AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 21, 1998

REGISTRATION NO. 333-52849

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO 1 TO FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

COMFORT SYSTEMS USA, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

DELAWARE	1711	76-0526487
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

FRED M. FERREIRA
CHIEF EXECUTIVE OFFICER
THREE RIVERWAY
SUITE 200
HOUSTON, TEXAS 77056
(713) 830-9600
(NAME AND ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES AND AGENT FOR SERVICE)

COPIES TO:

WILLIAM D. GUTERMUTH
BRACEWELL & PATTERSON, L.L.P.
SOUTH TOWER PENNZOIL PLACE
711 LOUISIANA STREET, SUITE 2900
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(713) 221-1316

RICHARD C. TILGHMAN, JR.
PIPER & MARBURY L.L.P.
36 SOUTH CHARLES STREET
BALTIMORE, MARYLAND 21201
(410) 539-2530

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE(2)
Common Stock, $0.01 par value per share..............	4,157,685	$20.9375	$87,051,530	$25,682
Restricted Voting Common Stock, $0.01 par value per share..............	182,500	$20.9375	$3,821,094	$1,129

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) based upon the average of the high and low sale prices on May 20, 1998.

(2) An amount equal to $28,905 was paid with the Registration Statement filed on May 14, 1998.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION
MAY 21, 1998

3,774,074 SHARES
[LOGO] -- COMFORT

COMMON STOCK

Of the 3,774,074 shares of Common Stock offered hereby, 900,000 shares are being sold by Comfort Systems USA, Inc. (the "Company") and 2,874,074 shares are being sold by certain stockholders of the Company (the "Selling Stockholders"). See "Principal and Selling Stockholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Stockholders. The Common Stock is traded on The New York Stock Exchange ("NYSE") under the symbol "FIX." On May 20, 1998, the last reported sale price of the Common Stock on the NYSE was $21.00 per share. See "Price Range of Common Stock."

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK.
SEE "RISK FACTORS" COMMENCING ON PAGE 8 HEREOF.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO COMPANY(1)
Per share	$	$	$
Total(2)	$	$	$

	PROCEEDS TO SELLING STOCKHOLDERS
Per share	$
Total(2)	$

(1) Before deducting expenses of the offering estimated at $500,000 payable by the Company.

(2) The Company has granted the Underwriters a 30-day option to purchase up to

an additional 566,111 shares of Common Stock solely to cover over-allotments, if any. To the extent that the option is exercised, the Underwriters will offer the additional shares at the Price to Public shown above. If the option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions, Proceeds to Company and Proceeds to Selling Stockholders will be $, $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if delivered to and accepted by them, subject to the rights of the Underwriters to reject any order in whole or in part. It is expected that delivery of the shares of Common Stock will be made at the offices of BT Alex. Brown Incorporated, Baltimore, Maryland, on or about   , 1998.

BT ALEX. BROWN

BEAR, STEARNS & CO. INC.

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

SANDERS MORRIS MUNDY

THE DATE OF THIS PROSPECTUS IS   , 1998.

[photos of buildings and HVAC systems]

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act") and Section 21E of the Exchange Act. Such forward-looking statements are made only as of the date of this prospectus and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risk, uncertainties and other important factors include, among others, risks associated with acquisitions, fluctuations in operating results because of acquisitions and variations in stock prices, changes in government regulations, competition, and risks entailed in the operations and growth of the newly acquired businesses.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SPECIFICALLY, THE UNDERWRITERS MAY OVER-ALLOT IN CONNECTION WITH THE COMMON STOCK OFFERING AND MAY BID FOR AND PURCHASE SHARES OF THE COMMON STOCK IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PROSPECTUS SUMMARY

IN CONNECTION WITH ITS INITIAL PUBLIC OFFERING ON JULY 2, 1997 (THE "IPO"), COMFORT SYSTEMS USA, INC. ACQUIRED 12 COMPANIES (THE "FOUNDING COMPANIES") ENGAGED PRINCIPALLY IN THE COMMERCIAL AND INDUSTRIAL HEATING, VENTILATION AND AIR CONDITIONING ("HVAC") BUSINESS. SINCE THE IPO AND THROUGH MAY 20, 1998, THE COMPANY HAS ACQUIRED 51 ADDITIONAL COMPANIES IN THE HVAC AND COMPLEMENTARY BUSINESSES. UNLESS OTHERWISE INDICATED, ALL REFERENCES TO THE "COMPANY" HEREIN INCLUDE THE COMPANY AND ALL OF THE ACQUIRED COMPANIES.

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY, AND SHOULD BE READ IN CONJUNCTION WITH, THE MORE DETAILED INFORMATION AND THE CONSOLIDATED HISTORICAL, PRO FORMA COMBINED, PRO FORMA AND INDIVIDUAL HISTORICAL FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, APPEARING ELSEWHERE IN THIS PROSPECTUS.

UNLESS OTHERWISE INDICATED, ALL REFERENCES HEREIN TO COMMON STOCK INCLUDE BOTH COMMON STOCK, $0.01 PAR VALUE, AND RESTRICTED VOTING COMMON STOCK, $0.01 PAR VALUE (THE "RESTRICTED COMMON STOCK").

AMONG THE SHARES OFFERED BY THIS PROSPECTUS ARE 182,500 SHARES OF RESTRICTED VOTING COMMON STOCK HELD BY CERTAIN SELLING STOCKHOLDERS. THE SHARES OF RESTRICTED COMMON STOCK CONVERT AUTOMATICALLY INTO SHARES OF COMMON STOCK UPON THEIR SALE IN THIS OFFERING.

THE COMPANY

The Company is a leading national provider of comprehensive HVAC installation and 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 manufacturing plants, office buildings, retail centers, apartment complexes, and healthcare, education 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. Approximately 94% of the Company's pro forma combined 1997 revenues were derived from commercial and industrial customers, with approximately 55% of pro forma combined revenues attributable to installation services and 45% attributable to maintenance, repair and replacement services.

On July 2, 1997, the Company completed the IPO and simultaneously acquired the 12 Founding Companies. These companies had locations in ten states and annualized revenues in 1996 of $167.5 million. Subsequent to the IPO and through May 20, 1998, the Company acquired 51 HVAC and complementary businesses (collectively with the Founding Companies, the "Acquired Companies"). These Acquired Companies had locations in 13 additional states and annualized revenues of $420 million. These 51 acquisitions included 12 "tuck-in" operations that have been or currently are being integrated with existing Company operations.

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 overall HVAC industry, including the commercial, industrial and residential markets, is estimated to generate annual revenues in excess of $75 billion, over $35 billion of which is in the commercial and industrial markets. The Company believes that as it becomes a well-capitalized national company, it will have significant opportunities to provide comprehensive HVAC services and to consolidate the HVAC services industry.

The Company's commercial and industrial installation business targets "design and build" projects where the Company is responsible for designing, engineering and installing a cost-effective, energy-efficient system, customized to meet the specific needs of the building owner. Management believes that the "design and build" segment represents a faster growing and more profitable segment of the HVAC business than traditional "plan and spec" installation, where projects are generally designed by third parties and awarded on a low-bid basis.

The Company also provides maintenance, repair and replacement of HVAC systems. Growth in this segment is driven by a number of factors, particularly (i) the growth and aging of the installed base, (ii) the increasing energy efficiency, sophistication and complexity of HVAC systems and (iii) the increasing standards relating to indoor air quality and the reduction or elimination of the refrigerants commonly used in older HVAC systems. The energy efficiency and sophistication of new HVAC systems are encouraging building owners to upgrade and reconfigure their current HVAC systems. Moreover, the increasing sophistication and complexity of these HVAC systems are leading many commercial and industrial building owners and property managers to devote more resources to maintenance and to outsource maintenance and repair through service agreements with HVAC service providers. Service agreements lead to better utilization of personnel, link the customer with the Company should a major repair or replacement be needed and result in recurring revenues.

The Company plans to achieve its goal of becoming a leading national provider of comprehensive HVAC services by improving operations, emphasizing continued internal growth and expanding through acquisitions.

OPERATING STRATEGY. The key elements of the Company's strategy for improving operations are:

FOCUS ON COMMERCIAL AND INDUSTRIAL MARKETS. The Company believes that the commercial and industrial HVAC markets are attractive because of their growth opportunities, diverse customer base, attractive margins and potential for long-term relationships with building owners and managers, general contractors and architects.

OPERATE ON 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 the Acquired Companies to capitalize on existing knowledge of local and regional markets and customer relationships.

ACHIEVE OPERATING EFFICIENCIES. The Company has begun and will continue 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. The Company has national purchasing agreements with two principal manufacturers of HVAC equipment and with various other suppliers and service providers. Moreover, the Company has commenced reviewing operations at the local and regional operating levels to identify those "best practices" that can be successfully implemented throughout its operations.

ATTRACT AND RETAIN QUALITY EMPLOYEES. The Company seeks to attract and retain 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. Most of the Acquired Companies began participating in the Company's national insurance benefits program on May 1, 1998, which provides a better benefits package for most employees.

INTERNAL GROWTH. A key component of the Company's strategy is to continue the internal growth at the acquired companies and subsequently acquired businesses. 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 expand the services it offers in its local markets by leveraging the specialized technical and marketing strengths of individual acquired companies. For example, the Company has utilized the technical expertise and corresponding customer relationships from certain Acquired Companies to obtain new assignments for other Acquired Companies involving work for a national private corrections company, for a large, recognized hotel chain and for a major auto parts distributor.

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 provider and believes existing local and regional relationships can be expanded as it develops a nationwide network. As examples, the Company has combined resources of certain of its Acquired Companies to obtain multi-location service agreements for category superstore retailers in Colorado, and in the Mid-Atlantic states, as well as for a major telecommunications company in Ohio. In addition, the Company has initiated two joint marketing and service alliances involving regional energy utilities and certain Acquired Companies. Under these alliances, the Acquired Companies and the energy utilities jointly market and provide products and services to residential and commercial customers that are intended to improve HVAC system energy efficiency and overall performance. The Company is pursuing similar alliance opportunities elsewhere in the country.

ACQUISITIONS. The Company believes that, due to the highly fragmented nature of the HVAC industry, it has significant opportunities to continue its growth through acquisitions. The key elements of the Company's acquisition strategy are:

ENTER NEW GEOGRAPHIC MARKETS. In new markets, the Company targets one or more leading local or regional companies providing HVAC services. The Company chooses businesses that are located in attractive markets, are financially stable, are experienced in the industry and have capable management. Since its IPO, the Company has increased the number of states in which it has operating facilities from 10 to 23 states.

EXPAND WITHIN EXISTING MARKETS. Once the Company has entered a market, it seeks to acquire other well-established HVAC businesses operating within that region and also pursues "tuck-in" acquisitions of smaller companies, whose operations can be integrated into an existing operation to leverage the Company's infrastructure. Through May 20, 1998, the Company has acquired 12 businesses that have been or currently are being integrated into existing operations.

ACQUIRE COMPLEMENTARY BUSINESSES. The Company opportunistically acquires companies providing complementary services to the same customer base, such as commercial and industrial control systems and electrical and plumbing services. This will enable the Company to offer, on a comprehensive basis and from a single provider, HVAC, mechanical and electrical services in selected markets.

Comfort Systems USA, Inc. was incorporated in 1996 in Delaware. The Company's executive offices are located at Three Riverway, Suite 200, Houston, Texas 77056, and its telephone number is (713) 830-9600.

THE OFFERING

Common Stock offered by the Company..............................	900,000 shares
Common Stock offered by Selling Stockholders.......................	2,874,074 shares(1)
Common Stock to be outstanding after the offering......................	31,191,733 shares(2)(3)
Use of proceeds......................	To repay outstanding indebtedness under the Company's revolving line of credit (the "Credit Facility").
NYSE symbol..........................	FIX

(1) Includes 182,500 shares of Restricted Common Stock. Each share of Restricted Common Stock is entitled to 0.55 of one vote on all matters submitted to stockholders. Restricted Common Stock is convertible into one share of Common Stock under certain circumstances. See "Description of Capital Stock -- Common Stock and Restricted Common Stock."

(2) Excludes 3,067,638 shares of Common Stock issuable upon exercise of currently outstanding options granted at a weighted average exercise price of $14.88 per share. See "Management -- 1997 Long-Term Incentive Plan" and " -- 1997 Non-Employee Directors' Stock Plan."

(3) Includes 2,560,412 shares of Restricted Common Stock.

RECENT DEVELOPMENTS

From April 1, 1998, through May 20, 1998, the Company has acquired 13 additional HVAC service companies with annualized revenues of approximately $115 million. The Company paid approximately $29.6 million in cash, issued 1,495,648 shares of Common Stock and issued $15.4 million in convertible subordinated notes as consideration for these companies. The Company accounted for these acquisitions as purchase transactions.

In April 1998, the Credit Facility was amended to increase borrowing capacity and to provide for additional banks to lend to the Company. The amended Credit Facility provides the Company with an unsecured revolving line of credit of $175 million.

SUMMARY PRO FORMA FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following Pro Forma Combined and Pro Forma financial information should be read in conjunction with the Unaudited Pro Forma Financial Statements and the Notes thereto and the historical Consolidated Financial Statements of the Company and the Notes thereto contained elsewhere in this Prospectus. The Pro Forma Combined and Pro Forma results of operations presented below are not necessarily indicative of the results the Company would have obtained had these events actually then occurred or of the Company's future results.

	YEAR ENDED DECEMBER 31, 1997(1)	THREE MONTHS ENDED MARCH 31, 1998(2)
STATEMENT OF OPERATIONS DATA:		
PRO FORMA COMBINED:		
Revenues	$324,609	$ 117,838
Cost of services	234,336	89,410
Gross profit	90,273	28,428
Selling, general and administrative expenses	55,966(3)	20,695
Goodwill amortization(4)	3,593	1,170
Operating income	30,714	6,563
Other income (expense), net	(461)(5)	(531)
Income before income taxes	30,253	6,032
Provision for income taxes	12,721	2,654
Net income(11)	$ 17,532	$ 3,378
Net income per share:		
Basic	$ 0.72	$ 0.12
Diluted	$ 0.72	$ 0.12
Shares used in computing net income per share:		
Basic	24,309	27,887
Diluted	24,502	28,318

	YEAR ENDED DECEMBER 31, 1997(6)	THREE MONTHS ENDED MARCH 31, 1998(6)
PRO FORMA:		
Revenues	$506,089	$ 129,238
Cost of services	381,101	99,765
Gross profit	124,988	29,473
Selling, general and administrative expenses	79,819(7)	22,269(8)
Goodwill amortization(4)	5,099	1,287
Operating income	40,070	5,917
Other income (expense), net	(2,337)(9)	(777)(10)
Income before income taxes	37,733	5,140
Provision for income taxes	16,152	2,262
Net income(11)	$ 21,581	$ 2,878
Net income per share:		
Basic	$ 0.79	$ 0.10
Diluted	$ 0.78	$ 0.10
Shares used in computing net income per share:		
Basic	27,438	28,796
Diluted	27,631	29,227

	MARCH 31, 1998 ACTUAL	MARCH 31, 1998 AS ADJUSTED(12)
BALANCE SHEET DATA:		
Working capital	$ 64,829	$ 64,829
Total assets	361,776	361,776
Total debt, including current portion	50,935(13)	33,480(13)
Stockholders' equity	241,714	259,169

(SEE FOOTNOTES ON FOLLOWING PAGE)

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(1) The Pro Forma Combined Statement of Operations Data: (i) assume that the IPO and the concurrent acquisitions of the Founding Companies were consummated on January 1, 1997, (ii) give effect to the retroactive restatement to January 1, 1997, of the companies accounted for as poolings-of-interest (the "Pooled Companies"), except one company which was considered immaterial and has not been included in the retroactive statement for all periods presented and (iii) include the companies acquired subsequent to the IPO through December 31, 1997, accounted for as purchases (the "Purchased Companies") from the date of their respective acquisition. This presentation is not intended to be in accordance with the regulations regarding financial statement presentation promulgated by the Securities and Exchange Commission.

