflects to cancel this Lease; and in such even Tenant shall pay or assign to Landlord the proceeds covering such loss and/or the right to adjust or receive the same (provided, however , Tenant shall pay to Landlord the estimated cost of restoration in excess of such proceeds if such insurance does not comply with the insurance's to be carried by Tenant pursuant to paragraph 12.1 (b) above), and thereupon shall expire surrender possession of the Premises on said date of the loss (or on which Tenant ceases to use the premises , if later) and any rent paid for any period beyond said date shall be repaid to Tenant. All restoration work shall be done and completed with due diligence and reasonable promptness, subject to ordinary delay and to delays beyond the control of the party performing the work and to delays in the making of insurance adjustments. Subject to the terms of any fee of ground lease mortgage covering the Demised Premises, the proceeds of any insurance payable as the result such damage shall be held by Landlord, as a trust fund to be used for the cost of restoration before being applied to any other purpose.

13.2 In the event of any such damage by fire or other casualty which does not result in a cancellation of this lease as aforesaid, the provisions of this Lease shall be unaffected and Tenant shall remain and continue to be liable for the payment of the Fixed Rent, Impositions and all other charges required hereunder to be paid by Tenant as though no damage by fire or other casualty had occurred, and there shall be no abatement or reduction thereof except to the extent, if any, that Landlord shall receive the proceeds of rent insurance in lieu thereof.

13.3 In the event that any of the insurance monies paid by the insurance company to Landlord or Tenant, as hereinabove provided, shall remain after the completion of such repairs, restoration, construction, or erection, the excess shall be the property of and paid to Landlord. If the insurance monies paid to Landlord or Tenant shall be insufficient to pay the entire cost of such work and replacement, Tenant agrees to pay deficiency.

13.4 Tenant agrees to give prompt notice to Landlord with respect to all fires and casualties occurring upon the Demised Premises.

Article 14: CONDEMNATION

14.1 If at any time during the term of this Lease, title to the whole or materially all of the Demised Premises shall be taken by the exercise of the right of condemnation or eminent domain (hereinafter referred to as the "proceedings") or by agreement between (Landlord and those authorized to exercise such right, or at Landlord's option if twenty-five percent (25%) or more of the Demised Premises are taken, this Lease shall terminate and expire on the date of such taking, the Fixed Rent and additional rent and other charges provided to be paid by Tenant shall be apportioned and paid to the date of such taking, and the total award in such proceedings shall be paid to Landlord. For the purpose of this Lease, "materially all of the Demised Premises" shall be deemed to have taken if the Premises a reasonably usable for Tenant's business purposes shall be settled by arbitration to be held in New Jersey in accordance with the rules of the American Arbitration Association then in effect. Judgement may be entered o the arbitrator's determination in any court having jurisdiction and the parties consent to the jurisdiction of the New Jersey courts for this purpose.

14.2 If at any time during the term of this lease title to less than materially all o the Demised Premises shall be taken as aforesaid, the entire award shall be paid to Landlord and the Landlord shall restore the Premises to and architecturally complete unit with reasonable promptness, subject to ordinary delays beyond Landlord's control. The proceeds of award shall be held by Landlord or Ground Lessor pursuant to the Ground Lease, as a trust fund to be used for the cost for restoration before being applied to any other purpose.

14.3 If title to less than materially all of the Demised Premises shall be taken as aforesaid, this Lease shall continue, except that thereafter the Fixed Rent shall be reduced to an amount equal to an amount determined in accordance with paragraph 4.2 hereof.

14.4 Tenant further agrees that if, at any time after the date hereof, the whole or any part of Tenant's interest under this Lease shall be taken or condemned by any competent authority for its or their temporary sue or occupancy, this Lease shall not terminate by reason thereof and Tenant shall continue to pay, in the manner and at the time herein specified, the full amount of the Fixed Tent, Impositions, and all additional rent and other charges payable by Tenant may be prevented from so doing pursuant to the terms of the order of the condemning authority , to perform and observe all of the other terms, covenants, conditions and obligation hereof upon the part of Tenant to be performed and observed, as though such taking had not occurred. In the event of any such taking as in the paragraph 14.4 referred to, Tenant shall be entitled to receive the entire amount of any award made for such taking, whether paid by way of damages, rent or otherwise, but if such period to temporary use or occupancy shall extend beyond the expiration date of this

Lease such award shall be apportioned between Landlord and Tenant as of such date of expiration of the term hereof. Tenant agrees that, upon the termination of any such period of temporary use of occupancy it will, at its sole cost and expense, restore the Demised Premises as nearly may be practicable, to the condition in which the same were immediately prior to such taking.

14.5 Tenant shall have a right to make a claim in any proceeding for its trade fixtures and moving expenses provided same do not adversely affect Landlord or Landlord's rights.

Article 15: SELF-HELP

Tenant covenants and agrees that if it shall at any time fail to make any payments or perform any act which the Tenant is obligated to make or perform under this Lease then the Landlord may, but shall not be obligated so to do, after Tenant's time to make any such payment of perform any such act as provided in Article 16 has expired, and without waiving, or releasing the Tenant from, any obligations of the Tenant in this Lease contained, make any payment or perform any act which the Tenant is obligated to perform under this Lease, in such manner and to such extent as shall be necessary, and in exercising any such rights, pay necessary and incidental cost and expenses, employ counsel and incur and pay reasonable attorney's fees. Notwithstanding the foregoing, Landlord may make any such payment or perform any such act before Tenant's time to do so as provided in Article 16 has expired if the same is necessary or required for the preservation or protection of the Demised Premises. All sums so paid by Landlord and all necessary and incidental costs and expenses in connection with the performance of any such act by Landlord, together with interest thereon at the then prime rate charged by Chemical Bank, New York, New York, plus $% on the date of the making of such expenditure by Landlord, shall be deemed additional rent hereunder and, except as otherwise in the Lease expressly provided, shall be payable to Landlord on demand or at the option of the Landlord may be added to any rent then due to thereafter becoming due under this lease, and Tenant covenants to pay any such sum or sums with interest as aforesaid and Landlord shall have (in addition to any other right or remedy of Landlord) the same rights and remedies in the event of non-payment thereof by Tenant as in the case of default by Tenant in the payment of rent.

Section 16: CONDITIONAL LIMITATIONS- DEFAULT PROVISIONS

16.1 This lease and the demised term are subject to the limitation that, if at any time after the date hereof, any one of the following events (hereinafter called an "event of default") shall occur, that is to say:

(a) If Tenant shall make an assignment for the benefit of its creditors; or

(b) If any petition shall be filed by or against Tenant in any court, whether or not pursuant to any statute of any State, in an reorganization, composition, extension arrangement or insolvency proceedings, and the same is not dismissed in 30 days as respects a petition filed against Tenant provided during such period Tenant continues to pay all rent, Impositions and other charges and perform all of its obligations under this lease; or

(c) If, Tenant, or a trustee or custodian appointed for all or a substantial portion of Tenant's property pursuant to the provisions of any insolvency, bankruptcy, reorganization or other law then in effect, shall fail within the time provided by law and order of a court having competent jurisdiction to provide Landlord with adequate protection as the item is used in 11 USC 361 and specifically the "indubitable equivalent" of Landlord's interest in the Demised Premised as Premises as provided in 11 USC (3) ; or

(d) If Tenant shall assign, mortgage or encumber this Lease, or sublet the whole or any part of the Demised Premises, otherwise than as expressly Permitted hereunder; or

(e) If Tenant shall fail to pay any installment of the Fixed Rent set forth in this lease provided for in Article 4 and Article 39 of this Lease, or in any part thereof when same is due and payable; or

(f) If Tenant shall fail to pay any item of additional rent or any other charge required to be paid by Tenant hereunder (other than the payment of the rental as set forth in said Article 4) and such failure shall continue for ten (10) days after notice thereof, from Landlord to Tenant; or

(g) If Tenant shall fail to perform or observe any other requirement of this lease (not hereinbefore in this paragraph 16.1 specifically referred to) on the part of Tenant to be performed or observed and such failure shall continue for fifteen (15) days after written notice, thereof from Landlord to Tenant (subject, however, to the provisions of paragraph 16.6);or

(h) If Tenant shall abandon the Premises or fail to keep the Premises occupied to the extent necessary to maintain fire insurance coverage; or

(i) If a petition or a proceeding is filed of commenced by or against Tenant or a substantial portion of Tenant's property whereupon the Premises shall be, or attempted to be , taken or occupied by someone other than Tenant; or

(j) If a petition or a proceeding is filed of commenced by or against Tenant for its dissolution or liquidation (other than in connection with any merger provided same as is consented to or permitted hereunder), or if it property is taken by any governmental authority in connection with a dissolution or liquidation, and if filed or commenced against Tenant the same is not dismissed within (30) days;

(k) If Tenant shall fail to pay to Landlord or an affiliated entity any amount due in connection with orders for extra work, material and/or equipment made by Tenant in connection with the construction of finishing of the Building and if said default is not cured by Tenant within fifteen (15) days of written notice from Landlord or contested by the institution of appropriate proceedings; or

(l) If Tenant shall breach any of its obligations or covenants contain in Article 35 of this lease;

Then upon the happening of any one or more of the aforementioned events of default, and the expiration of the period of time for curing the same, Landlord may give to Tenant a notice (hereinafter called "notice of termination") and at the expiration of such fifteen (15) days, the term hereof, a s well as all of the right, title and interest of Tenant hereunder, shall wholly cease and expire in the same manner and with the same force and effect as if the date of expiration of such fifteen (15) days period were the date originally specified herein for the expiration of this Lease and the demised term, and Tenant shall remain liable as hereinafter provided.

16.2 If this lease shall not be terminated as in the preceding paragraph 16.1 hereof provided, Landlord or Landlord's agents or servants, may immediately or at any time thereafter re-enter the Demised Premises and remove therefrom Tenant , its agents, employees, servants, licensees, and any subtenants and other persons, firms, or corporations, and all or any of its or their property therefrom, either by summary dispossess proceedings or by any suitable action or proceeding at law, without being liable to indictment, prosecution or damages therefore, and repossess and enjoy said Premises, together with all additions, alterations and improvements thereto.