(2) The Pro Forma Combined Statement of Operations Data: (i) assume that the IPO and the acquisitions of the Founding Companies were consummated on January 1, 1997, (ii) give effect to the retroactive restatement to January 1, 1997, of the Pooled Companies and (iii) include the Purchased Companies acquired subsequent to the IPO through March 31, 1998, from the date of their respective acquisition. This presentation is not intended to be in accordance with the regulations regarding financial statement presentation promulgated by the Securities and Exchange Commission.

(3) Includes (i) certain reductions in salaries, bonuses and benefits to the former owners which they agreed would take effect as of the date of acquisitions of the Acquired Companies (the "Compensation Differential") through December 31, 1997, of $9.2 million, (ii) excludes the non-recurring, non-cash compensation charge of $11.6 million (the "Compensation Charge") recorded by the Company in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company, (iii) includes a $0.4 million increase in compensation expense to reflect the ongoing salaries received by corporate management of the Company as though those salaries were being paid prior to the IPO and (iv) excludes $0.6 million of acquisition-related costs incurred in the acquisition of the Pooled Companies.

(4) Consists of the amortization of goodwill using a 40-year life.

(5) Certain of the Acquired Companies were S Corporations prior to their acquisition by the Company. Prior to the acquisitions by the Company, various Acquired Companies made distributions to their stockholders which represented substantially all of their previously taxed undistributed earnings (the "S Corporation Distributions") which were funded through borrowings by the Acquired Companies. Accordingly, pro forma interest expense has been increased to include the interest expense on borrowings of $11.0 million that would have been necessary to fund certain S Corporation distributions of the Founding Companies through December 31, 1997.

(6) The Pro Forma Statement of Operations Data: (i) assume that the IPO and the acquisitions of the Founding and Purchased Companies through March 31, 1998, were consummated on January 1, 1997, and (ii) give effect to the retroactive restatement to January 1, 1997, of the Pooled Companies.

(7) Includes (i) the Compensation Differential of $14.3 million related to the Acquired Companies through March 31, 1998, (ii) excludes the Compensation Charge, (iii) includes a $0.4 million increase in compensation expense to reflect the ongoing salaries received by corporate management of the Company as though those salaries were being paid prior to the IPO and (iv) excludes $0.6 million of acquisition-related costs incurred in the acquisition of the Pooled Companies.

(8) Includes the Compensation Differential of $0.5 million related to the Acquired Companies through March 31, 1998.

(9) Includes the interest expense on (i) borrowings of $22.8 million that would have been necessary to fund certain S Corporation Distributions of the Acquired Companies through March 31, 1998 (ii) $16.6 million of cash consideration related to the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998, and (iii) the subordinated convertible notes issued in connection with the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998.

(10) Includes the interest expense on (i) borrowings of $11.8 million that would have been necessary to fund certain S Corporation Distributions of the Acquired Companies through March 31, 1998 (ii) $16.6 million of cash consideration related to the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998, and (iii) the subordinated convertible notes issued in connection with the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998.

(11) Includes the incremental provision for federal and state income taxes relating to the other statements of operations adjustments and for income taxes on Acquired Companies, and Pooled Companies which were C Corporations prior to the acquisition by the Company.

(12) Adjusted to include the issuance and sale of 900,000 shares of Common Stock offered hereby by the Company (at an assumed offering price of $21.00 per share) and, application of the estimated net proceeds from this offering therefrom as described in the "Use of Proceeds."

(13) From April 1, 1998, through May 20, 1998, the Company acquired 13 additional HVAC service companies with annualized revenues of approximately $115 million. The Company paid approximately $29.6 million in cash, issued 1,495,648 shares of Common Stock and issued $15.4 million in convertible subordinated notes as consideration for these companies. Following these acquisitions and as of May 20, 1998, $75.6 million was outstanding under the Credit Facility. After application of the estimated net proceeds of this offering, $58.1 million would have been outstanding under the Credit Facility at May 20, 1998.

RISK FACTORS

AN INVESTMENT IN THE SHARES OF COMMON STOCK OFFERED BY THIS PROSPECTUS INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, THE FOLLOWING RISK FACTORS SHOULD BE CONSIDERED CAREFULLY IN EVALUATING AN INVESTMENT IN THE COMMON STOCK.

ABSENCE OF COMBINED OPERATING HISTORY. The Company was founded in 1996 but conducted no operations and generated no revenues prior to July 2, 1997. The Acquired Companies operated as separate independent entities prior to being acquired by the Company, and there can be no assurance that the Company will be able to integrate the operations of these businesses successfully or to institute the necessary systems and procedures, including accounting and financial reporting systems, to manage the combined enterprise on a profitable basis. The Company's management group has been assembled only recently, and there can be no assurance that the management group will be able to manage the combined entity effectively or to implement the Company's operating strategy, internal growth strategy and acquisition program successfully. The pro forma combined financial results of the Acquired Companies cover periods when the Acquired Companies were not under common control or management and, therefore, may not be indicative of the Company's future financial or operating results. The inability of the Company to integrate the Acquired Companies successfully would have a material adverse effect on the Company's business, financial condition and results of operations and would make it unlikely that the Company's acquisition program will be successful. See "Business -- Strategy" and "Management."

RISKS RELATED TO THE COMPANY'S ACQUISITION STRATEGY. The Company intends to continue to grow significantly through the acquisition of additional HVAC and complementary businesses. The Company expects to face competition for acquisition candidates, which may limit the number of acquisition opportunities and may lead to higher acquisition prices. There can be no assurance that the Company will be able to identify, acquire or manage profitably additional businesses or to integrate successfully any acquired businesses into the Company without substantial costs, delays or other operational or financial problems. Further, acquisitions involve a number of special risks, including potentially lower margins, failure of the acquired business to achieve expected results, diversion of management's attention, failure to retain key personnel of the acquired business and risks associated with unanticipated events or liabilities, some or all of which could have a material adverse effect on the Company's business, financial condition and results of operations. Customer dissatisfaction or performance problems at a single Acquired Company could have an adverse effect on the reputation of the Company generally and render ineffective the Company's national sales and marketing initiatives. The Company may consider acquiring additional complementary businesses in the electrical, process piping and plumbing industries, and there can be no assurance that these complementary businesses can be successfully integrated. See "Business -- Strategy."

RISKS RELATED TO ACQUISITION FINANCING. The timing, size and success of the Company's acquisition efforts and the associated capital commitments cannot be readily predicted. The Company intends to continue to finance future acquisitions by using shares of its Common Stock for a significant 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 initiate and maintain its acquisition program. 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 financings. The Company has a bank line of credit of $175 million for working capital and acquisitions. As of May 20, 1998, borrowings under the Credit Facility were $75.6 million, which was used for acquisitions and to repay existing indebtedness of the Acquired Companies. The Credit Facility is subject to customary financial covenants and drawing conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

RISKS RELATED TO OPERATING AND INTERNAL GROWTH STRATEGY. Key elements of the Company's strategy are to improve the profitability of the Acquired Companies and to continue to expand their revenues. The Company seeks to improve the profitability of the Acquired Companies by various means, including increased purchasing efficiencies and a reduction, in some cases, of duplicative operating costs and overhead. The Company's ability to increase the revenues of the Acquired Companies is affected by various factors, including demand for new or replacement HVAC systems, the level of new construction, the Company's ability to expand the range of services offered to customers of individual Acquired Companies, the Company's ability to develop regional and national accounts and other marketing programs in order to attract new customers and the Company's ability to attract and retain a sufficient number of qualified HVAC technicians and other necessary personnel. Many of these factors are beyond the control of the Company, and there can be no assurance that the Company's operating and internal growth strategies will be successful or that it will be able to generate cash flow adequate for its operation and to support internal growth. See "Business -- Strategy."

COMPETITION. The HVAC industry is highly competitive and is served by small, owner-operated private companies and several large companies. Certain of these competitors may have lower overhead cost structures and may, therefore, be able to provide their services at lower rates than the Company. The HVAC industry is currently undergoing rapid consolidation on both a national and a regional level by other companies which have acquisition objectives which are the same as or similar to the Company's objectives. These companies and other consolidators may have greater financial resources than the Company to finance acquisition and internal growth opportunities and might be willing to pay higher prices than the Company for the same acquisition opportunities. Additionally, some HVAC equipment manufacturers and public utilities are active in 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 than the Company. Consequently, the Company may encounter significant competition in its efforts to achieve both its acquisition and internal growth objectives as well as its operating strategy to increase the profitability of the Acquired Companies. See "Business -- Competition."

AVAILABILITY OF HVAC TECHNICIANS. 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. Accordingly, the Company's ability to increase its productivity and profitability will be limited by its ability to employ, train and retain the skilled technicians necessary to meet the Company's service requirements. From time to time, there are shortages of qualified HVAC technicians, and there can be no assurance that the Company will be able to maintain an adequate skilled labor force necessary to operate efficiently, that the Company's labor expenses will not increase as a result of a shortage in the supply of skilled technicians or that the Company will not have to curtail its planned internal growth as a result of labor shortages. See "Business -- Employees" and " -- Recruiting, Training and Safety."

SEASONAL AND CYCLICAL NATURE OF THE HVAC INDUSTRY. The HVAC industry is subject to seasonal variations. Specifically, the demand for new installations is generally lower during the winter months due to reduced construction activity during inclement weather and less use of air conditioning during colder months. Demand for HVAC maintenance, repair and replacement services is generally higher in the second and third calendar quarters due to the increased use of air conditioning during warmer months. Accordingly, the Company expects its revenues and operating results generally will be lower in the first and fourth 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality and Cyclicality."

REGULATION. HVAC systems are 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. Various local, state and federal laws and regulations impose licensing standards on technicians who install and service HVAC systems. The Company's failure to comply with these laws and regulations could subject it to substantial fines and the loss of its licenses. See "Business -- Governmental Regulation and Environmental Matters."

RELIANCE ON KEY PERSONNEL. The Company is highly dependent on the continuing efforts of its executive officers and the senior management of the Acquired Companies, and the Company likely will depend on the senior management of any other significant business it acquires in the future. The business or prospects of the Company could be affected adversely if any of these persons does not continue in his management role until the Company is able to attract and retain qualified replacements. See "Management."

YEAR 2000 COMPLIANCE. The Company is currently implementing a Year 2000 program to ensure that the Company's computer systems and applications will function properly beyond 1999. The Company expects its Year 2000 date conversion program will be successfully completed on a timely basis. There can, however, be no assurance that this will be the case. The Company does not expect to incur significant expenditures to address this issue. The ability of third parties with whom the Company transacts business to address adequately their Year 2000 issues is outside of the Company's control. There can be no assurance that the failure of the Company or such third parties to address adequately their respective Year 2000 issues will not have a material adverse effect on the Company's financial condition or results of operations.

POTENTIAL EFFECT OF SHARES ELIGIBLE FOR FUTURE SALE ON PRICE OF COMMON STOCK. The market price of the Common Stock may be adversely affected by the sale, or availability for sale, of substantial amounts of the Common Stock in the public market. As of May 20, 1998, there were 30,291,733 shares of Common Stock outstanding. The 3,774,074 shares offered hereby, as well as the 7,015,000 shares sold in the IPO and 618,374 of the shares issued in acquisitions are freely tradeable. The remaining outstanding shares may be resold publicly only following their registration under the Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an available exemption from registration (such as provided by Rule 144 following a one year holding period for previously unregistered shares), and upon the expiration of contractual restrictions with the Company. In connection with this offering, each Selling Shareholder has agreed with the Underwriters that he or she will not sell or otherwise dispose of any Company stock for a period of 180 days from the date of this offering. Certain directors and members of management have also agreed with the Company that they will not sell any shares of Company stock for one year from the date of this offering. Giving effect to this offering, during the third quarter of 1998, 1,836,272 shares will become eligible for sale, subject to the restrictions in Rule 144. In addition, certain other shares become tradeable under Rule 144 or pursuant to the expiration of contractual restrictions during the next five years. In the fourth quarter of 1998, 4,526,372 additional shares become eligible for sale. In 1999, 108,185 shares become eligible for sale in the first quarter, 4,212,376 shares become eligible for sale in the second quarter, 1,523,112 shares become eligible for sale in the third quarter, and 413,294 shares become eligible for sale in the fourth quarter. During 2000, 2,840,338 shares become eligible for sale. After 2000, 3,811,738 additional shares become eligible for sale on various dates as contractual restrictions expire. The Company also has outstanding options to purchase up to a total of 3,067,638 shares of Common Stock which vest ratably over five years from their dates of grant. In addition, up to 5,270,431 shares remain issuable pursuant to the Company's shelf registration statement on Form S-1 filed on April 24, 1998 for use in connection with acquisitions and will be freely traded, after their issuance, by persons not affiliated with the Company unless the Company contractually restricts their resale. See "Shares Eligible for Future Sale."

POSSIBLE ANTI-TAKEOVER EFFECT OF CERTAIN CHARTER PROVISIONS. The Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"), authorizes the Board of Directors to issue, without stockholder approval, one or more series of preferred stock having such preferences, powers and relative, participating, optional and other rights (including preferences over the Common Stock respecting dividends and distributions and voting rights) as the Board of Directors may determine. The issuance of this "blank-check" preferred stock could render more difficult or discourage an attempt to obtain control of the Company by means of a tender offer, merger, proxy contest or otherwise. In addition, the Certificate of Incorporation provides for a classified Board of Directors, which may also have the effect of inhibiting or delaying a change in control of the Company. Certain provisions of the Delaware General Corporation Law may also discourage takeover attempts that have not been approved by the Board of Directors. See "Description of Capital Stock."

USE OF PROCEEDS

The net proceeds from the sale of the 900,000 shares of Common Stock offered by the Company hereby (at an assumed offering price of $21.00 per share), after deducting underwriting discounts and commissions and estimated offering expenses, are estimated to be $17.5 million ($28.7 million if the Underwriters' over-allotment option is exercised in full).

The net proceeds to the Company of $17.5 million will be used to reduce outstanding indebtedness under the Company's Credit Facility. See "Management's Discussion and Analysis of Financial Results -- Liquidity and Capital Resources."

The Company will not receive any of the proceeds from the sale of shares by Selling Stockholders.

DIVIDEND POLICY

The Company intends to retain all of its future earnings, if any, to finance the expansion of its business and for general corporate purposes, including future acquisitions, and does not anticipate paying any cash dividends on its Common Stock for the foreseeable future. In addition, the Company's Credit Facility includes restrictions on the ability of the Company to pay dividends without the consent of the lender.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock has traded on the NYSE since the IPO. The following table sets forth the high and low sale prices for the Common Stock for the periods indicated, as reported by the NYSE:

	HIGH	LOW
1997:		
Second quarter (beginning June 27)	$16 1/8	$13
Third quarter	$21 9/16	$15 1/2
Fourth quarter	$20 1/16	$15
1998:		
First quarter	$22 1/4	$18 1/8
Second quarter (through May 20)	$24 3/4	$20 7/8

At May 20, 1998, there were approximately 299 holders of record of the Company's Common Stock.

CAPITALIZATION

The following table sets forth the current maturities of long-term obligations and capitalization at March 31, 1998 of the Company on a historical basis and as adjusted to give effect to the issuance and sale of 900,000 shares of Common Stock offered hereby by the Company (at an assumed offering price of $21.00 per share) and application of the estimated net proceeds therefrom as described in the "Use of Proceeds." This table should be read in conjunction with the historical Consolidated Financial Statements of the Company and the Unaudited Pro Forma Financial Statements of the Company and the Notes thereto included elsewhere in this Prospectus.

	MARCH 31, 1998	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Current maturities of long-term debt obligations(1)	$ 150	$ 150
Long-term obligations, less current maturities(1)	$ 50,785(2)	$ 33,330(2)
Stockholders' equity:		
Preferred Stock: $0.01 par value, 5,000,000 shares authorized; none issued or outstanding	--	--
Common Stock: $0.01 par value, 52,969,912 shares authorized; 28,796,085 shares issued and outstanding and 29,696,085 shares issued and outstanding, as adjusted	288	297
Additional paid-in capital	231,355	248,801
Retained earnings	10,071	10,071
Total stockholders' equity	241,714	259,169
Total capitalization	$292,499	$ 292,499

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(1) For a description of the Company's debt, see Note 6 of Notes to the Company's Consolidated Financial Statements to Consolidated Financial Statements.

(2) From April 1, 1998, through May 20, 1998, the Company acquired 13 additional HVAC service companies with annualized revenues of approximately $115 million. The Company paid approximately $29.6 million in cash, issued 1,495,648 shares of Common Stock and issued $15.4 million in convertible subordinated notes as consideration for these companies. Following these acquisitions and as of May 20, 1998, $75.6 million was outstanding under the Credit Facility. After application of the estimated net proceeds from this offering, $58.1 million would have been outstanding under the Credit Facility at May 20, 1998.

SELECTED FINANCIAL DATA

The following Historical, Pro Forma Combined and Pro Forma financial information should be read in conjunction with the Company's Unaudited Pro Forma Financial Statements and the Notes thereto and the historical Consolidated Financial Statements and the Notes thereto and certain historical financial statements of the Acquired Companies and the Notes thereto contained elsewhere in this Prospectus. The following historical consolidated financial information has been derived from (i) the audited financial statements of the Company as of December 31, 1996 and 1997 and for the years ended 1995, 1996 and 1997 and (ii) the unaudited financial statements of the Company as of December 31, 1993, 1994 and 1995 and March 31, 1998 and for the years ended 1993 and 1994 and for the three months ended March 31, 1998. The Pro Forma Combined and Pro Forma results of operations presented below have been prepared as described in the accompanying notes to this table. These Pro Forma Combined and Pro Forma results of operations are not necessarily indicative of the results the Company would have obtained had these events actually then occurred or of the Company's future results.

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,
	1993	1994	1995	1996	1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
STATEMENT OF OPERATIONS DATA:						
HISTORICAL(1):						
Revenues	$ 52,195	$ 67,254	$ 65,167	$ 96,296	$ 237,709	$117,838
Operating income	822	1,638	1,717	5,076	4,531	6,563
Net income (loss)	685	1,203	1,293	3,590	(2,830)	3,378
PRO FORMA COMBINED:						
Revenues					$ 324,609(2)	$117,838(3)
Operating income(5)					30,714(4)	6,563
Net income(12)					17,532(6)	3,378
Net income per share:						
Basic					$ 0.72	$ 0.12
Diluted					$ 0.72	$ 0.12
Shares used in computing net income per share:						
Basic					24,309	27,887
Diluted					24,502	28,318
PRO FORMA:						
Revenues					$ 506,089(7)	$129,238(7)
Operating income(5)					40,070(8)	5,917(9)
Net income(12)					21,581(10)	2,878(11)
Net income per share:						
Basic					$ 0.79	$ 0.10
Diluted					$ 0.78	$ 0.10
Shares used in computing net income per share:						
Basic					27,438	28,796
Diluted					27,631	29,227

	DECEMBER 31,					MARCH 31, 1998	
	1993	1994	1995	1996	1997	ACTUAL	AS ADJUSTED(13)
BALANCE SHEET DATA:							
HISTORICAL:							
Working capital	$ 3,645	$ 3,904	$ 7,048	$ 9,515	$ 57,275	$ 64,829	$ 64,829
Total assets	14,918	18,164	24,874	31,479	287,780	361,776	361,776
Total debt, including current portion	2,406	2,001	3,502	3,929	21,211	50,935(14)	33,480(14)
Stockholders' equity	3,550	4,305	7,707	11,357	212,668	241,714	259,169

(SEE FOOTNOTES ON FOLLOWING PAGE)

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(1) The historical financial information for the fiscal years ended 1993 through 1997 and the three months ended March 31, 1998, reflect the historical financial statements of the Company, restated for the effects of the Pooled Companies and the Founding and Purchased Companies from their respective acquisition dates through December 31, 1997 and through March 31, 1998 for the three months ended March 31, 1998.

(2) The Pro Forma Combined Statement of Operations Data: (i) assume that the IPO and the concurrent acquisitions of the Founding Companies were consummated on January 1, 1997, (ii) give effect to the retroactive restatement to January 1, 1997, of the Pooled Companies, except one company which was considered immaterial and has not been included in the retroactive restatement for all periods presented and (iii) include the Purchased Companies through December 31, 1997, from the date of their respective acquisition. This presentation is not intended to be in accordance with the regulations regarding financial statement presentation promulgated by the Securities and Exchange Commission.

(3) The Pro Forma Combined Statement of Operations Data: (i) assume that the IPO and the acquisitions of the Founding Companies were consummated on January 1, 1997, (ii) give effect to the retroactive restatement to January 1, 1997, of the Pooled Companies and (iii) include the Purchased Companies acquired subsequent to the IPO through March 31, 1998, from the date of their respective acquisition. This presentation is not intended to be in accordance with the regulations regarding financial statement presentation promulgated by the Securities and Exchange Commission.

(4) Includes (i) the Compensation Differential through December 31, 1997, of $9.2 million, (ii) excludes the Compensation Charge of $11.6 million recorded by the Company in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company, (iii) includes a $0.4 million increase in compensation expense to reflect the ongoing salaries received by corporate management of the Company as though those salaries were being paid prior to the IPO and (iv) excludes $0.6 million of acquisition-related costs incurred in the acquisition of the Pooled Companies.

(5) Includes the amortization of goodwill using a 40-year life.

(6) Includes the interest expense on borrowings of $11.0 million that would have been necessary to fund certain S Corporation Distributions of the Founding Companies through December 31, 1997.

(7) The Pro Forma Statement of Operations Data: (i) assume that the IPO and the acquisitions of the Founding and Purchased Companies through March 31, 1998, were consummated on January 1, 1997, and (ii) give effect to the retroactive restatement to January 1, 1997, of the Pooled Companies.

(8) Includes (i) the Compensation Differential of $14.3 million related to the Acquired Companies through March 31, 1998, (ii) excludes the Compensation Charge, (iii) includes a $0.4 million increase in compensation expense to reflect the ongoing salaries received by corporate management of the Company as though those salaries were being paid prior to the IPO and (iv) excludes $0.6 million of acquisition-related costs incurred in the acquisition of the Pooled Companies.

(9) Includes the Compensation Differential of $0.5 million related to the Acquired Companies through March 31, 1998.

(10) Includes the interest expense on (i) borrowings of $22.8 million that would have been necessary to fund certain S Corporation Distributions of the Acquired Companies through March 31, 1998 (ii) $16.6 million of cash consideration related to the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998, and (iii) the subordinated convertible notes issued in connection with the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998.

(11) Includes the interest expense on (i) borrowings of $11.8 million that would have been necessary to fund certain S Corporation Distributions of the Acquired Companies through March 31, 1998, (ii) $16.6 million of cash consideration related to the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998, and (iii) the subordinated convertible notes issued in connection with the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998.

(12) Includes the incremental provision for federal and state income taxes relating to the other statements of operations adjustments and for income taxes on Acquired Companies, and Pooled Companies which were C Corporations prior to the acquisition by the Company.

(13) Adjusted to include the issuance and sale of 900,000 shares of Common Stock offered hereby by the Company (at an assumed offering price of $21.00 per share) and, application of the estimated net proceeds from this offering therefrom as described in the "Use of Proceeds."

(14) From April 1, 1998, through May 20, 1998, the Company acquired 13 additional HVAC service companies with annualized revenues of approximately $115 million. The Commpany paid approximately $29.6 million in cash, issued 1,495,648 shares of Common Stock and issued $15.4 million in convertible

subordinated notes as consideration for these companies. Following these acquisitions and as of May 20, 1998, $75.6 million was outstanding under the Credit Facility. After application of the estimated net proceeds of this offering, $58.1 million would have been outstanding under the Credit Facility at May 20, 1998.

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 and pro forma financial statements of the Company and related notes thereto included elsewhere in this Prospectus. This discussion contains forward-looking statements regarding the business and industry of 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 uncertanties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual results to differ include risks set forth in "Risk Factors."

The Company is a leading national provider of comprehensive HVAC installation, as well as 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 manufacturing plants, office buildings, retail centers, apartment complexes, and healthcare, education 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, with approximately 55% of pro forma combined revenues attributable to installation services and 45% attributable to maintenance, repair and replacement services.

On July 2, 1997, the Company completed its IPO and simultaneously acquired the 12 Founding Companies. Subsequent to the IPO, and through December 31, 1997, the Company acquired 27 additional HVAC and complementary businesses. Of these additional acquisitions, 14 are the Pooled Companies and the remaining 13 acquisitions have been accounted for as purchases. The historical financial statements of the Company have not been retroactively restated to give effect to the operations of certain of the Pooled Companies which are considered immaterial. Subsequent to December 31, 1997 and through March 31, 1998, the Company acquired 11 additional HVAC businesses, all of which have been accounted for as purchases.

Pro forma combined 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 Company's results of operations historically have been subject to seasonal fluctuations.

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 COMBINED RESULTS OF OPERATIONS

The following unaudited pro forma combined information is presented supplementally to reflect the pro forma results of operations as if the acquisition of the Founding Companies occurred on January 1, 1996, as reflected in the Company's publicly disclosed earnings announcements. Therefore, the accompanying unaudited pro forma combined statements of operations and the related management's discussion and analysis of the Company for the three months ended March 31, 1998 and 1997, respectively, and for the years ended December 31, 1997 and 1996, respectively, include the combined operations of the Pooled Companies and the Founding Companies from January 1, 1996, and the Purchased Companies acquired through date of presentation from the dates of their acquisitions. One of the Pooled Companies is considered immaterial and has not been restated for all periods presented.

The Acquired 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 Compensation Charge recorded by the Company in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company prior to the IPO. The pro forma combined results of operations reflect: (i) the Compensation Differential of the Founding and Pooled Companies which the former owners of those companies agreed would take effect as of the date of the acquisitions, (ii) pro forma combined compensation expense of $215,000 for the three months ended March 31, 1997 and $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 IPO, (iii) interest expense on borrowings of $11.0 million that would have been necessary to fund various S Corporation Distributions of the Founding Companies as if they had occurred at the beginning of each period presented, (iv) the elimination of the Compensation Charge referred to above and (v) the elimination of 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 the Pooled Companies that were C Corporations, had been subject to federal and state income taxes.

	YEAR ENDED DECEMBER 31,				THREE MONTHS ENDED MARCH 31,			
	1996		1997		1997		1998	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
PRO FORMA COMBINED:								
Revenues	$ 263,863	100.0%	$ 324,609	100.0%	$ 65,906	100.0%	$ 117,838	100.0%
Cost of services	191,879	72.7	234,336	72.2	48,609	73.8	89,410	75.9
Gross profit	71,984	27.3	90,273	27.8	17,297	26.2	28,428	24.1
Selling, general and administrative expenses	41,745	15.8	55,966	17.2	12,760	19.4	20,695	17.6
Goodwill amortization	3,495	1.3	3,593	1.1	874	1.3	1,170	1.0
Operating income	26,744	10.1	30,714	9.5	3,663	5.6	6,563	5.6
Other income (expense), net	(863)	(0.3)	(461)	(0.1)	(246)	(0.4)	(531)	(0.5)
Income before taxes	25,881	9.8	30,253	9.3	3,417	5.2	6,032	5.1
Provision for income taxes	11,077	--	12,721	--	1,420	--	2,654	--
Pro forma combined net income	$ 14,804	5.6%	$ 17,532	5.4%	$ 1,997	3.0%	$ 3,378	2.9%
Pro forma combined net income per share:								
Basic	$ 0.65		$ 0.72		$ 0.09		$ 0.12	
Diluted	$ 0.65		$ 0.72		$ 0.09		$ 0.12	
Shares used in computing pro forma combined net income per share:								
Basic	22,760		24,309		22,760		27,887	
Diluted	22,760		24,502		22,760		28,318	

THREE MONTHS ENDED MARCH 31, 1998 COMPARED TO THREE MONTHS ENDED MARCH 31, 1997

PRO FORMA COMBINED REVENUES.Pro forma combined revenues increased $51.9 million, or 78.8%, to $117.8 million for the first quarter of 1998. Revenues increased approximately 20% for the Founding Companies in the first quarter of 1998 primarily due to greater demand for specialized multi-unit installation services in Texas and in the Northeast, strong general activity in the Houston market and higher demand for industrial design and build operations in the Company's Tennessee-based operations. Revenues from the Purchased Companies acquired subsequent to the IPO through the end of the first quarter of 1998 contributed approximately 80% of the increase in revenues in the first quarter of 1998.

PRO FORMA COMBINED GROSS PROFIT. Pro forma combined gross profit increased $11.1 million, or 64.3%, to $28.4 million for the first quarter of 1998, primarily due to increased revenues at the Founding Companies, the addition of the Purchased Companies and incremental increases at some Pooled Companies.