16.3 In case of any such termination, re-entry or dispossess by summary proceedings or otherwise, Tenant agrees that:

(a) The Fixed Rent, additional rents, Impositions and all other charges required to be paid by Tenant hereunder shall thereupon become due and be paid up to the time such termination, re-entry or dispossess, and Tenant shall also pay to Landlord all reasonable expenses which Landlord may then or thereafter incur for legal expenses attorneys' fees, brokerage commissions, and all other costs paid or incurred by Landlord for restoring the Demised Premises to good order and condition and for altering and otherwise preparing the same for reletting.

(b) Landlord may, at any time from time to time, relet the Demised Premises, in whole or in part, either in its own name or as agent of Tenant, for a term or terms which, at Landlord's option, may be for the remainder of the current term of this lease, or for any longer or shorter period and grant free rent concessions in connection therewith.

(c) Tenant shall be obligated to and agree to pay to Landlord, upon demand, ad Landlord shall be entitled to recover from Tenant, damages in an amount equal to the excess, if any, of all Fixed Rent, additional rents, Impositions and other charges and items as would be required hereunder to be paid to be paid by Tenant for each calendar month had this lease and the demised term been so terminated, or had Landlord not so re-entered, over the rents, if any , collected by Landlord in respect of such calendar month pursuant to any reletting. Said damages shall be payable by Tenant to the Landlord in monthly installments in the same manner as Fixed Rent hereunder, and any suite or action brought to collect the amount of the deficiency for any month shall not prejudice in any way the right if Landlord to collect the deficiency for any subsequent month by a similar proceeding.

(d) If the statute or rule of law governing Landlord's claim for damages shall limit the amount of such claim capable of being so proved and allowed, Landlord shall be entitled to prove as and for liquidated damages and have allowed an amount equal to the maximum allowed by or under any such statute or rule of law.

16.4 In Connection with any leasing, Landlord at its option, may make such alterations, repairs and/or decorations in the Demised Premises as in its reasonable judgment Landlord considers advisable and necessary, and the making of such alterations, repairs and/or decorations shall not operate or be construed to release Tenant from liability hereunder. Landlord shall be in no event be liable in any way whatsoever for failure to relet, for failure to collect rent thereof under such reletting; and in no event shall Tenant be entitled to receive any excess of such annual rents over the sums payable by Tenant to Landlord from time to time at is election, and nothing herein contained shall be deemed to require Landlord to postpone suite until the date when the term of this Lease would have expired if it had not been terminated under the provisions of this Lease, or under any provision of law, or had Landlord not re-entered into or upon the Demised Premises.

16.5 Tenant, for itself an any and all persons claiming through or under Tenant, including but not limited to its creditors, upon the termination of this lease and of the demised term in accordance with the terms hereof, or in the event of entry of judgment for the recovery of the possession of the Demised Premises by process o flaw or otherwise, hereby waives any right or redemption provided or permitted by any statute, law or decision now or hereafter in force, and does hereby waive, surrender and give up all rights an privileges which it or they may or might have under and by reason of any present or future law or decision, to redeem the Demised Premises or for a continuation of this Lease after having been dispossessed or ejected therefrom by process of law, or otherwise. Tenant waives all right to trial by jury in any action or summary other judicial proceeding hereafter instituted by Landlord against Tenant in respect of the Demised Premises.

16.6 Anything in this Article 16 to the contrary notwithstanding, it is expressly understood that, with respect to any event of default within the purview of subdivision (g) of Article 16 hereof, if such event of default cannot for reasons beyond Tenants control be cured within the period of forty-five (45) days provided for in said subdivision (g), the Landlord shall not be entitled to serve a notice of termination up Tenant, as provided in said Article 16.1, if Tenant shall commence the curing of such default promptly upon the cessation of the reasons beyond Tenant's control which prevented Tenant from curing the default not susceptible of being cured with due diligence within such period of (45) days, time of Tenant within which to cure the same shall be extended for such period as may be necessary to complete the dame with all due diligence.

16.7 The words "re-inter" and "re-entry" as used herein are not restricted to their technical legal meeting.

16.8 In the event that a petition shall be filed by or against Tenant in any bankruptcy, reorganization, composition, arrangement, or insolvency proceeding pursuant to the provisions of the present bankruptcy Code or any subsequent Act similar thereto or amending same, demand shall be deemed automatically made for relief from the imposition of the automatic stay presently imposed by 11 USC 362 or such later Section as shall be deemed the request of Landlord for a hearing to be held with regard to the modification, termination, or lifting of said stay and shall be deemed effective as of the date of filing of said stay and shall be deemed effective as of the date of filing of said petition or by or against Tenant.

Article 17: CUMULATIVE REMEDIES, WAIVER, ORAL CHANGE

17.1 Every term, condition, agreement or provision contained in the Lease shall be deemed to be also a covenant,

17.2 The specified remedies to which the Landlord may resort under the terms of this lease are cumulative and are not intended to be exclusive of any other remedies or means of redress to which Landlord may be lawfully entitled in case of any breach by Tenant of any provision of this Lease.

17.3 The failure of Landlord or Tenant to insist in any one or more cases upon the strict performance of any of the terms, covenants, conditions, provisions or agreements of this Lease or to exercise any option herein contained shall not be construed as a waiver or a relinquishment for the future of any such term, covenant, condition, provision agreement or option. A receipt and acceptance by Landlord of rent or any other payment, or the acceptance by Landlord of performance of anything required by this Lease to be performed, with the knowledge of the breach of any term, covenant, condition provision or agreement of this Lease, shall not be deemed a waiver of such breach, nor shall any such acceptance of rent in a lesser amount than is herein provided for (regardless of any endorsement on any check or any statement in any letter accompanying any payment of rent) operate or be construed as an accord and satisfaction or in any manner other than as payment on account of the earliest rent then unpaid by Tenant, and no waiver by Landlord of any term, covenant, conditions, provision or agreement of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord.

17.4 In addition to the other remedies in this Lease provided, Landlord shall be entitled to the restraint by injunction of any violation or attempted or threatened violation, of any of the terms, covenants, conditions, provisions or agreements of this Lease.

17.5 This Lease may not be changed orally, but only by agreement in writing signed by the party against whom enforcement of the change, modification or discharge is sought or by his agent.

Article 18: QUIET ENJOYMENT

Landlord covenants and agrees that Tenant, upon payment the rent and all charges herein provided for and performing and observing the covenants, conditions, and agreements hereof upon the part of Tenant to be performed and observed, shall and may peaceably hold and enjoy the said Premise during the term hereof, without any hindrance or molestation from Landlord, subject, however, to the terms of this Lease and any fee mortgage or mortgage of the Ground Lease, to which this Lease is subordinate.

Article 19: SURRENDER OF PREMISES

Tenant shall, upon the expiration or termination of this Lease for any reason whatsoever, surrender to Landlord the Demised Premises, together with all alterations (unless Landlord shall elect otherwise as hereinbefore provided) and replacements thereof then on the Demised Premises, in good order, condition and repair, except for reasonable wear and tear. Title to all of Tenant's trade fixtures, furniture and equipment (other than Building equipment) installed in the Demised Premises shall remain in Tenant, and upon expiration or other termination of this Lease, the same shall be removed and any resultant damage to the Demised Premises shall be repaired, by and at the expense of Tenant.

Article 20: ASSIGNMENTS, SUBLETTING AND ENCUMBRANCES

20.1 Tenant shall not assign, mortgage or otherwise encumber this Lease, or sublet all or any part of the Premises, without the prior written consent of Landlord in each instance. Landlord may condition its consent to an assignment of this Lease upon Tenant's delivery to Landlord, in recordable form, and within three (3) days after its execution, by (i) a duplicate original of the assignment, and (ii) an agreement wherein assumes and agrees to keep, observe and perform all of the covenants, conditions and obligations to be kept, performed and observed under Lease on the part of Tenant. Landlord shall not unreasonably withhold or delay its consent to any sublease; provided, however, at no time shall there be more than three (3) subleases in effect with regard to the Premises, excluding bonafide subsidiary corporations. Notwithstanding any assignment, Tenant hereby agrees at all times to be and remain primarily and jointly liable on this Lease. If this Lease be assigned or if the Premises or any part thereof be sublet or occupied by anybody other than Tenant, Landlord may, after default by Tenant, collect Rent from the assignee, subtenant or occupant, and apply the net amount collected to the Rent herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of this covenant, or the acceptance of the assignee, subtenant or occupant as Tenant, or a release of Tenant from the further performance by Tenant of the terms, covenants and conditions of this Lease on the part of Tenant to be performed. Any violation of any provision of this Lease, whether by act or omission, by an assignee, subtenant or similar occupant, shall be deemed a violation of such provision by Tenant, it being the intention and meaning of the parties hereto that Tenant shall assume and be liable to Landlord for any and all acts and omissions of any and all assignees, subtenant and similar occupants. The consent by Landlord to an assignment, encumbrance or subletting shall not be construed in any way to relieve Tenant from obtaining the express consent in writing of Landlord to any further assignment, encumbrance or writing of Landlord to any further assignment, encumbrance or subletting. In the event the rent and other charges payable in connection with such assignment or subletting exceed the fixed rent, additional rent and Impositions payable hereunder such excess amount shall be payable to Landlord as additional rent.

20.2

(a) If Tenant desires to assign this Lease or to sublet all or part of the Demised Premises, it shall make written application to Landlord for Landlord's consent to the making of such assignment or subletting, which application shall set forth the name and address of the proposed assignee or subtenant and in the case of any assignment, the full and complete terms and conditions of the assignment, and in the case of a subletting the exact space to be sublet, the amount of the rental to be paid by the subtenant if the sublease will cover all or substantially all of the Demised Premises, and a statement of all of the Material terms and conditions of the sublease.

(b) In the event Tenant desires to assign this Lease or sublet all or a portion of the space in the Building, Landlord shall have the right within twenty-one (21) days after receipt of said application to terminate this lease by giving Tenant notice of its election to do so and such termination shall become effective date of the earlier than thirty (30) days after the giving of such notice, and the Fixed Rent, additional rent and all other charges payable by Tenant shall be so adjusted and apportioned as of the date of termination. If Landlord does not elect to terminate this Lease as aforesaid, Tenant shall have the right to enter into the assignment or sublease which gave rise to Landlord's right of termination.

20.3 Notwithstanding the foregoing provisions, Tenant may:

(i) sublet any part of the Premises to any parent affiliate or wholly owned subsidiary of Tenant; or

(ii) assign this Lease to any parent, affiliate, or wholly owned subsidiary of Tenant; or

(iii) assign this Lease to a corporation, or subsidiary of a corporation, into which Tenant is merged or consolidated, or to which all or substantially all of Tenant's assets (provided this Lease is not the sole or most substantial asset of Tenant) and business as a continuing concern are transferred, or to any corporation which controls or is controlled by Tenant or is under common control with Tenant provided, this in any of such events the corporation or its subsidiary succeeding to Tenant has a net worth computed in accordance with generally accepted accounting principles equal to or greater than (1) the net worth of Tenant at the date immediately prior to such merger, consolidation or transfer, or (2) the net worth of Tenant on the date of this Lease whichever is greater;

provided, however, the Tenant shall at all times be and remain primarily and jointly liable under this Lease despite any such subletting or assignment, except that in connection with a permitted assignment under (iii) above, Tenant shall be released from any an all further obligation of liability hereunder upon the delivery to Landlord of (a) a duplicate original of the assignment, and (b) an agreement wherein the assignee assumes and agrees to keep, observe, and perform the obligations to be kept, performed and observed under this Lease on the part of Tenant.

ARTICLE 21: ESTOPPEL CERTIFICATES

Landlord and Tenant agree at any time and from time to time, upon not less than five (5) days prior request by either party to execute, acknowledge and deliver to each other a statement in writing certifying that this Lease in unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect as modified and stating the modification), and the dates to which the rent and other charges have been paid in advance, and if there are any defaults or rent abatements or offsets claimed by either party; it being intended that any such statement delivered pursuant to this Article may be relied upon by any prospective purchaser or mortgagee or assignee of any mortgage of the Demised Premises by Landlord and relied upon by any permitted subtenant, assignee, lender or purchaser of the Tenant. Nothing herein shall be construed as permitting the Tenant to sell, assign, mortgage or otherwise encumber its interest in the Demised Premises other than expressly provided for in the Lease.

Article 22: SUBORDINATION AND NON-DISTURBANCE

22.1 This Lease is and shall be subject and subordinate to the lien of any fee or Ground Lease mortgage or mortgages on or affecting the Demised Premises, or any part thereof, at the date hereof, and to any mortgage or mortgages hereafter made affecting the Demised Premises, and to all renewals, modifications, consolidation, replacements or extensions thereof, irrespective of the time of recording such mortgage. The provisions of this subordination shall be automatic and no further instruments as may be reasonably desired by the holders of said mortgages. Tenant hereby appoints Landlord the irrevocable attorney-in-fact of Tenant to execute and deliver any such instruments for Tenant.

22.2 The foregoing provisions of paragraph 22.1 are expressly conditioned upon any such mortgagee executing and delivering to Tenant and agreement, in form for recording pursuant to which such mortgagee shall agree that the lease-hold estate granted to Tenant hereunder and the rights of Tenant pursuant to this Lease to quiet and peaceful possession under this Lease will not be terminated, modified, affected or disturbed by any action which any such mortgagee may take to foreclose any such mortgage or to enforce the rights or remedies of the holder thereof, so long as an event of default shall not have occurred under this Lease and Tenant shall pay the fixed annual net rent, Impositions and additional rents, within the applicable grace periods without offsets or defenses thereto, except as otherwise herewith expressly set forth, and shall fully perform and comply with all terms, covenants, conditions and provisions of this Lease on the part of the Tenant hereunder to be performed or complied with and shall attorn to such mortgagee.

Article 23: NOTICES

All notices, demand and requests which are required or desired to be given by either party to the other shall be in writing and shall be either hand delivered or sent by United States registered or certified mail, return receipt requested, addressed to Landlord at its address set forth above and to Tenant at the Demised Premises, or at such other place as either part may from time to time designate in a written notice to the other party. Notices, demands, and requests which are served upon Landlord or Tenant in the manner aforesaid, shall be deemed to have been given or served when hand delivered or on the date indicated on the return receipt as the date of delivery.

Article 24: CAPTIONS AND MARGINAL NOTES

The captions and marginal notes of this lease are for convenience and reference only, and in now any define, limit or described the scope or intent of this lease nor in any way affect this lease.

Article 25: ENTIRE AGREEMENT

This instrument constitutes the entire agreement between the parties and there are no verbal or collateral understanding, agreements representations or warranties not expressly set for herein.

Article 26: COVENANTS BINDING ON RESPECTIVE PARTIES

Subject to the provisions of Article 20 hereof, the terms and conditions, covenants shall be binding upon an inure to the benefit of the parties hereto and their respective successors and assigns.

Article 27: BROKERAGE

The parties hereto each agree and represent to the other that no broker was in any way instrumental or had any part in bringing about this lease. Landlord and Tenant agree to indemnify, defend, and hold harmless each other from and against all loss, liability, cost and expenses (including, without limitation, reasonable attorney's fees) resulting from any claim made by any broker, or other person claiming a commission, fee, or other compensation by reason of this lease, if such claim shall arise by, of this lease, if such claim shall arise by, through or on account of any act of the indemnifying party or its representatives.

Article 28: SIGNS

Tenant shall not place any signs on the roof, exterior walls or ground of the Demised Premises without first obtaining Landlord's written consent thereto, which consent shall not be unreasonably withheld or delayed. In placing any signs on or about the Demised Premises, Tenant shall, at its expense, comply with all applicable laws and regulations of the governmental authorities having jurisdiction and obtain all required permits and/or licenses.

Article 29: HOLDOVER

If Tenant continues in the occupancy of the Premises after the expiration of the term or any extended term, such occupancy shall be deemed a tenancy from month to moth upon the terms, covenants, conditions, and rental rate in effect upon the expiration of the term, except that the fixed annual net rental shall be at 2-1/2 times such rental as was in effect upon expiration of the term. The provisions of this Article shall not be construed to relieve Tenant from liability to Landlord for damages resulting from any such holding over.

Article 30: SHORT FORM LEASE

The parties will at any time at the request of either one execute duplicate originals of an instrument in recordable form which will constitute a short form of lease, setting forth a description of the Demised Premises, the term of the Lease any other portions hereof, except the rent provisions, that either party may request.

Article 31: SECURITY

Tenant shall deposit an amount equal to two (2) months rent as security for its faithful performance of the terms of this Lease upon execution,. Provided Tenant is not in default under the terms of this Lease, said security deposit shall be returned to Tenant without interest at the end of the Lease term or any extensions thereof.

Article 32: LIMITATION OF LIABILITY

Landlord shall be under no personal liability with respect to any of the provisions of the Lease, and if it is in breach or default with respect to its obligations or otherwise, under this Lease, Tenant shall look solely to the equity of Landlord in the premises for the satisfaction of Tenant's remedies. It is expressly understood and agreed that Landlord's liability under the terms, covenants, warranties and obligations of this Lease shall in no event exceed the loss of its equity in the Premises.

Article 33: TENANT'S FINANCIAL STATEMENTS

33.1 In addition to Tenant's obligations pursuant to Article 34 of this Lease, Tenant and any subtenant or assignee shall, upon written request, furnish to Landlord a copy of its then current financial statement which shall be employed by Landlord in connection with the financing of the Premises. Any adverse modification of the financial condition of Tenant or any subtenant or assignee shall be furnished to Landlord in writing forthwith and without demand by Landlord for same.

Article 34: GROUND LEASE

34.1 This lease is subject to the terms, covenants and conditions of a certain ground lease (the "Ground Lease"), a copy of which has been furnished to Tenant.

Article 35: TAX EXEMPT FINANCING

35.1 As used in this Article 34, the following terms, have the meaning indicated:

a) "Aggregate Amount"--The aggregate amount of the Financing and the Capital Expenditures.

b) "Capital Expenditures"--The capital expenditures referred to in IRC Section 103 (b) (6) (d) (ii) which under such section are taken into account in determining the qualification of the Financing under IRC Section 103 (b) (6) (other than capital expenditures financed out of the proceeds of the Financing).

c) "Expenditure Excess"--The excess of (x) the aggregate amount offer (y) $10,000.00

d) "Financing"--As defined in Section 35.1

e) "IRC" Internal Revenue Code.

f) "IRS"--Internal Revenue Service

g) "Loss"-- any loss, or other cost (including reasonable attorneys fees) resulting from a loss of Exemption.

h) "Loss of Exemption"--Loss of tax-exempt status of the Financing or acceleration of the obligation to repay the Financing resulting from an alleged loss of the tax-exempt status of the Financing .

i) "Loss Month"--The month on which the loss of Exemption occurs.

j) "NJEDA"- New Jersey Economic Development Authority.

k) "Regs"--Income Tax Regulations

l) "Related Person"--Any person related to the Tenant or a {partner in the Tenant within the meaning of IRC Section 103 (b) (6) (C) (other than the Landlord).

m) "Tenant Excess"--The excess of (x) the aggregate amount of Capital Expenditures made or caused to be made by the Tenant , any related persons and Tenant space users over (y) $_________.

n) "Tenant Space Principal User"--Any Tenant space user who is "principal user" within the meaning of IRC Section 103 (b) (6) (E) (ii) with respect to the Land and Building (and including for this purpose any partnership that is such a principal user).

o) "Tenant Space user"--Any person using any portion of the Demised Premises.

35.2 Tenant acknowledges that a material inducement for Landlord, to enter into this Lease is Landlord's ability to obtain through the auspices of NJEDA, financing in the amount of $_________ for the construction of the Building, that interest on which will exempt from federal income tax under IRC Section 103 (a) (1) by virtue of IRC Section 103 (b) (6) (D) (the "financing").

35.3 Tenant agrees upon reasonable notice to execute all necessary application forms and to furnish all necessary financial, employment and other data necessary to support Landlord's application for financing assistance.

35.4 Tenant covenants to keep, perform and observe and to cause all Tenant Space Users to keep , perform, and observe, all of the terms, covenants and conditions necessary to maintain NJEDA financing assistance.