As a percentage of revenues, pro forma combined gross profit decreased from 26.2% in the first quarter of 1997 to 24.1% in the first quarter of 1998 as a result of two principal factors. Acquisitions during the first quarter of 1998 included companies with significant amounts of project activity at gross margins that are somewhat lower than the Company's historical average. In addition, the Company continued to realize lower than normal gross margins on certain "design and build" installation projects which were undertaken as a strategic enhancement to the Company's portfolio of "design and build" projects.

PRO FORMA COMBINED SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A"). Pro forma combined SG&A, excluding goodwill amortization, increased $7.9 million, or 62.2%, to $20.7 million for the first quarter of 1998. The Company's establishment as a public company in 1997 resulted in $1.6 million of corporate office and management expenses in the first quarter of 1998, as compared to a pro forma charge of $0.2 million in the first quarter of 1997 to reflect the ongoing salaries received by corporate management as though those salaries were being paid prior to the IPO. The remaining increases in SG&A were due principally to the addition of the Purchased Companies. As a percentage of revenues, SG&A decreased from 19.4% to 17.6% in the first quarter of 1998 due to the Company's ability to increase revenues without a commensurate increase in SG&A.

PRO FORMA COMBINED OTHER INCOME (EXPENSE), NET. Pro forma combined other expense, net increased to $0.5 million primarily due to the increase in interest expense related to the acquisition of the Purchased Companies in 1998.

1997 COMPARED TO 1996

PRO FORMA COMBINED REVENUES.Pro forma combined revenues increased $60.7 million, or 23.0%, to $324.6 million for 1997. This increase includes $16.7 million for the Purchased Companies acquired in 1997 which are not included in the 1996 results. Excluding this amount, revenues increased 16.7% from 1996 to 1997 primarily because of (i) significant "design and build" projects in the Company's Phoenix operations for a new medical center and a semiconductor fabrication facility, (ii) broad growth in commercial and industrial "design and build" activities in the Tennessee operations, (iii) increased demand for the Company's services in the Grand Rapids, Michigan market, (iv) greater demand for specialized multi-unit installation services in Texas and the Northeast, and (v) increased demand for the Company's commercial service capabilities in the Cincinnati market.

PRO FORMA COMBINED GROSS PROFIT. Pro forma combined gross profit increased $18.3 million, or 25.4%, to $90.3 million for 1997, primarily due to increased sales volume. Gross profit from Purchased Companies, which were not included in 1996 results, accounted for approximately 4% of the pro forma combined gross profit in 1997. Pro forma combined gross profit as a percentage of revenues increased from 27.3% in 1996 to 27.8% in 1997. This increase in gross profit margin was primarily attributable to an overall improvement from the Company's operations in Mobile, Alabama, associated with its specialized "design and build" HVAC installation capabilities, and slightly higher gross margins resulting from the installation and service of commercial and industrial controls systems at two companies. These increases in gross profit margin were partially offset by lower than normal margins on certain "design and build" installation projects, which were undertaken as a strategic enhancement to the Company's portfolio of "design and build" projects.

PRO FORMA COMBINED SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Pro forma combined SG&A, excluding goodwill amortization and non-recurring acquisition related costs, increased $14.2 million, or 34.1%, to $56.0 million for 1997. Approximately $2.5 million of this increase was 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, which were not included 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 COMBINED OTHER INCOME (EXPENSE), NET. Pro forma combined other expense, net decreased due to the increase in interest income of $0.7 million resulting from the temporary investment of the unused net proceeds from the IPO.

HISTORICAL RESULTS OF OPERATIONS

The following historical consolidated financial information represents the operations of the Company restated for the effects of the Pooled Companies for all periods presented and the Founding Companies and Purchased Companies from their respective date of acquisitions. The historical financial statements of the Company have not been retroactively restated to give effect to the operations of certain of the Pooled Companies which are considered immaterial poolings. The following historical financial information for 1997 includes the non-recurring, non-cash Compensation Charge of $11.6 million recorded by the Company in the first quarter of 1997, as well as non-recurring acquisition-related costs, and reflects normal recurring corporate costs of the Company subsequent to the IPO. This Compensation Charge is not deductible for federal and state income taxes.

	YEAR ENDED DECEMBER 31, (IN THOUSANDS)						THREE MONTHS ENDED MARCH 31, (UNAUDITED)			
	1995		1996		1997		1997		1998	
HISTORICAL:										
Revenues	$ 65,167	100.0%	$ 96,296	100.0%	$ 237,709	100.0%	$ 26,401	100.0%	$ 117,838	100.0%
Cost of services	48,743	74.8	72,123	74.9	171,941	72.3	19,809	75.0	89,410	75.9
Gross profit	16,424	25.2	24,173	25.1	65,768	27.7	6,592	25.0	28,428	24.1
Selling, general and administrative expenses	14,707	22.6	19,097	19.8	59,386	25.0	19,486	73.8	20,695	17.6
Goodwill amortization	--	--	--	--	1,851	0.8	--	--	1,170	1.0
Operating income (loss)	1,717	2.6	5,076	5.3	4,531	1.9	(12,894)	(48.8)	6,563	5.6
Other income (expense), net	79	0.1	(69)	(0.1)	69	--	4	--	(531)	(0.5)
Income (loss) before taxes	1,796	2.7	5,007	5.2	4,600	1.9	(12,890)	(48.8)	6,032	5.1
Provision (benefit) for income taxes	503	--	1,417	--	7,430	--	(749)	--	2,654	--
Net income (loss)	$ 1,293	2.0%	$ 3,590	3.7%	$ (2,830)	(1.2)%	$ (12,141)	(46.0)%	$ 3,378	2.9%

THREE MONTHS ENDED MARCH 31, 1998 COMPARED TO THREE MONTHS ENDED MARCH 31, 1997

REVENUES. Revenues increased $91.4 million, or 346.3%, from $26.4 million for the three months ended March 31, 1997, to $117.8 million for the three months ended March 31, 1998. The increase in revenues was primarily due to the acquisition of the Founding Companies and Purchased Companies.

GROSS PROFIT. Gross profit increased $21.8 million, or 331.2%, from $6.6 million for the three months ended March 31, 1997 to $28.4 million for the three months ended March 31, 1998. This increase was primarily due to the acquisitions described above. As a percentage of revenues, gross profit decreased from 25.0% for the three months ended March 31, 1997 to 24.1% for the three months ended March 31, 1998, as a result of two principal factors. Acquisitions during the first quarter of 1998 included companies with significant amounts of project activity at gross margins somewhat lower than the Company's historical average. In addition, the Company continued to realize lower than normal gross margins on certain "design and build" installation projects which were undertaken as a strategic enhancement to the Company's portfolio of "design and build" projects.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. SG&A, excluding goodwill amortization, for the three months ended March 31, 1997 includes the $3.0 million Compensation Differential which will be eliminated prospectively. Additionally, the Company recorded the Compensation Charge of $11.6 million in the first quarter of 1997. Excluding the Compensation Differential, the

Compensation Charge and goodwill amortization, SG&A increased $15.7 million, to $20.7 million for the three months ended March 31, 1998. Most of this increase was related to the Founding Companies and Purchased Companies acquired since the IPO along with corporate office and management expenses associated with the Company's establishment as a public company.

OTHER INCOME (EXPENSE), NET Other expense, net increased to $0.5 million, primarily due to the increase in interest expense related to the acquisition of the Purchased Companies in 1998.

1997 COMPARED TO 1996

REVENUES. Revenues increased $141.4 million, or 146.9%, to $237.7 million for 1997. The acquisition of the Founding Companies on July 2, 1997, and the acquisition of the Purchased Companies in the second half of 1997, accounted for 88.2% of the 1997 increase in revenues. The remaining increase in revenues was 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%, to $65.8 million in 1997. The acquisition of the Founding Companies and Purchased Companies accounted for 81.5% of the increase. Gross profit as a percentage of revenues increased to 25.0% in 1997 from 19.8% in 1996 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 margin increase 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%, to $59.4 million for 1997. Approximately one-half of this increase was related to the acquisition of the Founding and Purchased Companies. Historical SG&A for 1997 included the non-recurring, non-cash Compensation Charge of $11.6 million recorded by the Company in the first quarter of 1997. The Company's establishment as a public company in 1997 resulted in $2.8 million of corporate office and management expenses in 1997, which were not included in 1996 as the Company was not yet public. Approximately $0.6 million of SG&A represented 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. SG&A in 1997 does not reflect the reduction in management compensation and benefits as a result of the acquisitions of the Pooled Companies.

1996 COMPARED TO 1995

REVENUES. Revenues increased $31.1 million, or 47.8%, to $96.3 million in 1996. Certain Pooled Companies that were not included in 1995 results of operations generated $12.3 million, or 39.5%, of the increase. The remaining increase in revenues was primarily attributable to increased demand for the Company's commercial service capabilities in the Memphis market and commercial installation service capabilities in the Mobile, Alabama market.

GROSS PROFIT. Gross Profit increased $7.7 million, or 47.2%, to $24.2 million for 1996. Certain Pooled Companies that were not included in 1995 results of operations generated $4.1 million, or 52.7%, of the increase. The remaining increase in gross profit was primarily a result of increased demand for the Company's commercial service capabilities 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 1996 from $14.7 million for 1995. Certain Pooled Companies representing $2.3 million, or 52.6%, of the increase was generated by Pooled Companies not included in 1995 results of operations. Most of the remaining increase was due to the 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 acquisition by the Company.

LIQUIDITY AND CAPITAL RESOURCES -- HISTORICAL

For the three months ended March 31, 1998, net cash used in operating activities was $4.0 million due to a decrease in accounts payable of $4.3 million and an increase in accounts receivables of $1.6 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 the three months ended March 31, 1997 was $1.1 million, primarily as a result of an increase in accounts payable.

Cash used in investing activities was $16.9 million for the three months ended March 31, 1998, primarily in connection with the acquisition of the Acquired Companies for $15.4 million, net of cash acquired. Cash flows used in investing activities for the three months ended March 31, 1997 was $0.4 million, primarily for additions to equipment.

Cash provided by financing activities for the three months ended March 31, 1998 was $12.0 million and was primarily attributable to the net borrowings of long-term debt. Net cash provided in financing activities for the three months ended March 31, 1997 was $0.5 million and was primarily attributable to borrowings of long-term debt.

At March 31, 1998, working capital was $64.8 million and total debt outstanding was $50.9 million.

Net cash used in operating activities was $1.7 million in 1997 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 as various Acquired Companies took advantage of the Company's newly-installed consolidated cash management system to receive cash discounts for early payments. Cash provided by operating activities was $3.3 million and $1.0 million, in 1996 and 1995, respectively, primarily as a result of net income for the years.

Cash used in investing activities was $57.5 million for 1997, primarily as a result of the acquisition of the Founding Companies and Purchased Companies for $54.1 million, net of cash acquired. Cash used in investing activities was $1.8 million and $0.7 million, in 1996 and 1995, respectively, primarily for additions to equipment.

Cash provided by financing activities for 1997 was $67.7 million and was primarily attributable to the $79.9 million of net proceeds received by the Company from the IPO, partially offset by a net reduction in debt of $10.7 million in the second half of 1997. Of these net proceeds, $45.3 million was used to pay the cash portion of the purchase prices for the Founding Companies. Net cash used in financing activities in 1996 was $0.8 million due to a net reduction in outstanding debt. Net cash provided by financing activities in 1995 was $1.1 million due to a net increase in outstanding debt of $1.3 million.

Subsequent to March 31, 1998, and through May 20, 1998, the Company completed the acquisition of 13 companies for approximately $29.6 million in cash, 1,495,648 shares of Common Stock and approximately $15.4 million in convertible subordinated notes. These acquisitions were accounted for as purchase transactions.

In July 1997, the Company entered into the Credit Facility with Bank One, Texas, N.A. which was amended and restated in September 1997 primarily to provide for additional banks to lend to the Company. The Credit Facility was further amended in April 1998 to increase borrowing capacity and to provide for additional banks to lend to the Company. The Credit Facility provides the Company with an unsecured revolving line of credit of $175 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. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate the London Interbank Offer Rate or LIBOR) plus 0.75 to 1.5 percentage points, depending on the ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") for the preceding twelve months. For purposes of this ratio, EBITDA may include the preceding twelve months' results for any companies acquired during the last year. In addition, commitment fees of 0.125% to 0.325% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the Credit Facility. 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 April 14, 2001, at which time, all amounts outstanding under the facility are due. As of December 31, 1997 and March 31, 1998, $15.3 million and $43.8 million, respectively, was outstanding under the Credit

Facility. As of May 20, 1998, $75.6 million was outstanding under the Credit Facility. The Company intends to reduce the balance outstanding under the Credit Facility with the net proceeds to the Company from this offering.

The Company intends to pursue additional acquisition opportunities, the cash portion of which will be financed with borrowings under the Credit Facility as well as cash flow from operations. The Company anticipates that 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 financing in addition to the Credit Facility through the public or private sale of equity or debt securities. There can be no assurance that the Company can secure such financing if and when needed, or that such financing will be available on terms the Company deems acceptable.

YEAR 2000

The Company is currently implementing a Year 2000 program to ensure that the Company's computer systems and applications will function properly beyond 1999. The Company expects its Year 2000 date conversion program will be successfully completed on a timely basis. There can, however, be no assurance that this will be the case. The Company does not expect to incur significant expenditures to address this issue. The ability of third parties with whom the Company transacts business to address adequately their Year 2000 issues is outside of the Company's control. There can be no assurance that the failure of the Company or such third parties to address adequately their respective Year 2000 issues will not have a material adverse effect on the Company's financial condition or results of operations.

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.

BUSINESS

The Company is a leading national provider of comprehensive HVAC installation and 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 manufacturing plants, office buildings, retail centers, apartment complexes, and healthcare, education 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 July 2, 1997, the Company completed the IPO and simultaneously acquired the 12 Founding Companies. These companies had locations in ten states and annualized revenues in 1996 of $167.5 million. Subsequent to the IPO and through May 20, 1998, the Company acquired 51 HVAC and complementary businesses. These Acquired Companies had locations in 13 additional states and annualized revenues of $420 million. These acquisitions included 12 "tuck-in" operations that have been or currently are being integrated with existing Company locations.

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 circulating fresh air in such buildings. 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 consider replacement of older systems.

Growth in the HVAC industry is being positively affected by a number of factors, particularly (i) the growth or aging of the installed base, (ii) the increasing efficiency, sophistication and complexity of HVAC systems and (iii) the increasing standards relating to indoor air quality, and the reduction or elimination of the 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 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 its 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 a majority of 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 growth and 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 increase attention to maintenance and 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 operating strategy that emphasizes continued internal growth and expansion through acquisitions.

OPERATING STRATEGY. The key elements of the Company's strategy for improving operations 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 to capitalize on existing knowledge of local and regional markets and on customer relationships.

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 has begun and will continue 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. The Company has national purchasing agreements with two principal manufacturers of HVAC equipment and with various other suppliers and service providers. Moreover, the Company has commenced reviewing its operations at the local and regional operating levels to identify those "best practices" that can be successfully implemented throughout its operations.