35.5 Tenant represents and agrees that (a) neither Tenant , any related Person or any Tenant Space Principal User has been or will be a "principal; user" within the meaning of ode Section 103 (b) (6) (E) (ii) , or a partner in a partnership that is a "principal user" as so defined, with respect to any facility other than the

Land and Building capital expenditures with respect to which would be taken into account under IRC Section 103 (b) (6) (D) for purposes of determining qualification under IRC Section 103 (b) (6) of the Financing; (b) neither Tenant, any related Person or any Tenant Space User has made or caused to be made Capital Expenditures which for purposes of IRC Section 103 (b) are treated as having been made with respect to the land and Building aggregating more than $__________, and (c) the aggregate face amount of industrial development bonds (other than the bonds issued under the Financing) which are or will be allocated to Tenant and all related persons under code section 103(b) (15) does not and will not exceed $---------. Tenant further agrees that it will execute and file with the IRS (a) the supplementary statements required by Regs. Section 1.103-10 (b) (2) (vi) (c) and (b) any other statement schedules, affidavits or other documents reasonably requested by Landlord for the purpose in insuring qualification of the Financing under IRC Section 103 (b) (6) and that it will deliver to Landlord executed copies of any documents so field with the Service. If there is a Loss of Exemption which results from a breach of the covenants set forth in this section, Tenant shall indemnify Landlord for the full amount of the Loss.

35.6 Any breach of covenants set forth

Article by Tenant, its subtenants, or assigns shall be considered a default of this Lease and shall subject the Tenant to such remedies as are provided to the Landlord in Article 15 of this Lease and to the payment of such damages to Landlord as are provided by Law.

Article 36: CONTINGENCIES

In the event all required governmental approvals and as commitment for the proposed renovations are not obtained within ninety (90) days of the date of this Lease, Landlord shall have the right, upon written notice to Tenant to terminate this Lease.

Article 37: ARBITRATION

In the event the Landlord or the Tenant requests arbitration in order to resolve a dispute where resolution of such dispute by arbitration is specifically provided in this Lease, same shall be done in accordance with this Article. The party requesting arbitration shall do so by giving notice to the effect to the other party, specifying in said notice the nature of the dispute, and said dispute shall be determined in Newark, New Jersey, by a single arbitrator, in accordance with the rules then obtaining of the American Arbitration Association (or any organization which is the successor thereto). The order in such arbitration may be enforced on the application of either party by the order or judgement of a court of competent jurisdiction. The fees and expenses of any arbitration shall be borne by the parties equally, but each party shall bear the expense of its own attorneys and experts and the additional expenses of presenting its own proof.

Article 38: EXTENSION OF TERM

38.1 If Tenant shall not then be in default in observing or performing any of the terms, covenants and conditions of this Lease, Tenant shall have the option to extend the Term for three (3) additional periods of four (4) years at a Fixed Rent determined in accordance with Paragraph 38.2 below (instead of the Fixed Rent herein reserved for the original Term), and otherwise upon the terms, covenants and conditions of the Lease in effect at the expiration of the original Term. The first such four (4) year period herein referred to as the "First Extended Period", the second such period herein referred to as the "Second Extended Period" the third such period herein referred to as the "Third Extended Period". Such option to extend may be exercised only by Tenant giving written notice to Landlord of its election to extend the term at lease on (1) year before the expiration of the lease period immediately preceding such Extended Period. Upon Tenant's giving such notice, the Term shall be extended automatically without the execution of an extension agreement or other instrument. It is expressly agreed that Tenant shall not have an option to extend the Term beyond the expiration of the Fourth Extended Period. If Tenant shall be in default in observing or performing any of the terms, covenants and conditions of this Lease at the time of the commencement of any Extended Period, or if this Lease shall be terminated before the commencement of the next Extended Period, Tenant's option to Extend the Term, or its exercise thereof, or the Extended Period created by any such exercise, shall be abrogated and rendered null an void. In default of such notice, Tenant's options to extend this Lease shall terminate and be deemed waived by Tenant. Tenant may not exercise its option to extend hereunder independent of an assignment of the Lease.

38.2 The Fixed Rent during the Extended Periods shall be determined as provided on the Rent Schedule for the Extended Periods annexed hereto as Exhibit C.

IN WITNESS WHEREOF, the partied hereby affix their respective signatures as of the day and year first above written.

Landlord:
SALPAT REALTY, INC. CORP.
A New Jersey Corporation

ATTEST:

/s/ DONNA D'VIALO BY /s/ SALVATORE P. GIARDINA

ATTEST: Tenant:
F&G MECHANICAL CORP.

/s/ JULIA VISAGGIO BY /s/ SALVATORE FICHERA

EXHIBIT C

RENT SCHEDULE

The Fixed Annual Net Rent shall be computed at the following rates:

WAREHOUSE SPACE	---	$ 6.00 PER SQUARE FOOT
OFFICE SPACE	---	$13.00 PER SQUARE FOOT

The parties agree that the Warehouse space in the Demised Premises equal 7,311 square feet and the office space equals 7,624 square feet. The net annual rent shall therefore equals $146,790.00 per year during the five (5) year term.

SCHEDULE C-1

In addition to the base rent provided in this lease, Tenant agrees to pay as additional rent a cost of living increase as hereinafter computer during each renewal period.

(a) (1) As promptly as practicable after the end of the initial five year term of this lease and each renewal period thereafter, the Landlord shall compute the increase, if any, in the cost of living for the preceding five year period based upon the "Revised Consumers Price Index - Cities (1957-59-100)" (hereinafter called the Index), published by the Bureau of Labor Statistics of the United States Department of Labor.

(2) The Index number indicate on the column for the City of New York, entitled "all items," for the month of April, 1990 shall be the "base index number" and the corresponding Index number for the month of April 1994, and each Fifth anniversary thereafter, shall be the "Current Index number."

(3) The current Index number shall be divided by the base Index Number, For the quotient thereof, there shall be subtracted the integer 1, and any resulting positive number shall be deemed to be the percentage of increase in the cost of living.

(4) The percentage of increase multiplied by the monthly base rent shall be the increase required to be determined by this paragraph.

(5) The Landlord shall, within a reasonable time after obtaining the appropriate data necessary for computing such increase, give the Tenant notice of any increase so determined, and the Landlord's computation thereof shall be conclusive and binding but shall not preclude any adjustment which may be required in the event of a published amendment of the index figures upon which the computation was based unless the Tenant shall, within 60 days after the giving of such notice, notify the Landlord of any claimed error within.

(b) The fixed monthly rent, as so determined, shall be due and payable to the Landlord in equal monthly installments commencing with the first month of the Fifth year of the term of this lease (any retroactive payments then due being payable within five days after the giving of such notice), and in the event any subsequent redetermination of such amount the adjustment thus indicated shall be promptly between the Landlord and the Tenant and on each Fifth anniversary thereafter.

(c) If publication of the Consumers Price Index shall be discontinued, the parties hereto shall thereafter accept comparable statistics on the cost of living for the City of New York, as they shall be computed and published by an agency of the United State or by a responsible financial periodical of recognized authority then to be selected by the parties hereto, or, if the parties cannot agree upon a selection by arbitration. In the event of (1) use of comparable statistics in place of the Consumers Price Index as above mentioned, or (2) Publication of the Index figures at other monthly intervals, there shall be made in the method of computation herein provided for such revisions as the circumstances may require to carry out the intent of this paragraph, and may dispute between the partied as to the making of such adjustment shall be determined by arbitration.

EXHIBIT 10.28

PROMISSORY NOTE

$5,600,000 February 12, 1998

FOR VALUE RECEIVED, the undersigned SORCE PROPERTIES LLC, a New Jersey limited liability company (the "BORROWER"), promises to pay to F&G MECHANICAL CORPORATION, a Delaware corporation (the "LENDER"), on February 12, 2001 the principal sum of FIVE MILLION SIX HUNDRED THOUSAND DOLLARS ($5,600,000) or such lesser aggregate unpaid principal amount of the loan made by the Lender to the Borrower hereunder, together with daily interest on the principal amount hereof from time to time unpaid at a rate of 6% per annum, which interest shall compound annually on each anniversary of the date hereof and shall be computed on the basis of a 365-day year.

1. DEFINITIONS. Certain capitalized terms are used in this Note with the specific meanings defined or referenced below in this Section 1:

1.1. "BANKRUPTCY CODE" means Title 11 of the United States Code (or any successor statute) and the rules and regulations thereunder, all as from time to time in effect.

1.2. "BORROWER" is defined in the first paragraph of this Note.

1.3. "COLLATERAL" means the shares of common stock of Comfort Systems USA, Inc., a Delaware corporation, pledged by the Pledgors to the Lender pursuant to the Pledge Agreement.

1.4. "EVENT OF DEFAULT" is defined in Section 4.1.

1.5. "GUARANTEE" means any personal guarantee of the payment and performance of the Obligations issued by any Pledgor to the Lender pursuant to Section 9.1 of the Pledge Agreement.

1.6. "LENDER" is defined in the first paragraph of this Note.

1.7. "LOAN" means the aggregate principal amount of the loan made pursuant to this Note at any time outstanding.

1.8. "OBLIGATIONS" means all present and future liabilities, obligations and indebtedness of the Borrower or any Pledgor owing to the Lender under or in connection with this Note, the Pledge Agreement or any Guarantee, including obligations in respect of principal, interest, fees, charges, indemnities and expenses from time to time owing under this Note, the Pledge Agreement or any Guarantee (whether accruing before or after a Bankruptcy Default).

1.9. "PLEDGE AGREEMENT" means the Pledge Agreement dated as of February 12, 1998, as amended and in effect from time to time, among the Pledgors and the Lender.

1.10. "PLEDGOR" means each of Salvatore Fichera and Salvatore P. Giardina.

2. PAYMENT. Prior to the stated or any accelerated maturity of the Loan, the Borrower will not be required to make any payment in respect of the principal of, or interest on or other Obligations in respect of, the Loan. On the stated or any accelerated maturity of the Loan, the Borrower will pay to the Lender an amount equal to the Loan then due, together with all accrued and unpaid interest thereon and all other Obligations in respect thereof then outstanding. Notwithstanding the first paragraph of this Note, any principal of and, to the extent not prohibited by applicable law, interest on or other Obligations in respect of the Loan which are not paid on the stated or any accelerated maturity of the Loan shall thereafter bear interest at a rate of 8% per annum. Upon all prepayments of the Loan, the Borrower shall pay to the Lender the principal amount to be prepaid together with unpaid interest in respect thereof accrued to the date of prepayment. Any payment under this Note shall be made to the Lender in lawful money of the United States of America on the date such payment is due at the offices of the Lender at 348 New County Road, Secaucus, New Jersey 07094, or at such other address as the Lender may specify in writing to the Borrower.

3. SECURITY. The payment and performance of the indebtedness evidenced by this Note is secured by the Collateral and, upon the issuance of any Guarantee, will be guaranteed by such Guarantee.

4. DEFAULTS.

4.1. EVENTS OF DEFAULT. Each of the following events is referred to as an "EVENT OF DEFAULT":

4.1.1. PAYMENT. The Borrower shall fail to make any payment in respect of principal of, or interest or any fee on or in respect of, any of the Obligations owed by it as the same shall become due and payable, whether at maturity or by acceleration or otherwise, and such failure shall continue for a period of 10 days after notice thereof by the Lender to the Borrower and the Pledgors.

4.1.2. ENFORCEABILITY, ETC. This Note, the Pledge Agreement or any Guarantee shall cease for any reason (other than the scheduled termination thereof in accordance with its terms) to be enforceable in accordance with its terms or in full force and effect; or the Borrower or any Pledgor shall so assert in a judicial or similar proceeding; or the security interests created by the Pledge Agreement shall cease to be enforceable and of the same effect and priority purported to be created thereby.

4.1.3. BANKRUPTCY, ETC. The Borrower or any Pledgor shall:

(a) commence a voluntary case under the Bankruptcy Code or authorize, by appropriate proceedings of its board of directors or other governing body, the commencement of such a voluntary case;

(b) (i) have filed against it a petition commencing an involuntary case under the Bankruptcy Code that shall not have been dismissed within 60 days after the date on which such petition is filed, or (ii) file an answer or other pleading within such 60-day period admitting or failing to deny the material allegations of such a petition or seeking, consenting to or acquiescing in the relief therein provided, or (iii) have entered against it an order for relief in any involuntary case commenced under the Bankruptcy Code;

(c) seek relief as a debtor under any applicable law, other than the Bankruptcy Code, of any jurisdiction relating to the liquidation or reorganization of debtors or to the modification or alteration of the rights of creditors, or consent to or acquiesce in such relief;

(d) have entered against it an order by a court of competent jurisdiction (i) finding it to be bankrupt or insolvent, (ii) ordering or approving its liquidation or reorganization as a debtor or any modification or alteration of the rights of its creditors or (iii) assuming custody of, or appointing a receiver or other custodian for, all or a substantial portion of its property; or

(e) make an assignment for the benefit of, or enter into a composition with, its creditors, or appoint, or consent to the appointment of, or suffer to exist a receiver or other custodian for, all or a substantial portion of its property.

4.2. CERTAIN ACTIONS FOLLOWING AN EVENT OF DEFAULT. If any one or more Events of Default shall occur and be continuing, then, subject to Section 5, in each and every such case the Lender may:

(a) by notice in writing to the Borrower declare all or any part of the unpaid balance of the Obligations then outstanding to be immediately due and payable; PROVIDED, HOWEVER, that if an Event of Default described in Section 5.1.5 shall have occurred, the unpaid balance of the Obligations shall automatically become immediately due and payable; and

(b) proceed to realize upon any and all rights in the Collateral and to enforce any Guarantee of the Obligations in such manner as it may elect.

To the extent not prohibited by applicable law which cannot be waived, all of the Lender's under this Note, the Pledge Agreement and any Guarantee shall be cumulative.

5. NON-RECOURSE OBLIGATION. Notwithstanding any provision of this Note to the contrary, (a) the Obligations shall be without recourse to the Borrower, (b) the Obligations shall be recourse only to the Collateral and, upon issuance of any Guarantee, the Pledgor issuing such Guarantee and the assets of such Pledgor and (c) the Borrower shall be liable for payment of the Obligations only to the extent of any foreclosure, suit (including any suit for collection hereunder), proceeding or other action against the Collateral or, upon issuance of any Guarantee, the Pledgor issuing such Guarantee and the assets of such Pledgor.

6. CERTAIN WAIVERS. The Borrower waives to the extent not prohibited by applicable law (a) all presentments, demands for performance, notices of nonperformance (except to the extent required by the provisions hereof), protests, notices of protest and notices of dishonor; (b) any requirement of diligence or promptness on the part of the Lender in the enforcement of its rights under this Note, the Pledge Agreement or any Guarantee; (c) all notices of every kind and description which may be required to be given by any statute or rule of law; (d) any valuation, stay, appraisement or redemption laws; and (e) any defense of any kind (other than payment) which it may now or hereafter have with respect to its liability under this Note or with respect to the Obligations.

7. NOTICES. Any notice, demand or other communication in connection with this Note shall be deemed to be given if given in writing addressed as provided below (or to the addressee at such other address as the addressee shall have specified by notice actually received by the addressor), and if either (a) actually delivered in fully legible form to such address or (b) in the case of a letter, five business days shall have elapsed after the same shall have been deposited in the United States mails, with first-class postage prepaid and registered or certified.

If to the Borrower, to it at 348 New County Road, Secaucus, New Jersey 07094, to the attention of its President, with a copy to the Pledgors at F&G Mechanical Corporation, 348 New County Road, Secaucus, New Jersey 07094.

If to the Lender, to it at 348 New County Road, Secaucus, New Jersey 07094, to the attention of its President, with a copy to Comfort Systems USA, Inc. at Three Riverway, Suite 200, Houston, Texas 77056, to the attention of its General Counsel.

8. EXPENSES. The Borrower shall bear all reasonable expenses of the holder hereof (including reasonable attorneys' fees and expenses) in connection with the collection of this Note.

9. COURSE OF DEALING; AMENDMENTS AND WAIVERS. No course of dealing between the Lender, on one hand, and the Borrower or any Pledgor, on the other hand, shall operate as a waiver of any of the Lender's rights under this Note or with respect to the Obligations. No delay or omission on the part of the Lender in exercising any right under this Note or with respect to the Obligations shall operate as a waiver of such right or any other right hereunder or with respect thereto. No waiver, consent or amendment with respect to this Note shall be binding unless it is in writing and signed by the Lender.

10. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, THE BORROWER AND THE LENDER WAIVES, AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND OR ACTION ARISING OUT OF OR BASED UPON THIS NOTE, THE PLEDGE AGREEMENT OR ANY GUARANTEE OR THE SUBJECT MATTER HEREOF OR THEREOF OR ANY OBLIGATION OR IN ANY WAY CONNECTED WITH THE DEALINGS OF THE BORROWER OR THE LENDER IN CONNECTION WITH ANY OF THE ABOVE, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER IN CONTRACT OR TORT OR OTHERWISE.

11. ASSIGNABILITY; GOVERNING LAW. This Note shall bind and inure to the benefit of the Borrower and the Lender and their respective successors and assigns, including as such successors and assigns of the Lender any holder of this Note; PROVIDED, HOWEVER, that the obligations of the Borrower hereunder may not be assigned without the prior written consent of the holder hereof. This Note shall be governed by and construed in accordance with the laws (other than the conflict of laws rules) of the State of New Jersey.

IN WITNESS WHEREOF, the undersigned Borrower has caused this Note to be executed and delivered as an instrument under seal by its duly authorized officer as of the date first above written.

SORCE PROPERTIES LLC

By /S/ SALVATORE FICHERA
Title: President

EXHIBIT 10.29

EXECUTION COUNTERPART

F&G MECHANICAL CORPORATION

PLEDGE AGREEMENT

This Agreement, dated as of February 12, 1998, is among Salvatore Fichera and Salvatore P. Giardina (collectively, the "PLEDGORS"), and F&G Mechanical Corporation, a Delaware corporation (the "LENDER"). The parties agree as follows:

1. BACKGROUND; CERTAIN RULES OF CONSTRUCTION; DEFINITIONS. The Pledgors own equity interests in Sorce Properties LLC, a New Jersey limited liability company (the "BORROWER"), which engages in real estate development. The Lender has provided loans to the Borrower in an aggregate principal amount of $5,600,000. As a condition to providing such loans, the Lender has required the Pledgors to make the pledge of stock contemplated hereby to secure the payment of the Obligations (as defined below). Capitalized terms are used in this Agreement as specifically defined below in this Section 1. Except as the context otherwise explicitly requires, (a) the capitalized term "Section" refers to sections of this Agreement, (b) the capitalized term "Exhibit" refers to exhibits to this Agreement, (c) references to a particular Section shall include all subsections thereof, (d) the word "including" shall be construed as "including without limitation", (e) terms defined in the UCC and not otherwise defined herein have the meaning provided under the UCC, (f) references to a particular statute or regulation include all rules and regulations thereunder and any successor statute, regulation or rules, in each case as from time to time in effect, and (g) references to a particular Person include such Person's successors and assigns to the extent not prohibited by this Agreement. References to "the date hereof" mean the date first set forth above.

1.1. "AGREEMENT" means this Pledge Agreement, as amended and in effect from time to time.

1.2. "BANKRUPTCY CODE" means Title 11 of the United States Code.

1.3. "BANKRUPTCY DEFAULT" means an Event of Default referred to in Section 6.1.5.

1.4. "BORROWER" is defined in the preamble to this Agreement.

1.5. "COLLATERAL" is defined in Section 2.1.

1.6. "CSI" means Comfort Systems USA, Inc., a Delaware corporation.

1.7. "CSI STOCK" means CSI's Common Stock, par value $.01 per share.

1.8. "EVENT OF DEFAULT" is defined in Section 6.1.

1.9. "GUARANTEE" means any personal guarantee of the payment and performance in full of the Obligations issued by any Pledgor to the Lender pursuant to Section 9.1.

1.10. "OBLIGATIONS" means all present and future liabilities, obligations and indebtedness of any Obligor owing to the Lender under or in connection with this Agreement or the Note, including obligations in respect of principal, interest, fees, charges, indemnities and expenses from time to time owing under this Agreement or the Note (whether accruing before or after a Bankruptcy Default).

1.11. "OBLIGORS" means each of the Borrower and the Pledgors.

1.12. "LENDER" is defined in the preamble to this Agreement.

1.13. "NOTE" means the Promissory Note dated February 12, 1998, as amended in effect from time to time, issued by the Borrower to the Lender in the principal amount of $5,600,000.