ATTRACT AND RETAIN QUALITY EMPLOYEES. The Company seeks to attract and retain 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. Most of the Acquired Companies began participating in the Company's national insurance benefits program on May 1, 1998, which provides a better benefits package for most employees.

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. As examples, the Company has utilized the technical expertise and corresponding customer relationships from certain Acquired Companies to obtain new assignments for other Acquired Companies involving work for a national private corrections company, a large, recognized hotel chain and a major auto parts distributor. 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 services.

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 regional and 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. As examples, the Company has combined resources of certain of its Acquired Companies to obtain multi-location service agreements for category superstore retailers in Colorado and in the Mid-Atlantic states, as well as for a major telecommunications company in Ohio. In addition, the Company has initiated two joint marketing and service alliances involving regional energy utilities and certain of its Acquired Companies. Under these alliances, the Acquired Companies and the energy utilities jointly market and provide products and services to residential and commercial customers that are intended to improve HVAC system energy efficiency and overall performance. The Company is pursuing similar alliance opportunities elsewhere in the country.

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

ENTER NEW GEOGRAPHIC MARKETS. In new markets, the Company targets one or more leading local or regional companies providing HVAC services with the customer base, technical skills and infrastructure necessary to be a core business into which other HVAC and/or complementary 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 a strong management team. Since the IPO, the Company has expanded its locations from 10 to 23 states.

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. Through May 20, 1998, the Company has acquired 12 businesses that have been or currently are being integrated into existing operations.

ACQUIRE COMPLEMENTARY BUSINESSES. The Company opportunistically acquires companies providing complementary services to the same customer base, such as commercial and industrial control systems, electrical and plumbing services. This is intended to enable the Company to offer, on a comprehensive basis and from a single provider, HVAC, mechanical and electrical services in selected markets.

ACQUISITION PROGRAM

The Company believes it is regarded by acquisition candidates as an attractive acquirer because of (i) the Company's strategy of becoming 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 typically 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 AND 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 the Acquired Companies to increase focus on pursuing new business opportunities and improving operating efficiencies. Administrative functions which the Company has begun to centralize include Company-wide training and safety programs, insurance programs, cash management programs, purchasing programs and employee benefits programs.

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 manufacturing plants, office buildings, retail centers, apartment complexes, and health care, education 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 and 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 guaranteeing the Company a supply of raw materials or components.

SALES AND MARKETING

The Company has a diverse customer base, with no single customer accounting for more than 5% 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 will be available to the Company as a regional or 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 April 30, 1998, the Company had 4,591 employees, including 267 management personnel, 3,627 engineers and service and installation technicians, 187 sales personnel and 510 administrative personnel. As it executes its internal growth and acquisition strategies, the Company expects the number of employees to increase. Certain of the Acquired Companies have collective bargaining agreements that cover, in the aggregate, approximately 552 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 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, the Company 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. Additionally, the Company intends to implement a "best practices"safety program to 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. 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.

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 its 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 HVAC systems and pass through to the customer manufacturers' warranties on equipment. The Company's subsidiaries generally warrant labor for 30 days after servicing existing HVAC 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, several public companies focused on providing HVAC services in some of the same service lines provided by the Company. In addition, there are several private companies attempting to consolidate HVAC companies on a regional or national basis. Also, some HVAC equipment manufacturers and public utilities are active in the maintenance, repair and replacement segment of the HVAC industry. 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.

FACILITIES AND VEHICLES

All of the Company's facilities are leased. The Acquired Companies collectively lease offices, warehouses and shop facilities at their various locations. Leased premises range in size from 500 square feet to over 50,000 square feet. The Company believes that its facilities are sufficient for its current needs.

The Company operates a fleet of various owned or leased service trucks, vans and support vehicles. The Company believes that these vehicles generally are well-maintained and adequate for its current operations. The Company expects it will be able to purchase vehicles at lower prices due to its increased purchasing volume.

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.

MANAGEMENT

DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The following table sets forth information concerning the Company's directors, executive officers and key employees.

NAME	AGE	POSITION
Fred M. Ferreira	55	Chairman of the Board, Chief Executive Officer and President
Michael Nothum, Jr.	43	Executive Vice President, Chief Operating Officer and Director
J. Gordon Beittenmiller	39	Executive Vice President, Chief Financial Officer and Director
Reagan S. Busbee	34	Senior Vice President
William George, III	33	Senior Vice President, General Counsel and Secretary
Brian S. Atlas	46	Chief Executive Officer of Atlas Comfort Services USA, Inc. and Director
Thomas J. Beaty	44	President of Accurate Air Systems, Inc., and Director
Robert R. Cook	43	President of Tech Heating and Air Conditioning, Inc., and Director
Alfred J. Giardenelli, Jr.	50	President of Eastern Heating & Cooling, Inc. and Director
Salvatore P. Giardina	48	Treasurer of F&G Mechanical Corporation and Director
Steven S. Harter	35	Director
Charles W. Klapperich	51	President of Western Building Services, Inc. and Director
Samuel M. Lawrence, III	46	Chief Executive Officer of S. M. Lawrence Company Inc. and Director
Larry Martin	56	Director
John Mercadante, Jr.	53	Director
John C. Phillips	56	President of Contract Service, Inc. and Director
Robert J. Powers	58	President of Quality Air Heating & Cooling, Inc. and Director

Fred M. Ferreira has served as Chief Executive Officer and President of the Company since January 1997, has been a director of the Company since March 1997 and has been Chairman of the Board and a Class I director since the IPO. Mr. Ferreira was responsible for introducing the consolidation opportunity in the commercial and industrial HVAC industry to Notre and was primarily responsible for the organization of the Company. 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. Mr. Ferreira also serves as a director of LandCARE USA, Inc.

Michael Nothum, Jr. has been a Class II director of the Company since the IPO and became its Chief Operating Officer and Executive Vice President in January 1998. He has been employed by Tri-City Mechanical, Inc., a wholly-owned subsidiary of the Company, since 1979, serving as President since 1992.

J. Gordon Beittenmiller has served as Senior Vice President and Chief Financial Officer of the Company since February 1997, as Treasurer, Assistant Secretary and director since March 1997 and has been a Class II director since the IPO. 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 has served as Senior Vice President of the Company 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 was a certified public accountant with Arthur Andersen LLP.

William George, III has served as Vice President, General Counsel and Secretary of the Company since March 1997. From October 1995 to February 1997, Mr. George was a 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 antirtrust law at Ropes & Gray, a law firm.

Brian S. Atlas has been a Class I director of the Company since the IPO. Since 1974, he has been employed by Atlas Comfort Services USA Inc., a wholly-owned subsidiary of the Company, serving as its Chief Executive Officer since 1983.

Thomas J. Beaty has been a Class II director of the Company since the IPO. He founded and has served as President of Accurate Air Systems, Inc., a wholly-owned subsidiary of the Company, since 1980.

Robert R. Cook has been a Class I director of the Company since the IPO. He founded and has served as President of Tech Heating and Air Conditioning, Inc., a wholly-owned subsidiary of the Company, since 1979.

Alfred J. Giardenelli, Jr. has been a Class III director of the Company since the IPO. He has been the President of Eastern Heating & Cooling, Inc., a wholly-owned subsidiary of the Company, since 1982.

Salvatore P. Giardina has been a Class III director of the Company since February 1998. He has been the Treasurer of F & G Mechanical Corporation, a wholly-owned subsidiary of the Company, and its predecessor in interest, since 1976.

Steven S. Harter has been a director of the Company since December 1996 and is the director (Class III) elected by the holders of the Restricted Common Stock. Mr. Harter is President of Notre, a consolidator of highly fragmented industries. Prior to becoming President of Notre, Mr. Harter was Senior Vice President of Notre Capital Ventures, Ltd. ("Notre I") from June 1993 through July 1995. From April 1989 to June 1993, Mr. Harter was Director of Mergers and Acquisitions for Allwaste. From May 1984 to April 1989, Mr. Harter was a certified public accountant with Arthur Anderson LLP. Mr. Harter also serves as a director of Coach USA, Inc., Metals USA, Inc. and HomeUSA, Inc.

Charles W. Klapperich has been a Class I director of the Company since the IPO. He founded and has served as President of Western Building Services, Inc., a wholly-owned subsidiary of the Company, since 1980.

Samuel M. Lawrence III has been a Class III director of the Company since the IPO. He has been employed by S. M. Lawrence Company, Inc., a wholly-owned subsidiary of the Company, since 1977, serving as its Chairman and Chief Executive Officer since 1992.

Larry Martin has been a Class II director of the Company since the IPO. Mr. Martin, a co-founder of Sanifill, Inc., an environmental service provider ("Sanifill"), has served as its President and Co-Chief Executive Officer since October 1989. Prior to that time, Mr. Martin served in various positions in the environmental services and contracting industries. Mr. Martin currently serves on the Board of Directors of USA Waste Services, Inc., an environmental services company.

John Mercadante, Jr. has been a Class I director of the Company since the IPO. Mr. Mercadante co-founded Leisure Time Tours, Inc. in 1970 and was President of Cape Transit Corp., both of which are motor coach companies that were acquired by Coach USA, Inc. ("Coach") at the time of Coach's initial public offering in May 1996. Mr. Mercadante has served as President and a director of Coach since its initial public offering.

John C. Phillips has been a Class II director of the Company since the IPO. He co-founded Contract Service, Inc., a wholly-owned subsidiary of the Company, in 1969, serving as President and General Manager since 1969.

Robert J. Powers has been a Class III director of the Company since the IPO. He has been employed by Quality Air Heating & Cooling, Inc., a wholly-owned subsidiary of the Company, since 1977, serving as its President since 1988.

The Board of Directors is divided into Class I, Class II and Class III, each of which is composed of five directors serving staggered three-year terms, expiring at the annual meeting of stockholders in 1998, 1999 and 2000, respectively. At each annual meeting of stockholders, one class of directors will be elected for a full term of three years to succeed that class of directors whose terms are expiring. All officers serve at the discretion of the Board of Directors.

The Board of Directors has established an Audit Committee, a Compensation Committee, an Acquisition Committee, a Small Acquisitions Committee and an Executive Committee. The members of the Audit Committee and the Compensation Committee are Messrs. Harter, Mercadante and Martin. The members of the Acquisitions Committee are Messrs. Ferreira, Atlas, Beittenmiller, Harter and Lawrence, and of the Small Acquisitions Committee are Messrs. Ferreira, Atlas and Harter. The members of the Executive Committee are Messrs. Ferreira, Beittenmiller, Powers, Mercadante and Nothum.

DIRECTORS' COMPENSATION

Directors who are also employees of the Company or one of its subsidiaries do not receive additional compensation for serving as directors. Each director who is not an employee of the Company or one of its subsidiaries receives a fee of $2,000 for attendance at each Board of Directors meeting and $1,000 for each committee meeting (unless held on the same day as a Board of Directors meeting). Directors are also reimbursed for out-of-pocket expenses incurred in attending meetings of the Board of Directors or committees thereof.

In addition, the Company's 1997 Non-Employee Directors' Stock Plan (the "Directors' Plan"), which was adopted by the Board of Directors and approved by the Company's stockholders in March 1997, provides for (i) the automatic grant to each non-employee director serving at the consummation of the Company's IPO of an option to purchase 10,000 shares, (ii) the automatic grant to each non-employee director of an option to purchase 10,000 shares upon such person's initial election as a director and (iii) an automatic annual grant to each non-employee director of an option to purchase 5,000 shares at each annual meeting of stockholders thereafter at which such director is re-elected or remains a director, unless such annual meeting is held within three months of such person's initial election as a director. All options have an exercise price per share equal to the fair market value of the Common Stock on the date of grant and are immediately vested and expire on the earlier of ten years from the date of grant or one year after termination of service as a director. The Directors' Plan also permits non-employee directors to elect to receive, in lieu of cash directors' fees, shares or credits representing "deferred shares" at future settlement dates, as selected by the director. The number of shares or deferred shares received will equal the number of shares of Common Stock which, at the date the fees would otherwise be payable, will have an aggregate fair market value equal to the amount of such fees. A total of 250,000 shares of Common Stock are available for awards under the Directors' Stock Plan.

COMPENSATION OF EXECUTIVE OFFICERS

The following tables set forth information with respect to compensation paid to or accrued on behalf of the Chief Executive Officer and the four other most highly-paid executive officers of the Company in 1997 (the "Named Executive Officers") beginning on June 27, 1997 in connection with the IPO, unless otherwise noted.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY(1)	ANNUAL COMPENSATION OTHER(2)	LONG TERM COMPENSATION AWARDS SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION(3)
Fred M. Ferreira........................ Chairman of the Board, Chief Executive Officer and President	1997	$ 76,154	--	200,000	--
Michael Nothum, Jr...................... Chief Operating Officer, Executive Vice President and Director	1997	$ 76,154	$ 4,500	25,000	$ 900
J. Gordon Beittenmiller................. Senior Vice President, Chief Financial Officer, Treasurer and Director	1997	$ 76,154	--	100,000	--
Reagan S. Busbee........................ Senior Vice President	1997	$ 63,462	--	100,000	--
William George, III..................... Vice President and General Counsel	1997	$ 76,154	$ 31,000	75,000	--

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(1) Annual base salary in 1997 was $150,000 for each of the Named Executive Officers except for Mr. Busbee, whose base salary was $125,000.

(2) Reflects an automobile allowance of $750 per month for Mr. Nothum and partial reimbursement of relocation expenses for Mr. George prior to the IPO.

(3) Reflects matching contributions under a 401(K) plan.

1997 LONG-TERM INCENTIVE PLAN

No stock options were granted to, or exercised by or held by any executive officer in 1996. In March 1997, the Board of Directors and the Company's stockholders approved the Company's 1997 Long-Term Incentive Plan (the "Plan"). The purpose of the Plan is to provide directors, officers, key employees, consultants and other service providers with additional incentives by increasing their ownership interests in the Company. Individual awards under the Plan may take the form of one or more of: (i) either incentive stock options ("ISOs") or non-qualified stock options ("NQSOs"), (ii) stock appreciation rights ("SARs"), (iii) restricted or deferred stock, (iv) dividend equivalents and (v) other awards not otherwise provided for, the value of which is based in whole or in part upon the value of the Common Stock.

The Compensation Committee administers the Plan and selects the individuals who will receive awards and establish the terms and conditions of those awards. The maximum number of shares of Common Stock that may be subject to outstanding awards, determined immediately after the grant of any award, may not exceed the greater of 2,500,000 shares or 13% of the aggregate number of shares of Common Stock outstanding. Shares of Common Stock which are attributable to awards which have expired, terminated or been canceled or forfeited are available for issuance or use in connection with future awards.

The Plan will remain in effect until terminated by the Board of Directors. The Plan may be amended by the Board of Directors without the consent of the stockholders of the Company, except that any amendment, although effective when made, will be subject to stockholder approval if required by any Federal or state law or regulation or by the rules of any stock exchange or automated quotation system on which the Common Stock may then be listed or quoted.