1.14. "MERGER AGREEMENT" means the Agreement and Plan of Merger dated as of February 12, 1998, as amended and in effect from time to time, among CSI, the Lender, F&G Mechanical Corporation, a New Jersey corporation, and the Pledgors.

1.15. "PERSON" means any present or future natural person or any corporation, association, partnership, joint venture, joint stock, limited liability or other company, business trust, trust, organization, business or government or any governmental agency or political subdivision thereof.

1.16. "PLEDGED STOCK" is defined in Section 2.1.1.

1.17. "PLEDGORS" is defined in the preamble to this Agreement.

1.18. "SECURITIES ACT" means the federal Securities Act of 1933.

1.19. "UCC" means the Uniform Commercial Code as in effect in New Jersey on the date hereof; PROVIDED, HOWEVER, that with respect to the perfection of the Lender's lien in the Collateral and the effect of nonperfection thereof, the term "UCC" means the Uniform Commercial Code as in effect in any jurisdiction the laws of which are made applicable by section 9-103 of the Uniform Commercial Code as in effect in New Jersey.

2. COLLATERAL.

2.1. SECURITY INTEREST. As security for the payment and performance of the Obligations, each Pledgor pledges and collaterally grants and assigns to the Lender for the benefit of the holders from time to time of any Obligation, and creates a security interest in favor of the Lender for the benefit of such holders in, all of such Pledgor's right, title and interest in and to (but none of his obligations or liabilities with respect to) the items and types of present and future property described in Sections 2.1.1 through 2.1.3, whether now owned or hereafter acquired, all which shall be referred to as the "COLLATERAL":

2.1.1. PLEDGED STOCK. All of the shares of CSI Stock held by such Pledgor and listed on Exhibit 2.1.1, and all substitutions and exchanges therefor (collectively, the "PLEDGED STOCK").

2.1.2. DISTRIBUTIONS. All dividends and other distributions (including income, return of capital and liquidating distributions) on, and all rights of redemption with respect to, the Pledged Stock.

2.1.3. PROCEEDS. All proceeds of the items of Collateral described or referred to in Sections 2.1.1 and 2.1.2.

2.2. REPRESENTATIONS, WARRANTIES AND COVENANTS WITH RESPECT TO COLLATERAL. The Pledgors jointly and severally represent, warrant and covenant that:

2.2.1. DELIVERY OF CERTIFICATES. The Pledgors will deliver to the Lender certificates representing the Pledged Stock, accompanied by stock transfer powers executed in blank and, if the Lender so requests, with signatures guaranteed, all in form and manner satisfactory to the Lender.

2.2.2. NO LIENS OR RESTRICTIONS ON TRANSFER OR CHANGE OF CONTROL. Each Pledgor is the sole legal and beneficial owner of the Pledged Stock set forth opposite such Pledgor's name on Exhibit 2.1.1. All Collateral is free and clear of any liens and restrictions on the transfer thereof, except for (a) liens created under this Agreement and (b) restrictions on transfer created under the Merger Agreement. None of the Collateral is subject to any option to purchase or similar rights of any Person. Each Pledgor agrees that, without the written consent of the Lender, such Pledgor will not assign or transfer any Collateral or grant any lien on any Collateral except as provided in this Agreement.

2.2.3. FURTHER ASSURANCES. Upon the Lender's request from time to time, the Pledgors will execute and deliver, and file and record in the proper filing and recording places, all such instruments, including financing statements, and will take all such other action, as the Lender deems advisable for confirming to it the Collateral or to carry out any other purposes of this Agreement or the Note.

2.3. ADMINISTRATION OF COLLATERAL. The Collateral shall be administered as follows, and if an Event of Default shall have occurred and be continuing, Section 2.4 shall also apply.

2.3.1. DISTRIBUTIONS. Unless an Event of Default shall have occurred and be continuing, each Pledgor shall be entitled to receive all dividends and distributions on or with respect to the Pledged Stock pledged by such Pledgor. If an Event of Default shall have occurred and be continuing, all dividends and distributions on or with respect to the Pledged Stock shall be retained by the Lender (or if received by any Pledgor shall be held by such Pledgor in trust and shall be immediately delivered by such Pledgor to the Lender in the original form received, endorsed in blank) and held by the Lender as part of the Collateral or applied by the Lender to the payment of the Obligations in accordance with Section 2.4.5.

2.3.2. VOTING. Unless an Event of Default shall have occurred and be continuing, each Pledgor shall be entitled to vote or consent with respect to the Pledged Stock pledged by such Pledgor, and the Lender will, if so requested, execute appropriate revocable proxies therefor. If an Event of Default shall have occurred and be continuing, if and to the extent that the Lender shall so notify any Pledgor in writing, only the Lender shall be entitled to vote or consent or take any other action with respect to the Pledged Stock pledged by such Pledgor (and such Pledgor will, if so requested, execute or cause to be executed appropriate proxies therefor).

2.4. RIGHT TO REALIZE UPON COLLATERAL. Except to the extent prohibited by applicable law that cannot be waived, this Section 2.4 shall govern the Lender's right to realize upon the Collateral if any Event of Default shall have occurred and be continuing. The provisions of this Section 2.4 are in addition to any rights and remedies available at law or in equity and in addition to the provisions of the Note.

2.4.1. GENERAL AUTHORITY. To the extent specified in written notice from the Lender to the Pledgor in question, each Pledgor grants the Lender full and exclusive power and authority, subject to the other terms hereof and applicable law, to take any of the following actions (for the sole benefit of the Lender and the holders from time to time of any Obligations, but at such Pledgor's expense):

(a) to ask for, demand, take, collect, sue for and receive all payments in respect of any Pledged Stock which such Pledgor could otherwise ask for, demand, take, collect, sue for and receive for his own use;

(b) to extent the time of payment of any amounts in respect of the Pledged Stock and to make any allowance or other adjustment with respect thereto;

(c) to settle, compromise, prosecute or defend any action or proceeding with respect to any Pledged Stock and to enforce all rights and remedies thereunder which such Pledgor could otherwise enforce;

(d) to notify the third party payor with respect to any Pledged Stock of the existence of the security interest created hereby and to cause all payments in respect thereof thereafter to be made directly to the Lender; and

(e) to sell, transfer, assign or otherwise deal in or with any Collateral or the proceeds thereof, as fully as such Pledgor otherwise could do.

2.4.2. MARSHALING, ETC. The Lender shall not be required to make any demand upon, or pursue or exhaust any of its rights or remedies against, the Pledgor or any other Person with respect to the payment of the Obligations or to pursue or exhaust any of its rights or remedies with respect to any collateral therefor or any direct or indirect guarantee thereof. The Lender shall not be required to marshal the Collateral or any guarantee of the Obligations or to resort to the Collateral or any such guarantee in any particular order, and all of its rights hereunder or under the Note shall be cumulative. To the extent it may lawfully do so, each Pledgor absolutely and irrevocably waives and relinquishes the benefit and advantage of, and covenants not to assert against the Lender, any valuation, stay, appraisement, extension, redemption or similar laws now or hereafter existing which, but for this provision, might be applicable to the sale of any Collateral made under the judgment, order or decree of any court, or privately under the power of sale conferred by this Agreement, or otherwise. Without limiting the generality of the foregoing, each Pledgor (a) agrees that it will not invoke or utilize any law which might prevent, cause a delay in or otherwise impede the enforcement of the rights of the Lender in the Collateral, (b) waives all such laws, and (c) agrees that it will not invoke or raise as a defense to any enforcement by the Lender of any rights and remedies relating to the Collateral or the Obligations any legal or contractual requirement with which the Lender may have in good faith failed to comply. In addition, each Pledgor waives any right to prior notice (except to the extent expressly required by this Agreement) or judicial hearing in connection with foreclosure on or disposition of any Collateral, including any such right which such Pledgor would otherwise have under the Constitution of the United States of America, any state or territory thereof or any other jurisdiction.

2.4.3. SALES OF COLLATERAL. All or any part of the Collateral may be sold for cash or other value in any number of lots at public or private sale, without demand, advertisement or notice; PROVIDED, HOWEVER, unless the Collateral to be sold threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Lender shall give the Pledgor granting the security interest in such Collateral 10 days' prior written notice of the time and place of any public sale, or the time after which a private sale may be made, which notice each of the Pledgors and the Lender hereby agrees to be reasonable. At any sale of Collateral, the Lender or any of its respective officers acting on its behalf, or the Lender's assigns, may bid for and purchase all or any part of the Collateral, may use all or any portion of the Obligations owed to the Lender as payment for the Collateral so purchased, and upon compliance with the terms of such sale may hold and dispose of the Collateral without further accountability to any Pledgor, except for the proceeds of such sale or sales pursuant to Section 2.4.5. Each Pledgor will execute and deliver or cause to be executed and delivered such instruments, documents, assignments, waivers, certificates and affidavits, will supply or cause to be supplied such further information and will take such further action as the Lender shall request in connection with any such sale.

2.4.4. SALE WITHOUT REGISTRATION. If, at any time when the Lender shall determine to exercise its rights hereunder to sell all or part of the Collateral, the Collateral shall not be effectively registered under the Securities Act (or other applicable law), the Lender may, in its sole discretion, sell such securities by private or other sale not requiring such registration in such manner and in such circumstances as the Lender may deem necessary or advisable in order that such sale may be effected in accordance with applicable securities laws without such registration and the related delays, uncertainty and expense. Without limiting the generality of the foregoing, in any event the Lender may, in its sole discretion, (a) approach and negotiate with a single purchaser or one or more possible purchasers to effect such sale, (b) restrict such sale to one or more purchasers each of whom will represent and agree that such purchaser is purchasing for its own account, for investment and not with a view to the distribution or sale of such securities and (c) cause to be placed on certificates representing the securities in question a legend to the effect that such securities have not been registered under the Securities Act (or other applicable law) and may not be disposed of in violation of the provisions thereof. Each Pledgor agrees that such manner of disposition is commercially reasonable, that he will upon the Lender's request give any such purchaser access to such information regarding the issuer of the Collateral as the Lender may reasonably request and that the Lender shall not incur any responsibility for selling all or part of the Collateral at any private or other sale not requiring such registration, notwithstanding the possibility that a substantially higher price might be realized if the sale were deferred until after registration under the Securities Act (or other applicable law) or until made in compliance with certain other rules or exemptions from the registration provisions under the Securities Act (or other applicable law). Each Pledgor acknowledges that no adequate remedy at law exists for breach by him of this Section 2.4.4 and that such breach would not be adequately compensable in damages and therefore agrees that this Section 2.4.4 may be specifically enforced.

2.4.5. APPLICATION OF PROCEEDS. The proceeds of all sales and collections in respect of any Collateral shall be applied as follows:

(a) first, to the payment of the costs and expenses of such sales and collections, the reasonable expenses of the Lender and the reasonable fees and expenses of its special counsel;

(b) second, any surplus then remaining to the payment of the Obligations in such order and manner as the Lender may in its reasonable discretion determine; and

(c) third, any surplus then remaining shall be paid to the Pledgors, subject, however, to the rights of the holder of any then existing lien of which the Lender has actual notice.

2.5. CUSTODY OF COLLATERAL. Except as provided by applicable law that cannot be waived, the Lender will have no duty as to the custody and protection of the Collateral, the collection of any part thereof or of any income thereon or the preservation or exercise of any rights pertaining thereto, including rights against prior parties, except for the use of reasonable care in the custody and physical preservation of any Collateral in its possession. The Lender will not be liable or responsible for any loss or damage to any Collateral, or for any diminution in the value thereof, by reason of the act or omission of any agent selected by the Lender acting in good faith.

3. WAIVERS WITH RESPECT TO COLLATERAL. Each Pledgor waives, to the fullest extent permitted by the provisions of applicable law, all of the following (including all defenses, counterclaims and other rights of any nature based upon any of the following):

(a) presentment, demand for payment and protest of nonpayment of any of the Obligations and notice of protest, dishonor or nonperformance;

(b) notice of acceptance of, and notice that credit has been extended in reliance on, this Agreement;

(c) notice of any default or any inability to enforce performance of the obligations of the Borrower or any other Person with respect to the Note, or notice of any acceleration of maturity of the Note;

(d) demand for performance or observance of, and any enforcement of any provision of, the Obligations, this Agreement or the Note or any pursuit or exhaustion of rights or remedies with respect to any Collateral or against the Borrower or any other Person in respect of the Obligations or any requirement of diligence or promptness on the part of the Lender in connection with any of the foregoing;

(e) any act or omission on the part of the Lender which may impair or prejudice such rights of such Pledgor, including rights to obtain subrogation, exoneration, contribution, indemnification or any other reimbursement from the Borrower or any other Person, or otherwise operate as a deemed release or discharge;

(f) failure or delay to perfect or continue the perfection of any security interest in any Collateral or any other action which harms or impairs the value of, or any failure to preserve or protect the value of, any Collateral;

(g) any statute of limitations or any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than the obligation of the principal;

(h) any "single action" or "anti-deficiency" law which would otherwise prevent the Lender from bringing any action, including any claim for a deficiency, against such Pledgor before or after the Lender's commencement or completion of any foreclosure action, whether judicially, by exercise of power of sale or otherwise, or any other law which would otherwise require any election of remedies by the Lender;

(i) all demands and notices of every kind with respect to the foregoing; and

(j) to the extent not referred to above, all defenses (other than payment) which the Borrower or such Pledgor may now or hereafter have to the payment of the Obligations, together with all suretyship defenses, which could otherwise be asserted by such Pledgor.

Each Pledgor represents that it has obtained the advice of counsel as to the extent to which suretyship and other defenses may be available to it with respect to its obligations hereunder in the absence of the waivers contained in this Section 3.

No delay or omission on the part of the Lender in exercising any right under this Agreement or the Note or under any guarantee of the Obligations or with respect to the Collateral shall operate as a waiver or relinquishment of such right. No action which the Lender or the Borrower may take or refrain from taking with respect to the Obligations, including any amendments thereto or modifications thereof or waivers with respect thereto, shall affect the provisions of this Agreement or the obligations of any Pledgor hereunder. None of the Lender's rights shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of any Obligor, or by any noncompliance by the Borrower with the terms, provisions and covenants of the Note, regardless of any knowledge thereof which the Lender may have or otherwise be charged with.

4. LENDERS' POWER TO WAIVE, ETC. Each Pledgor grants to the Lender full power in its discretion, without notice to or consent of such Pledgor, such notice and consent being expressly waived to the fullest extent permitted by applicable law, and without in any way affecting the liability of any Pledgor under its pledge hereunder:

(a) to waive compliance with, and any default under, and to consent to any amendment to or modification or termination of any terms or provisions of, or to give any waiver in respect of, this Agreement, the Note, the Collateral, the Obligations or any guarantee thereof (each as from time to time in effect);

(b) to grant any extensions of the Obligations (for any duration), and any other indulgence with respect thereto, and to effect any total or partial release (by operation of law or otherwise), discharge, compromise or settlement with respect to the obligations of the Obligors or any other Person in respect of the Obligations, whether or not rights against any Pledgor under this Agreement are reserved in connection therewith;

(c) to take security in any form for the Obligations, and to consent to the addition to or the substitution, exchange, release or other disposition of, or to deal in any other manner with, any part of any property contained in the Collateral whether or not the property, if any, received upon the exercise of such power shall be of a character or value the same as or different from the character or value of any property disposed of, and to obtain, modify or release any present or future guarantees of the Obligations and to proceed against any of the Collateral or such guarantees in any order;

(d) to collect or liquidate or realize upon any of the Obligations or the Collateral in any manner or to refrain from collecting or liquidating or realizing upon any of the Obligations or the Collateral; and

(e) to extend credit under the Note or otherwise in such amount as the Lender may determine, including increasing the amount of credit and the interest rate and fees with respect thereto, even though the condition of the Obligors (financial or otherwise on an individual or consolidated basis) may have deteriorated since the date hereof.

5. INFORMATION REGARDING THE BORROWER, ETC. Each Pledgor has made such investigation as it deems desirable of the risks undertaken by it in entering into this Agreement and is fully satisfied that it understands all such risks. Each Pledgor waives any obligation which may now or hereafter exist on the part of the Lender to inform it of the risks being undertaken by entering into this Agreement or of any changes in such risks and, from and after the date hereof, each Pledgor undertakes to keep itself informed of such risks and any changes therein. Each Pledgor expressly waives any duty which may now or hereafter exist on the part of the Lender to disclose to such Pledgor any matter related to the business, operations, character, collateral, credit, condition (financial or otherwise), income or prospects of the Borrower or its properties or management, whether now or hereafter known by the Lender. Each Pledgor represents, warrants and agrees that it assumes sole responsibility for obtaining from the

Borrower all information concerning the Note and all other information as to the Borrower or its properties or management as such Pledgor deems necessary or desirable.

6. DEFAULTS.

6.1. EVENTS OF DEFAULT. The following events are referred to as "EVENTS OF DEFAULT":

6.1.1. PAYMENT. The Borrower shall fail to make any payment in respect of principal of, or interest in respect of, any of the Obligations owed by it as the same shall become due and payable, whether at maturity or by acceleration or otherwise, and such failure shall continue for a period of 10 days after notice thereof by the Lender to the Pledgors.

6.1.2. COVENANTS. Any Obligor shall fail to perform or observe any other covenant, agreement or provision to be performed or observed by it under this Agreement or the Note, and such failure shall not be rectified or cured to the written satisfaction of the Lender within 30 days after the earlier of (a) notice thereof by the Lender to such Obligor or (b) such Obligor shall have actual knowledge thereof.

6.1.3. REPRESENTATIONS AND WARRANTIES. Any representation or warranty of any Pledgor made to the Lender in this Agreement shall be materially false on the date as of which it was made.

6.1.4. ENFORCEABILITY, ETC. This Agreement or the Note shall cease for any reason (other than the scheduled termination thereof in accordance with its terms) to be enforceable in accordance with its terms or in full force and effect; or any Obligor shall so assert in a judicial or similar proceeding; or the security interests created by this Agreement shall cease to be enforceable and of the same effect and priority purported to be created hereby or thereby.

6.1.5. BANKRUPTCY, ETC. Any Obligor shall:

(a) commence a voluntary case under the Bankruptcy Code or authorize, by appropriate proceedings of its board of directors or other governing body, the commencement of such a voluntary case;

(b) (i) have filed against it a petition commencing an involuntary case under the Bankruptcy Code that shall not have been dismissed within 60 days after the date on which such petition is filed, or (ii) file an answer or other pleading within such 60-day period admitting or failing to deny the material allegations of such a petition or seeking, consenting to or acquiescing in the relief therein provided, or (iii) have entered against it an order for relief in any involuntary case commenced under the Bankruptcy Code;

(c) seek relief as a debtor under any applicable law, other than the Bankruptcy Code, of any jurisdiction relating to the liquidation or reorganization of debtors or to the modification or alteration of the rights of creditors, or consent to or acquiesce in such relief;

(d) have entered against it an order by a court of competent jurisdiction (i) finding it to be bankrupt or insolvent, (ii) ordering or approving its liquidation or reorganization as a debtor or any modification or alteration of the rights of its creditors or (iii) assuming custody of, or appointing a receiver or other custodian for, all or a substantial portion of its property; or

(e) make an assignment for the benefit of, or enter into a composition with, its creditors, or appoint, or consent to the appointment of, or suffer to exist a receiver or other custodian for, all or a substantial portion of its property.

6.2. CERTAIN ACTIONS FOLLOWING AN EVENT OF DEFAULT. If any one or more Events of Default shall occur and be continuing, then, subject to Section 7, in each and every such case the Lender may proceed:

(a) to protect and enforce the Lender's rights by suit in equity, action at law and/or other appropriate proceeding, either for specific performance of any covenant or condition contained in this Agreement or in any instrument or assignment delivered to the Lender pursuant to this Agreement, or in aid of the exercise of any power granted in this Agreement or any such instrument or assignment; and

(b) to realize upon any and all rights in the Collateral.

To the extent not prohibited by applicable law which cannot be waived, all of the Lender's rights under this Agreement and the Note shall be cumulative.

7. NON-RECOURSE OBLIGATION. Notwithstanding any provision of this Agreement to the contrary, (a) this Agreement shall be without recourse to the Pledgors, (b) the Obligations shall be recourse only to the Collateral and, upon issuance of any Guarantee, the Pledgor issuing such Guarantee and the assets of such Pledgor and (c) the Pledgors shall be liable for payment of the Obligations only to the extent of any foreclosure, suit (including any suit for collection hereunder), proceeding or other action against the Collateral or, upon issuance of any Guarantee, the Pledgor issuing such Guarantee and the assets of such Pledgor.