At the closing of the IPO, NQSOs to purchase a total of 500,000 shares of Common Stock were granted as follows: 200,000 shares to Mr. Ferreira, 100,000 shares to Mr. Beittenmiller, 100,000 shares to Mr. Busbee, 75,000 shares to Mr. George and 25,000 shares to Mr. Nothum. In addition, options to purchase 3,067,638 shares have been granted to certain other employees of the Company. Each of the foregoing options has an exercise price equal to either the IPO price or the public market price on the date of grant. These options will vest at the rate of 20% per year, commencing on the first anniversary of the date of grant and will expire at the earlier of seven years from the date of grant or three months following termination of employment.

EMPLOYEE STOCK PURCHASE PLAN

On September 18, 1997, the Board of Directors approved, subject to stockholder approval, the 1998 Employee Stock Purchase Plan (the "Purchase Plan"). The purpose of the Purchase Plan is to provide a convenient way for employees to become stockholders of the Company and to align their interests more closely with those of the stockholders. The maximum number of shares of Common Stock available for issuance under the Purchase Plan is 300,000 (subject to adjustment for stock splits and similar changes). The Purchase Plan is designed to enable eligible employees to purchase shares of Common Stock at a discount through payroll deductions. As of January 15, 1998, the deadline to enroll for participation during the first option period, there were approximately 250 employees enrolled in the Purchase Plan, and approximately 3,000 employees were eligible to participate in the Purchase Plan.

Purchases occur twice a year at the end of six-month option periods which begin February 1, and August 1 of each year. The first option period under which participants could register to purchase shares commenced February 1, 1998 and shares will not actually be eligible for purchase under the Purchase Plan until July 31, 1998, the last day of the first option period. The purchase price for Common Stock under the Purchase Plan is 85% of the lesser of the fair market value of the Common Stock on the first day of the option period and the fair market value of the Common Stock on the last day of the option period. The Purchase Plan permits eligible employees to purchase up to 2,000 shares of Common Stock in any six-month option period through payroll deductions, which may be equal to 2% to 8% of the participant's total compensation for that period and may not be less than $10.00 per payroll period nor more than $2,000 during any option period. In no event may a participant be granted options to purchase Common Stock under the Purchase Plan which would allow the fair market value (determined on the first day of the current option period) of total options exercisable and Common Stock purchased during a calendar year under the Purchase Plan and any other qualified employee stock purchase plan of the Company and its subsidiaries to exceed $25,000. Payroll deductions are held in book accounts for each participant and do not accrue interest.

Participants who are directors, executive officers or 10% or more stockholders of the Company are subject to special requirements set forth in the Purchase Plan concerning their participation. No executive officer or non-executive director has elected to participate in the Purchase Plan. The Committee has the right to amend or modify the Purchase Plan in its sole discretion, except that the Committee cannot make changes that would affect grants already made (unless required by law) and it cannot materially change eligibility requirements, change the definition of employer, increase the number of shares subject to options or materially increase the benefits to participants under the Purchase Plan without prior stockholder approval. The Purchase Plan may be terminated at any time in the sole and absolute discretion of the Committee and must be terminated by the Committee at any time the number of shares of Common Stock authorized for purposes of the Purchase Plan is not sufficient to meet all purchase requirements, unless a pro rata allocation can be made in accordance with the terms of the Purchase Plan.

EMPLOYMENT AGREEMENTS; COVENANTS NOT TO COMPETE; CHANGE OF CONTROL; INDEMNIFICATION

On June 27, 1997, each of Messrs. Ferreira, Beittenmiller, George and Busbee entered into an employment agreement with the Company providing for an annual base salary of $150,000, except for Mr. Busbee, whose annual base salary is $125,000. Each employment agreement is for a term of three years, and unless terminated or not renewed by the Company or not renewed by the employee, the term will continue thereafter on a year-to-year basis on the same terms and conditions existing at the time of renewal. The agreement provides that, in the event of a termination of employment by the Company without cause, the employee will be entitled to receive from the Company an amount equal to the greater of salary for the remaining term or one year's salary, payable in one lump sum on the effective date of termination. In the event of a change in control of the Company (as defined in the employment agreement) during the initial three-year term, if the employee is not given at least five days' notice of the successor's intent to continue the employee's employment after such change in control, the employee may elect to terminate his employment and receive in one lump sum three times the amount he would receive pursuant to a termination without cause during such initial term. The non-competition provisions of the employment agreement do not apply to a termination without such notice. In the event the employee is given at least five days' notice of the successor's intent to continue the employee's employment after such change in control, the employee may elect to terminate his employment and receive in one lump sum two times the amount he would receive pursuant to a termination without cause during such initial term. In such event, the non-competition provisions of the employment agreement would apply for two years from the effective date of termination. Each employment agreement contains a covenant not to compete with the Company for two years immediately following termination of employment or, in the case of a termination by the Company without cause in the absence of a change in control, for a period of one year following termination of employment.

On June 27, 1997, Mr. Nothum entered into an employment agreement providing for an annual base salary of $150,000. His employment agreement is for a term of five years, and unless terminated or not renewed, the term will continue thereafter on a year-to-year basis on the same terms and conditions existing at the time of renewal. The agreement provides that, in the event of a termination of employment by the Founding Company without cause during the first three years of the employment term (the "Initial Term"), the employee will be entitled to receive from the Founding Company an amount equal to his then current salary for the remainder of the Initial Term or for one year, whichever is greater. In the event of a termination of employment with cause during the final two years of the initial five-year term of the employment agreement, the employee will be entitled to receive an amount equal to his then current salary for one year. In either case, payment is due in one lump sum on the effective date of termination. Mr. Nothum's employment agreement also contains change of control and competition provisions identical to those described above.

Each executive officer and director of the Company who was in office at the time of the IPO has entered into an Indemnification Agreement with the Company whereby the Company indemnifies each against actions taken in good faith on behalf of the Company.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning the grant of stock options during the last fiscal year to each of the Named Executive Officers. No stock appreciation rights were granted during the last fiscal year.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(2)	
					5%	10%
Fred M. Ferreira.....................	200,000	7.9%	$ 13.00	6/27/04	$1,060,000	$2,468,000
Michael Nothum, Jr.	25,000	1.0%	13.00	6/27/04	132,500	308,500
J. Gordon Beittenmiller..............	100,000	4.0%	13.00	6/27/04	530,000	1,234,000
Reagan S. Busbee.....................	100,000	4.0%	13.00	6/27/04	530,000	1,234,000
William George, III..................	75,000	3.0%	13.00	6/27/04	397,500	925,500

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(1) All of these stock options, which were granted pursuant to the Company's 1997 Long Term Incentive Plan, were granted at the fair market value of the underlying option shares on the date of grant.

(2) The dollar amounts under these columns are the result of calculations at the 5% and 10% annual appreciation rates set by the Securities and Exchange Commission for illustrative purposes and are not intended to forecast future financial performance or possible future appreciation in the price of the Company's common shares.

OPTION EXERCISES IN LAST FISCAL YEAR

The following table sets forth information concerning the fiscal year-end value of unexercised stock options held by the Named Executive Officers during the last fiscal year. There were no option exercises by Named Executive Officers during 1997.

AGGREGATED FISCAL YEAR-END OPTION VALUES

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END(1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Fred M. Ferreira.....................	--	200,000	$--	$ 1,350,000
Michael Nothum, Jr.	--	25,000	--	168,750
J. Gordon Beittenmiller..............	--	100,000	--	675,000
Reagan S. Busbee.....................	--	100,000	--	675,000
William George, III..................	--	75,000	--	506,250

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(1) These numbers are based upon the fair market value of one share of the Company's Common Stock on December 31, 1997 ($19.75), less the exercise price of in-the-money options at the end of 1997.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Harter, Mercadante and Martin, none of whom is or was an executive officer or employee of the Company during 1997, other than Mr. Harter who served as President of the Company for the first six days of January 1997 when the Company had no operations, served on the Compensation Committee during 1997. Mr. Harter is a member of the Coach USA, Inc. compensation committee of its Board of Directors, and Mr. Mercadante is an executive officer of that company.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ORGANIZATION OF THE COMPANY

In connection with the formation of the Company, the Company issued to Notre a total of 2,969,912 shares of Common Stock for an aggregate cash consideration of $29,699. Mr. Harter is the President of Notre and a director of the Company. In March 1997, Notre exchanged 2,742,912 shares of Common Stock for an equal number of shares of Restricted Common Stock. Notre advanced $2.0 million to provide funds necessary to effect the acquisition of the Founding Companies and the IPO. All of Notre's advances were repaid from the net proceeds of the IPO.

In January and February 1997, the Company issued a total 786,435 shares of Common Stock at $.01 per share to various executive officers, as follows: Mr. Ferreira -- 479,435 shares, Mr. Beittenmiller -- 116,000 shares, Mr. Busbee -- 116,000 shares and Mr. George -- 75,000 shares. The Company also granted options to purchase 10,000 shares of Common Stock under the Directors' Plan, effective upon the consummation of the IPO, to Mr. Harter, a director of the Company, and to Messrs. Mercadante and Martin, who became directors of the Company upon the closing of the IPO.

The Company sold 7,015,000 shares of Common Stock at a price of $13.00 per share in its IPO. Proceeds from the IPO were used by the Company to acquire the Founding Companies: Accurate Air Systems, Inc., a Texas corporation ("Accurate"), Atlas Comfort Services USA, Inc., a Texas corporation ("Atlas"), Contract Service, Inc., a Utah corporation ("CSI/Bonneville"), Eastern Heating & Cooling, Inc., a New York corporation ("Eastern"), Freeway Heating & Air Conditioning Inc., a Utah corporation ("Freeway"), Quality Air Heating & Cooling, Inc., a Michigan corporation ("Quality"), S.M. Lawrence Company, Inc., a Tennessee corporation ("Lawrence"), Seasonair, Inc., a Maryland corporation ("Seasonair"), Standard Heating & Air Conditioning Company, an Alabama corporation ("Standard"), Tech Heating and Air Conditioning, Inc., an Ohio corporation ("Tech"), Tri-City Mechanical, Inc., an Arizona corporation ("Tri-City"), and Western Building Services, Inc., a Colorado corporation ("Western"). The aggregate consideration paid by the Company in these acquisitions consisted of $45.3 million in cash and 9,720,927 shares of Common Stock. In addition, Accurate distributed to Thomas J. Beaty real property having a net book value of approximately $370,000.

The following table sets forth the consideration paid and total debt assumed by the Company in the Mergers for each of the Founding Companies:

FOUNDING COMPANY	CASH	SHARES OF COMMON STOCK	TOTAL DEBT
	(DOLLARS IN THOUSANDS)		(DOLLARS IN THOUSANDS)
Quality	$ 10,082	2,207,158	$ 7,389
Tri-City	8,680	1,557,962	3,500
Atlas	6,864	1,432,000	1,776
Lawrence	4,500	1,197,796	300
Tech	3,997	717,408	1,906
Accurate	3,145	564,537	985
CSI/Bonneville	1,813	493,672	1,385
Western	2,022	362,939	777
Freeway	1,039	319,698	203
Seasonair	1,516	272,084	154
Standard	947	291,457	433
Eastern	698	304,216	1,603
Total	$ 45,303	9,720,927	$ 20,411

Additionally, prior to their acquisition, the Founding Companies which were C Corporations, except Atlas, made interim earnings distributions to their stockholders of $1.5 million.

As consideration for their interests in the Founding Companies, certain officers, directors, key employees and holders of more than 5% of the outstanding shares of the Common Stock of the Company, together with their spouses and trusts for which they act as trustees, received cash and shares of Common Stock of the Company as follows:

NAME	CASH	SHARES OF COMMON STOCK
	(DOLLARS IN THOUSANDS)	
Robert J. Powers	$ 8,143	1,461,496
Michael Nothum, Jr	4,236	760,287
Robert R. Cook	3,997	717,408
Brian S. Atlas	3,432	716,000
Thomas J. Beaty	3,145	564,537
John C. Phillips	1,310	403,305
Samuel M. Lawrence III	1,031	317,307
Alfred J. Giardenelli, Jr	698	304,216
Charles W. Klapperich	1,423	255,401

Pursuant to the agreements entered into in connection with these acquisitions, the stockholders of the Founding Companies have agreed not to compete with the Company for five years, commencing on the date of consummation of the IPO.

LEASES OF REAL PROPERTY BY ACQUIRED COMPANIES

Atlas leases its office space in Houston, Texas, as well as single family residences located in Austin, Texas, Phoenix, Arizona, and Antioch, Tennessee. These properties are owned by M & B Interest, Inc. ("M & B"), a corporation wholly owned by Mr. Brian S. Atlas, who is a director of the Company, and his brother, Mr. Michael Atlas. The real property in Houston consists of an office and warehouse facility recently constructed by M & B, which Atlas leases from M & B for a current rental of $212,160, increasing annually. The lease expires September 1, 2017 but has options to renew. The three single family residences are leased on a month-to-month basis, at an annual aggregate rental of $36,780. The Company believes that the rent for these properties does not exceed fair market value.

Tri-City has entered into an agreement with a limited liability corporation owned by Mr. Nothum, Jr., who is Chief Operating Officer and a director of the Company, and his father to lease office, operations and warehouse facilities for a ten year term at annual rental of $530,100. Tri-City provides liability insurance on the property and is responsible for any increase in real property taxes due to its improvement of the leased property. The lease will expire in April 2007. During construction of the new facility, Tri-City performed HVAC installation at prices comparable to those charged to other customers. The Company believes that the rent for these properties does not and will not exceed fair market value.

Lawrence leases its office space, warehouse and fabrication facility in Jackson, Tennessee from the father of Mr. Lawrence, who is Lawrence's Chief Executive Officer and a director of the Company. The lease expired on December 31, 1998 and provides for an annual rental of $125,100 and the Company continues to lease the property on the same terms. Additionally, Lawrence provides liability insurance on the property and pays ad valorem taxes, utilities and maintenance costs. The Company believes that the rent for this property does not exceed fair market value.

Accurate leases two parcels of real property in Houston, Texas owned by Mr. Beaty, who is a director of the Company. One of the leased premises is used by Accurate for office and warehouse space. The lease on one of these premises expires on June 30, 2002 and provides for an annual rental of $38,000. The other leased premise is used by Accurate as a sheet metal shop under a lease dated July 1, 1997, that will expire on June 30, 2002 and that provides for an annual rental of $46,700. The rental rate on these premises in subsequent years of the lease term will be adjusted in accordance with the Consumer Price Index. Additionally, Accurate will pay all utility, taxes and insurance costs on both leased premises. Accurate has options to renew each lease for two additional five-year terms. The Company believes that the rent for both properties does not and will not exceed fair market value. Accurate previously owned the property it uses for its sheet metal shop. Prior to its acquisition, Accurate distributed this property having a net book value of approximately $370,000 to Mr. Beaty.