8. REPRESENTATIONS AND WARRANTIES. In order to induce the Lender to extend credit to the Borrower under the Note, the Pledgors jointly and severally represent and warrant that:

8.1. ENFORCEABILITY. This Agreement constitutes the legal, valid and binding obligation of each Pledgor, enforceable against each Pledgor in accordance with its terms.

8.2. NO LEGAL OBSTACLE TO AGREEMENTS. Neither the execution, delivery and performance of this Agreement, nor the consummation of any transaction referred to in or contemplated by this Agreement or the Note, has constituted or resulted, or will constitute or result, in:

(a) any breach or termination of the provisions of any agreement, instrument, deed or lease to which any Pledgor is a party or by which any Pledgor is bound; or

(b) the violation of any law, statute, judgment, decree or governmental order, rule or regulation applicable to any Pledgor.

No approval, authorization or other action by, or declaration to or filing with, any governmental or administrative authority or any other Person is required to be obtained or made by any Pledgor in connection with the execution, delivery and performance of this Agreement or the transactions contemplated hereby.

9. TERMINATION.

9.1. TERMINATION UPON ISSUANCE OF GUARANTEE. If, after the second anniversary of the date hereof and prior to the third anniversary of the date hereof, the market closing price of the CSI Stock (as reported in the WALL STREET JOURNAL) exceeds $27.00 per share for 60 consecutive calendar days, then:

(a) each Pledgor shall execute and deliver to the Lender a Guarantee, which Guarantee shall be in form and substance reasonably satisfactory to the Lender; and

(b) upon the execution and delivery by each Pledgor to the Lender of a Guarantee, (i) this Agreement shall terminate, (ii) the Collateral shall revert to the Pledgors and (iii) the right, title and interest of the Lender in the Collateral shall terminate.

Thereupon, on the Pledgors' demand, the Lender shall redeliver to the Pledgors any Collateral then in its possession.

9.2. TERMINATION UPON PAYMENT OF OBLIGATIONS. Subject to the prior termination of this Agreement pursuant to Section 9.1, when all Obligations have been paid, performed and indefeasibly discharged in full, (a) this Agreement shall terminate, (b) the Collateral shall revert to the Pledgors and (c) the right, title and interest of the Lender in the Collateral shall terminate. Thereupon, on the Pledgors' demand, the Lender shall redeliver to the Pledgors any Collateral then in its possession.

10. SUCCESSORS AND ASSIGNS. The provisions of this Agreement shall inure to the benefit of the Lender and its successors and assigns and shall be binding upon the Pledgors and their respective successors and assigns; PROVIDED, HOWEVER, that neither Pledgor may assign his rights or obligations under this Agreement without the written consent of the Lender.

11. EXPENSES. The Pledgors shall bear all reasonable expenses of the Lender (including reasonable attorneys' fees and expenses) in connection with the enforcement of this Agreement and the Note and the collection of the Obligations.

12. NOTICES. Any notice or other communication in connection with this Agreement shall be deemed to be given if given in writing (including telex, telecopy or similar teletransmission) addressed as provided below (or to the addressee at such other address as the addressee shall have specified by notice actually received by the addressor), and if either (a) actually delivered in fully legible form to such address (evidenced in the case of a telex by receipt of the correct answerback) or (b) in the case of a letter, five business days shall have elapsed after the same shall have been deposited in the United States mails, with first-class postage prepaid and registered or certified.

If to any Pledgor, to him at:

c/o F&G Mechanical Corporation
348 New County Road
Secaucus, New Jersey 07094

If to the Lender, to it at:

F&G Mechanical Corporation
348 New County Road
Secaucus, New Jersey 07094
Attention: President

with a copy to:

Comfort Systems USA, Inc.
Three Riverway, Suite 200
Houston, Texas 77056
Attention: General Counsel

13. VENUE; SERVICE OF PROCESS.

(a) Each Pledgor irrevocably submits to the nonexclusive jurisdiction of the state courts of the State of New Jersey and to the nonexclusive jurisdiction of the United States District Court for the District of New Jersey for the purpose of any suit, action or other proceeding arising out of or based upon this Agreement or the Note or the subject matter hereof or thereof.

(b) Each Pledgor waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such proceeding brought in any of the above-named courts, any claim that he is not subject personally to the jurisdiction of such court, that his property is exempt or immune from attachment or execution, that such proceeding is brought in an inconvenient forum, that the venue of any such proceeding is improper, or that this Agreement or the Note, or the subject matter hereof or thereof, may not be enforced in or by such court.

(c) Each Pledgor consents to service of process in any such proceeding in any manner permitted by the laws of the State of New Jersey and agrees that service of process by registered or certified mail, return receipt requested, at his address specified in or pursuant to Section 12 is reasonably calculated to give actual notice.

14. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH OF THE PLEDGORS AND THE LENDER WAIVES, AND COVENANTS THAT HE OR IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND OR ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE NOTE OR THE SUBJECT MATTER HEREOF OR THEREOF OR ANY OBLIGATION OR IN ANY WAY CONNECTED WITH THE DEALINGS OF ANY PLEDGOR OR THE LENDER IN CONNECTION WITH ANY OF THE ABOVE, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER IN CONTRACT OR TORT OR

OTHERWISE. Each Pledgor acknowledges that he has been informed by the Lender that the provisions of this Section 14 constitute a material inducement upon which the Lender has relied, is relying and will rely in entering into this Agreement and the Note, and that he has reviewed the provisions of this Section 14 with his counsel. Any Pledgor or the Lender may file an original counterpart or a copy of this Section 14 with any court as written evidence of the consent of the Pledgors and the Lender to the waiver of the right to trial by jury.

15. GENERAL. All covenants, agreements, representations and warranties made in this Agreement or the Note or in certificates delivered pursuant hereto or thereto shall be deemed to have been relied on by the Lender, notwithstanding any investigation made by the Lender on its behalf, and shall survive the execution and delivery to the Lender hereof and thereof. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof, and any invalid or unenforceable provision shall be modified so as to be enforced to the maximum extent of its validity or enforceability. The headings in this Agreement are for convenience of reference only and shall not limit, alter or otherwise affect the meaning hereof. This Agreement and the Note constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede

all prior and current understandings and agreements, whether written or oral, with respect to such subject matter. This Agreement may be executed in any number of counterparts, which together shall constitute one instrument. This Agreement shall be governed by and construed in accordance with the laws (other than the conflict of laws rules) of the State of New Jersey.

Each of the undersigned has executed and delivered this Agreement as an agreement under seal as of the date first written above.

PLEDGORS

/S/ SALVATORE FICHERA
Salvatore Fichera

/S/ SALVATORE P. GIARDINA
Salvatore P. Giardina

LENDER

F&G MECHANICAL CORPORATION

By /S/ WILLIAM GEORGE
Title:William George, Vice President

EXHIBIT 2.1.1

PLEDGED STOCK

PLEDGOR	ISSUER	NUMBER OF SHARES
Salvatore Fichera	Comfort Systems USA, Inc.	180,262
Salvatore P. Giardina	Comfort Systems USA, Inc.	180,262

EXHIBIT 21.1

LIST OF SUBSIDIARIES

1. Accurate Air Systems, Inc., a Texas corporation
2. Atlas Air Conditioning, Inc., a Texas corporation
3. CSI/Bonneville, an Utah corporation
4. Eastern Heating & Cooling, Inc., a New York corporation
5. Freeway Heating & Air Conditioning, a Utah corporation
6. Quality Air Heating & Cooling, Inc., a Michigan corporation
7. S.M. Lawrence Co., a Tennessee corporation
8. Seasonair, Inc., a Maryland corporation
9. Standard Heating & Air Conditioning Co., an Alabama corporation
10. Tech Heating & Air Conditioning, Inc., an Ohio corporation
11. Tri-City Mechanical, Inc., an Arizona corporation
12. Western Building Services, Inc., a Colorado corporation
13. Walker-J-Walker, Inc., a Tennessee corporation
14. River City Mechanical, Inc., a Michigan corporation
15. S&K Air Conditioning Co., Inc., a Georgia corporation
16. Fred Hayes Mechanical Contractors, Inc., a Virginia corporation
17. Kuempel Service, Inc., an Ohio corporation
18. Salmon & Alder, Inc., an Utah corporation
19. Troost Service Co., a Michigan corporation
20. Temp-Right Service, Inc., a Montana corporation
21. Hillcrest Sheet Metal, Inc., a Delaware corporation
22. Nogle & Black Mechanical, a Delaware corporation
23. North Jersey Mechanical Contractors, Inc., a New Jersey corporation
24. Design Mechanical Incorporated, a Delaware corporation
25. EDS, Inc., a Minnesota corporation
26. Mechanical Service Group, Inc., a Delaware corporation
27. CEL, Inc., a Delaware corporation
28. BCM Controls Corporation, a Massachusetts corporation
29. Allstate Mechanical, Inc., a Colorado corporation
30. Dynastar, Inc. a Colorado corporation
31. Lowrie Electric Co., Inc., a Tennessee corporation
32. Batchelor's Mechanical Contractors, Inc., an Alabama corporation
33. James Air Conditioning Enterprises, Inc., a Puerto Rico corporation
34. MJ Mechanical Services, Inc., a Delaware corporation
35. Meadowlands Fire Protection Corp., a New Jersey corporation
36. F&G Mechanical Corp., a Delaware corporation
37. Helm Corporation, a Colorado corporation
38. GMS Air Conditioning, Inc., a Delaware corporation
39. Martin Heating, Inc., a Delaware corporation
40. OK Sheet Metal & Air Conditioning, Inc., a Delaware corporation
41. Air Power Systems, Inc., a Delaware corporation

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement File No. 333-38011.

ARTHUR ANDERSEN LLP

Houston, Texas
March 25, 1998

12-MOS
DEC-31-1997
DEC-31-1997
14,533
0
73,826
1,034
6,214
110,901
31,673
(19,627)
287,780
53,626
0
0
0
266
212,402
287,780
237,709
237,709
171,941
171,941
58,464
347
63
4,600
7,430
(2,830)
0
0
0
(2,830)
(0.16)
(0.16)