Eastern leases its office and warehouse space in Albany, New York from 60 Loudonville Road Associates ("Loudonville"), a partnership of Mr. Giardenelli, who is a director of the Company, and his brother. The lease provides for annual rental of $55,000 and payment by Eastern of taxes, maintenance, repairs, utilities and insurance costs on the leased premises. The Company believes that the rent for this property does not exceed the fair market value. The lease expires on December 31, 1999. Prior to expiration, however, Eastern intends to enter into a 10-year lease with Loudonville for a new building and to 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 an appraisal.

CSI/Bonneville leases its offices and warehouse space in Salt Lake Valley, Utah from J & J Investments, a joint venture partly owned by Mr. Phillips, who is a director of the Company. This lease expires on February 28, 2002 and provides for an annual rental in 1997 of $120,720, increasing annually by 5%. CSI/Bonneville is responsible for ad valorem taxes, maintenance, insurance and third-party management costs related thereto. CSI/Bonneville has options to renew the lease for two additional five-year terms at a fair market value determined by an appraisal. The Company believes that the rent for this property does not exceed fair market value.

Tech leases its office space in Solon, Ohio from Mr. Cook, who is a director of the Company. The lease expires on April 2, 2000, and provides for an annual rental of $84,000. Tech is responsible for its utility costs, 15% of common utility costs and 50% of the landlord's costs of servicing and maintaining the premises and providing comprehensive liability insurance for the leased premises. The Company believes that the rent for such property does not exceed fair market value.

During 1997, Quality leased its warehouse facility in Grand Rapids, Michigan from Mr. Powers, who is a director of the Company. Construction of the warehouse facility was financed with the proceeds of a public bond issue. The lease expires on April 30, 2005, and provides for an annual rental of the greater of $216,000 or Mr. Powers' costs for the leased warehouse, including bond debt service or mortgage payments, utilities, insurance, ad valorem taxes, maintenance and repairs. Quality has an option to renew the lease for one additional three-year term on the same terms. The Company believes that the rent for such property does not exceed fair market value. Quality 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 Mr. Powers, the proceeds of which were used to fund the construction of Quality's leased warehouse facility and a second adjacent warehouse. After the IPO, these bonds were repaid. In December 1997, Mr. Power sold his interest in the leased facility to a third party, and at that time Quality entered into a new lease for the premises which reduced Quality's cost for the premises.

F&G Mechanical Corporation, a Delaware corporation ("F&G") which is a wholly-owned subsidiary of the Company, leases its office and warehouse space in Secaucus, New Jersey from Salpat Realty, Inc., a corporation which is owned in part by Mr. Giardina. The lease expires on December 31, 2002, and provides for an annual rental of $146,790. F&G is responsible for ad valorem taxes, maintenance and insurance related thereto. The Company believes that the rent for such property does not exceed fair market value.

The Company has adopted a policy that, whenever possible, it will not own any real estate. Accordingly, in connection with future acquisitions, the Company may require the distribution of real property owned by acquired companies to their stockholders and the leaseback of such property at fair market value.

OTHER TRANSACTIONS

Atlas was the obligor on two promissory notes payable to Brian Atlas, who is a director of the Company and his brother, Michael Atlas, in the outstanding principal amount of $63,537 to each, providing for aggregate monthly installments of $4,812, including interest at the rate of 10%, though June 1999. Shortly after the IPO the Company paid all such indebtedness.

On October 31, 1996, Lawrence loaned $75,000 to Charles Lawrence at an interest rate of 8%. This note was payable on demand or October 31, 2001, and was repaid shortly following the IPO. Charles Lawrence is a brother of Samuel M. Lawrence III, who is a director of the Company.

On December 27, 1996, Accurate borrowed $630,000 from Mr. Beaty, who is a director of the Company. Interest was payable monthly at the rate of 9% on the outstanding balance. The note matured on June 30, 1997 and was repaid at that time.

CSI/Bonneville owed Mr. Phillips, who is a director of the Company, and another stockholder of CSI/Bonneville $424,000 and $105,000, respectively. Two of the promissory notes, payable to Mr. Phillips and the other stockholder, are in the principal amount of $80,000 and $20,000, respectively, and are payable on demand. The remaining eight promissory notes are each payable ten years from the date of the note, and mature at various times from 2002 to 2006. All of the notes bear interest at 10%, with interest payable monthly and principal payable at maturity. In 1996, CSI/Bonneville made interest payments to Mr. Phillips and the other stockholders in the amount of $35,000 and $6,000, respectively. After the IPO, the Company paid all such indebtedness.

During 1996, Mr. Klapperich, who is a director of the Company, received advances from Western aggregating $173,500. On December 31, 1996, Western credited against this amount a portion of a dividend payable in the amount of $210,315, discharging the indebtedness of Mr. Klapperich to Western.

The Company paid an aggregate of $150,000 of the legal fees incurred by the owners of the Founding Companies in connection with the acquisition of their companies.

Prior to its purchase by the Company, F&G had advanced an aggregate of $5.6 million to Sorce Properties LLC, a corporation that is owned in part by Mr. Giardina, who is a director of the Company. At the time of the acquisition of F&G, Sorce Properties LLC agreed that it would repay the debt within three years, and Mr. Giardina pledged to F&G 180,262 shares of Company Common Stock received in the transaction, as part of a pledge of an aggregate total of 360,524 shares of Company Common Stock to secure repayment of the indebtedness. A note bearing 6% interest evidences the underlying indebtedness, and the Company has agreed that it will only have recourse to the stock in the event that the debt is not paid. The pledge agreement further provides that the pledged shares may be released under certain circumstances if Mr. Giardina gives F&G an unlimited personal guarantee of the indebtedness.

The Company has agreed to indemnify Notre for liabilities arising in connection with actions taken by it in connection with its role as a promoter prior to and during the IPO.

COMPANY POLICY

Any future transactions with directors, officers or holders of more than 5% of the Common Stock of the Company or its subsidiaries will be approved by a majority of disinterested members of the Board of Directors.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of shares of Common Stock and Restricted Common Stock, taken together, as of May 12, 1998 (i) individually by the Named Executive Officers and each director of the Company, (ii) by all executive officers and directors of the Company as a group, (iii) by each person known to the Company to be the beneficial owner of more than five percent of the outstanding Common Stock and Restricted Common Stock, taken together, and (iv) each of the Selling Stockholders. Except as noted below, each of the persons listed has sole investment and voting power with respect to the shares indicated.

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1)		SHARES BEING	SHARES BENEFICIALLY OWNED AFTER OFFERING	
DIRECTORS, OFFICERS AND 5% HOLDERS	NUMBER	PERCENT	OFFERED	NUMBER	PERCENT
Robert J. Powers(2)	1,461,496	4.8	211,496	1,250,000	4.0
Steven S. Harter(3)	917,034	3.0	75,000	842,034	2.7
Michael Nothum, Jr.(4)	732,981	2.4	108,287	624,694	2.0
Robert R. Cook	717,408	2.4	67,408	650,000	2.1
Brian S. Atlas(5)	716,000	2.4	107,400	608,600	2.0
Salvatore P. Giardina	713,514	2.4	--	713,514	2.3
Thomas J. Beaty	544,537	1.8	81,680	462,857	1.5
Fred M. Ferreira(6)	519,535	1.7	77,915	441,620	1.4
John C. Phillips	403,305	1.3	--	403,305	1.3
Samuel M. Lawrence, III	317,307	1.0	31,307	286,000	*
Alfred J. Giardenelli, Jr	304,216	1.0	--	304,216	*
Charles W. Klapperich	255,401	*	38,310	217,091	*
J. Gordon Beittenmiller(7)	136,000	*	10,000	126,000	*
Reagan S. Busbee(7)	136,000	*	13,500	122,500	*
William George, III(8)	89,200	*	13,380	75,820	*
Larry Martin(9)	42,692	*	--	42,692	*
John Mercadante, Jr.(9)	42,692	*	--	42,692	*
All executive officers and directors as a group (17 persons)	8,049,318	26.5	835,683	7,213,635	23.1
OTHER SELLING STOCKHOLDERS					
Michael Nothum, Sr. and Jewel Nothum, Trustees Nothum Family Trust	778,981	2.6	400,000	378,981	1.2
Michael D. Atlas (10)	716,000	2.4	107,400	608,600	2.0
Ronald L. Stanfa	492,514	1.6	42,500	450,014	1.4
Grover Lee Walker, III	315,955	1.0	63,191	252,764	*
John P. Walker, Jr	315,955	1.0	63,191	252,764	*
Larry B. Batchelor	272,759	*	81,828	190,931	*
William Richard True	272,759	*	81,828	190,931	*
David J. Fannon	272,759	*	81,828	190,931	*
Richard A. Williamson	238,612	*	28,612	210,000	*
James Rammath	220,598	*	77,209	143,389	*
Franklin Holwerda	208,785	*	80,000	128,785	*
William R. Lowrie	177,147	*	53,144	124,003	*
Wayne A. Lowrie	177,147	*	53,144	124,003	*
William L. Wallace	177,147	*	53,144	124,003	*
Charles H. Lawrence	172,135	*	50,000	122,135	*
Seasonair, Inc. ESOP	163,794	*	47,325	116,469	*
John Harter, Trustee, Victoria Harter & Phyllis Harter Educational Trust	159,184	*	30,000	129,184	*
Robert W. Arbuckle	153,200	*	22,980	130,220	*
Ernest T. Lawrence	149,135	*	50,000	99,135	*
Thomas B. and Christine B. Kime, Jt Ten	145,729	*	21,859	123,870	*
Craig S. Lemmon(7)	136,000	*	20,000	116,000	*
Scott A. Bowman	128,746	*	38,624	90,122	*
Robert G. Clarke	128,746	*	38,624	90,122	*
Randall Troost	95,635	*	14,346	81,289	*

(TABLE CONTINUED ON FOLLOWING PAGE)

OTHER SELLING STOCKHOLDERS (CONTINUED)	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1) NUMBER	PERCENT	SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING NUMBER	PERCENT
James Mahler	90,367	*	45,000	45,367	*
Alan W. Arbuckle	83,121	*	8,000	75,121	*
Edward T. Alley	73,438	*	22,031	51,407	*
Thomas B. Kime	72,864	*	10,929	61,935	*
Christine B. Kime	72,864	*	10,929	61,935	*
Gail Alley	70,557	*	21,167	49,390	*
Robert A. Dood	69,358	*	13,872	55,486	*
Bernard P. Malewitz	69,358	*	6,936	62,422	*
Robert M. Fiumara	67,211	*	17,211	50,000	*
Milburn Honeycutt(11)	68,000	*	15,000	53,000	*
Brian J. Vensel(11)	68,000	*	15,000	53,000	*
Cheryl Arbuckle Gove	57,901	*	28,000	29,901	*
Norman J. Pokorny Revocable Trust	54,145	*	25,000	29,145	*
James H. Carrington, Trustee, James Harrison Hewes Carrington Trust	52,145	*	26,000	26,145	*
John W. Bouloubasis Jr.,	50,000	*	10,000	40,000	*
Emmett E. Moore	50,000	*	35,000	15,000	*
Basil Bourque	37,859	*	8,000	29,859	*
Sean F. McNamara	37,859	*	12,500	25,359	*
Constance Drew	34,800	*	20,000	14,800	*
Larry Andriunas	34,026	*	10,208	23,818	*
Alan B. Osofsky	34,013	*	10,000	24,013	*
Grover Lee Walker, Jr	32,405	*	32,405	--	*
Robert M. Arbuckle	22,024	*	5,000	17,024	*
Hildegard Andriunas	21,754	*	6,526	15,228	*
Kenneth Kilgore	20,000	*	20,000	--	*
James H. Line	13,442	*	2,000	11,442	*
Deleta D. George	800	*	800	--	*
Bradley Drew	100	*	100	--	*
Total	15,477,151		2,874,074	12,603,077	

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` The address of each of the persons listed is c/o the Company, Three Riverway, Suite 200, Houston, Texas 77056.

* Less than 1%.

(1) Shares shown do not include shares that could be acquired upon exercise of options which do not vest within 60 days.

(2) Includes 230,000 shares held by the Powers Family Foundation, a charitable entity.

(3) Includes 902,034 shares of Restricted Common Stock held in a partnership as to which Mr. Harter is a general partner and 15,000 shares of Common Stock issuable upon exercise of options granted under the Directors' Plan. Does not include 159,184 shares of Restricted Common Stock held in a trust for Mr. Harter's minor children and as to which he disclaims beneficial ownership.

(4) Includes (i) 6,000 shares of Common Stock issuable upon exercise of options which vest within 60 days and (ii) an aggregate of 18,694 shares which are held in irrevocable trusts for Mr. Nothum's minor children of which he is trustee and as to which he disclaims beneficial ownership.

(5) Includes 99,000 shares held in trusts for B. Atlas' minor children, as to which he disclaims beneficial ownership.

(6) Includes 40,000 shares of Common Stock issuable upon exercise of options which vest within 60 days.

(7) Includes 20,000 shares of Common Stock issuable upon exercise of options which vest within 60 days.

(8) Includes 15,000 shares of Common Stock issuable upon exercise of options which vest within 60 days.

(9) Includes 15,000 shares of Common Stock issuable upon exercise of options granted under the Directors' Plan.

(10) Includes 80,000 shares of Common Stock held in trust for Mr. Atlas' minor children, as to which he disclaims beneficial ownership.

(11) Includes 10,000 shares of Common Stock issuable upon exercise of options which vest within 60 days.

DESCRIPTION OF CAPITAL STOCK

GENERAL

The authorized capital stock of the Company consists of 57,969,912 shares of capital stock, consisting of 50,000,000 shares of Common Stock, 2,969,912 shares of Restricted Common Stock and 5,000,000 shares of Preferred Stock. As of May 20, 1998, the Company had outstanding 30,291,733 shares of Common Stock, which included 2,742,912 shares of Restricted Common Stock, and no shares of Preferred Stock. The following discussion is qualified in its entirety by reference to the Restated Certificate of Incorporation of Comfort Systems, which is included as an exhibit to the Registration Statement of which this Prospectus is a part. This offering includes 182,500 shares of Restricted Common Stock which will become Common Stock upon their sale pursuant to this offering.

COMMON STOCK AND RESTRICTED COMMON STOCK

The holders of Common Stock are each entitled to one vote for each share held on all matters to which they are entitled to vote, including the election of directors. The holders of Restricted Common Stock, voting together as a single class, are entitled to elect one member of the Company's Board of Directors and to 0.55 of one vote for each share held on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors. Upon consummation of this offering, the Board of Directors will be classified into three classes as nearly equal in number as possible, with the term of each class expiring on a staggered basis. The classification of the Board of Directors may make it more difficult to change the composition of the Board of Directors and thereby may discourage or make more difficult an attempt by a person or group to obtain control of the Company. Cumulative voting for the election of directors is not permitted. Any director, or the entire Board of Directors, may be removed at any time, with cause, by of a majority of the aggregate number of votes which may be cast by the holders of all of the outstanding shares of Common Stock and Restricted Common Stock entitled to vote for the election of directors, except that only the holder of the Restricted Common Stock may remove the director such holder is entitled to elect.

Subject to the rights of any then outstanding shares of Preferred Stock, holders of Common Stock and Restricted Common Stock are together entitled to participate pro rata in such dividends as may be declared in the discretion of the Board of Directors out of funds legally available therefor. Holders of Common Stock and Restricted Common Stock together are entitled to share ratably in the net assets of the Company upon liquidation after payment or provision for all liabilities and any preferential liquidation rights of any Preferred Stock then outstanding. Holders of Common Stock and holders of Restricted Common Stock have no preemptive rights to purchase shares of stock of the Company. Shares of Common Stock are not subject to any redemption provisions and are not convertible into any other securities of the Company. Shares of Restricted Common Stock are not subject to any redemption provisions and are convertible into Common Stock as described below. All outstanding shares of Common Stock and Restricted Common Stock are, and the shares of Common Stock to be issued pursuant to this offering will be, upon payment therefor, fully paid and non-assessable.

Each share of Restricted 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 Common Stock by the holder thereof (other than 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, or (iii) in the event any person offers to acquire 15% or more of the total number of outstanding shares of Common Stock. After July 1, 1998, the Board of Directors may elect to convert any remaining shares of Restricted Common Stock into shares of Common Stock in the event 80% or more of the originally outstanding shares of Restricted Common Stock have been previously converted into shares of Common Stock.

The Common Stock is listed on The New York Stock Exchange under the symbol "FIX." The Restricted Common Stock is not publicly traded.

PREFERRED STOCK

The Preferred Stock may be issued from time to time by the Board of Directors in one or more series. Subject to the provisions of the Company's Certificate of Incorporation and limitations prescribed by law, the Board of Directors is expressly authorized to adopt resolutions to issue the shares, to fix the number of shares and to change the number of shares constituting any series and to provide for or change the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, including dividend rights (including whether dividends are cumulative), dividend rates, terms of redemption (including sinking fund provisions), redemption prices, conversion rights and liquidation preferences of the shares constituting any series of the Preferred Stock, in each case without any further action or vote by the stockholders. The Company has no current plans to issue any shares of Preferred Stock.

One of the effects of undesignated Preferred Stock may be to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of the Company's management. The issuance of shares of the Preferred Stock pursuant to the Board of Directors' authority described above may adversely affect the rights of the holders of Common Stock. For example, Preferred Stock issued by the Company may rank prior to the Common Stock and Restricted Common Stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of Common Stock. Accordingly, the issuance of shares of Preferred Stock may discourage bids for the Common Stock or may otherwise adversely affect the market price of the Common Stock.

STATUTORY BUSINESS COMBINATION PROVISION

The Company is subject to Section 203 of the Delaware General Corporation Law which, with certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested stockholder" for a period of three years following the date that such stockholder became an interested stockholder, unless: (i) prior to such date, the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (a) by persons who are directors and officers and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer, or (iii) on or after such date, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. An "interested stockholder" is defined as any person that is (a) the owner of 15% or more of the outstanding voting stock of the corporation or (b) an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder.

CERTAIN PROVISIONS OF THE CERTIFICATE OF INCORPORATION AND BYLAWS

Pursuant to the Company's Certificate of Incorporation and as permitted by Delaware law, directors of the Company are not liable to the Company or its stockholders for monetary damages for breach of fiduciary duty, except for liability in connection with a breach of duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for dividend payments or stock repurchases illegal under Delaware law or any transaction in which a director has derived an improper personal benefit.

Additionally, the Certificate of Incorporation of the Company provides that directors and officers of the Company shall be, and at the discretion of the Board of Directors non-officer employees and agents may be, indemnified by the Company to the fullest extent authorized by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities actually and reasonably incurred in connection with service for or on behalf of the Company, and further permits the advancing of expenses incurred in defense of claims.

The Certificate of Incorporation also provides that any action required or permitted to be taken by the stockholders of the Company at an annual or special meeting of stockholders must be effected at a duly called meeting and may not be taken or effected by a written consent of stockholders in lieu thereof. The Company's Bylaws provide that a special meeting of stockholders may be called only by the Chief Executive Officer, by a majority of the Board of Directors, or by a majority of the Executive Committee of the Board of Directors. The Bylaws provide that only those matters set forth in the notice of the special meeting may be considered or acted upon at that special meeting. To amend or repeal the Company's Bylaws, an amendment or repeal thereof must first be approved by the Board of Directors or by affirmative vote of the holders of at least 66 2/3% of the total votes eligible to be cast by holders of voting stock with respect to such amendment or repeal.

The Company's Bylaws establish an advance notice procedure with regard to the nomination, other than by or at the direction of the Board of Directors or a committee thereof, of candidates for election as directors (the "Nomination Procedure") and with regard to other matters to be brought by stockholders before an annual meeting of stockholders of the Company (the "Business Procedure"). The Nomination Procedure requires that a stockholder give prior written notice, in proper form, of a planned nomination for the Board of Directors to the Secretary of the Company. The requirements as to the form and timing of that notice are specified in the Company's Bylaws. If the Chairman of the Board of Directors determines that a person was not nominated in accordance with the Nomination Procedure, such person will not be eligible for election as a director. Under the Business Procedure, a stockholder seeking to have any business conducted at an annual meeting must give prior written notice, in proper form, to the Secretary of the Company. The requirements as to the form and timing of that notice are specified in the Company's Bylaws. If the Chairman of the Board of Directors determines that the other business was not properly brought before such meeting in accordance with the Business Procedure, such business will not be conducted at such meeting.

Although the Company's Bylaws do not give the Board of Directors any power to approve or disapprove stockholder nominations for the election of directors or of any other business desired by stockholders to be conducted at an annual or any other meeting, the Company's Bylaws (i) may have the effect of precluding a nomination for the election of directors or precluding the conduct of business at a particular meeting if the proper procedures are not followed or (ii) may discourage or deter a third party from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of the Company, even if the conduct of such solicitation or such attempt might be beneficial to the Company and its stockholders.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is American Stock Transfer & Trust Company, 40 Wall Street, New York, New York, 10005.

SHARES ELIGIBLE FOR FUTURE SALE

The Company has outstanding 30,291,733 shares of Common Stock. The 3,774,074 shares offered hereby, as well as the 7,015,000 shares sold in the IPO and 618,374 shares issued in acquisitions are freely tradeable without restriction unless acquired by affiliates of the Company. The remaining outstanding shares of Common Stock or Restricted Common Stock either have not been registered under the Securities Act, which means that they may be resold publicly only upon registration under the Securities Act or in compliance with an exemption from the registration requirements of the Securities Act, including the exemption provided by Rule 144 thereunder, or are otherwise subject to contractual restrictions on transfer.

In general, under Rule 144, if a period of at least one year has elapsed between the later of the date on which restricted securities were acquired from the Company or the date on which they were acquired from an affiliate, the holder of such restricted securities (including an affiliate) is entitled to sell a number of shares within any three-month period that does not exceed the greater of (i) one percent of the then outstanding shares of the Common Stock or (ii) the average weekly reported volume of trading of the Common Stock during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain requirements pertaining to the manner of such sales, notices of such sales and the availability of current public information concerning the Company. Affiliates may sell shares not constituting restricted securities in accordance with the foregoing volume limitations and other requirements but without regard to the one year holding period. Under Rule 144(k), if a period of at least two years has elapsed between the later of the date on which restricted securities were acquired from the Company and the date on which they were acquired from an affiliate, a holder of such restricted securities who is not an affiliate at the time of the sale and has not been an affiliate for a least three months prior to the sale is entitled to sell the shares immediately without regard to the volume limitations and other conditions described above.

All of the stockholders of the Founding Companies, the Company's officers and directors and certain stockholders, holding in the aggregate 13,960,874 shares of Common Stock, have the right, in the event the Company proposes to register under the Securities Act any Common Stock for its own account or for the account of others, subject to certain exceptions, to require the Company to include their shares in the registration, subject to the right of the Company to exclude some or all of the shares in the offering upon the advice of the managing underwriter. Pursuant to such rights, certain of those Stockholders are selling certain of such shares in this offering. In addition, with respect to certain shares not sold in this offering, certain of such stockholders have limited demand registration rights to require the Company to register shares held by them following the first anniversary of the closing of the IPO.

In connection with this offering, each Selling Stockholder has agreed with the underwriters that he or she will not sell or otherwise dispose of any Company stock for a period of 180 days from the date of this offering. Certain directors and members of management have also agreed with the Company that they will not sell any shares of Company stock for one year from the date of this offering. Giving effect to this offering, during the third quarter of 1998, 1,836,272 shares will become eligible for sale, subject to the restrictions in Rule 144. In addition, certain other shares become tradeable under Rule 144 or pursuant to the expiration of contractual restrictions during the next five years. In the fourth quarter of 1998, 4,526,372 additional shares become eligible for sale. In 1999, 108,185 shares become eligible for sale in the first quarter, 4,212,376 shares become eligible for sale in the second quarter, 1,523,112 shares become eligible for sale in the third quarter, and 413,294 shares become eligible for sale in the fourth quarter. In 2000, 716,253 shares become eligible for sale in the first quarter, 412,234 shares become eligible for sale in the second quarter, 1,414,531 shares become eligible for sale in the third quarter, and 297,320 shares become eligible for sale in the fourth quarter. After 2000, 3,811,738 additional shares become eligible for sale on various dates through 2003 as contractual restrictions expire. The Company also has outstanding options to purchase up to a total of 3,067,638 shares of Common Stock which vest ratably over five years from their dates of grant.

The Company has registered 8,000,000 shares of its Common Stock under the Securities Act for use by the Company in connection with future acquisitions. Any such shares that have been or may be issued thereunder will generally be freely tradeable, unless acquired by persons who become affiliates of the

Company. The Company may contractually restrict the sale of shares issued in connection with future acquisitions. As of May 20, 1998, 5,270,431 shares remained available for use in future acquisitions under such shelf registration statement. The piggyback registration rights described above do not apply to the registration statement relating to those shares.

No prediction can be made as to the effect, if any, that the sale of shares or the availability of shares for sale will have on the market price for the Common Stock prevailing from time to time. Nevertheless, sales, or the availability for sale, of substantial amounts of the Common Stock in the public market could adversely affect prevailing market prices and the future ability of the Company to raise equity capital or complete any additional acquisitions using Common Stock.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the underwriters named below (the "Underwriters") have severally agreed to purchase from the Company and the Selling Stockholders the following respective number of shares of Common Stock at the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus.

UNDERWRITER	NUMBER OF SHARES
BT Alex. Brown Incorporated..........	
Bear, Stearns & Co. Inc.............	
Donaldson, Lufkin & Jenrette Securities Corporation.............	
Sanders Morris Mundy Inc.	
Total................................	3,774,074

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will purchase all of the shares of Common Stock offered hereby if any of such shares are purchased.

The Company and the Selling Stockholders have been advised by the Underwriters that the Underwriters propose to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain other dealers. After commencement of the offering, the offering price and other selling terms may be changed by the Underwriters.

The Company has granted the Underwriters an option, exercisable not later than 30 days after the date of this Prospectus, to purchase up to 566,111 additional shares of Common Stock, respectively, at the offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof that the number of shares of Common Stock to be purchased by it in the above table bears to 3,774,074, and the Company and such Selling Stockholders will be obligated, pursuant to the option, to sell such shares to the Underwriters. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of the Common Stock offered hereby. If purchased, the Underwriters will offer such additional shares on the same terms as those on which the 3,774,074 shares are being offered.

The Underwriting Agreement contains covenants of indemnity and contribution among the Underwriters, the Company and the Selling Stockholders with respect to certain liabilities, including liabilities under the Securities Act.

To facilitate this offering of the Common Stock, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of the Common Stock. Specifically, the Underwriters may over-allot shares of the Common Stock in connection with this offering, thereby creating a short position in the Underwriters' account. Additionally, to cover such over-allotments or to stabilize the market price of the Common Stock, the Underwriters may bid for, and purchase, shares of the Common Stock at a level above that which might otherwise prevail in the open market. The Underwriters are not required to engage in these activities, and, if commenced, any such activities may be discontinued at any time. The Underwriters also may reclaim selling concessions allowed to an Underwriter or dealer, if the Underwriters repurchase shares distributed by that Underwriter or dealer.

The Company, its executive officers, directors and the Selling Stockholders have agreed that until 180 days after the date of this Prospectus, they will not, without the prior written consent of BT Alex. Brown Incorporated, directly or indirectly offer, sell or otherwise dispose of any shares of Common Stock, any shares of Common Stock issuable upon exercise of options, rights or warrants or any securities convertible into Common Stock of the Company, except that the Company may, without such consent, (i) grant options pursuant to the Company's existing employee stock option plans, (ii) issue stock upon the exercise of outstanding options or warrants or upon the conversion of outstanding convertible securities and (iii) issue Common Stock as consideration for acquisitions.

LEGAL MATTERS

The validity of the issuance of the shares of Common Stock offered by this Prospectus will be passed upon for the Company by Bracewell & Patterson, L.L.P., Houston, Texas. Certain legal matters related to this offering will be passed upon for the Underwriters by Piper & Marbury L.L.P., Baltimore, Maryland.

EXPERTS

The audited consolidated financial statements of Comfort Systems USA, Inc. and the audited financial statement of the ten individual Founding Companies, included in this Prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The audited combined financial statements of F&G Mechanical Corp. and Affiliate included in this Prospectus have been audited by Marden, Harrison & Kreuter, Certified Public Accountants, P.C., independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

ADDITIONAL INFORMATION

The Company is subject to the information requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Judiciary Plaza Building, 450 Fifth Street, N.W., Room 1024, Washingtion, D.C. 20549 and its regional offices located at 7 World Trade Center, 13th Floor, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such materials can be obtained from the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the Commission. The address of that site is http://www.sec.gov.

The Common Stock is listed on the New York Stock Exchange. Proxy statements, reports and other information concerning the Company that are filed under the Exchange Act can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

INDEX TO FINANCIAL STATEMENTS

COMFORT SYSTEMS USA, INC.

INTRODUCTION TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The following unaudited pro forma statements of operations assume that Comfort Systems USA, Inc.'s initial public offering on July 2, 1997, (the "IPO"), the acquisitions of the Founding Companies and the additional companies acquired subsequent to the IPO through March 31, 1998, accounted for as purchases (the "Purchased Companies") were consummated on January 1, 1997, and gives effect to the retroactive restatement to January 1, 1997, of 13 of the 14 companies acounted for as poolings-of-interest ("the Pooled Companies").

The Company has preliminarily analyzed the savings that it expects to be realized from reductions in salaries and certain benefits to the former owners. To the extent the former owners of the Companies acquired since the IPO and through March 31, 1998, (the "Acquired Companies"), have agreed prospectively to reductions in salary, bonuses and benefits, these reductions have been reflected in the pro forma statements of operations. With respect to other potential cost savings, Comfort Systems has not and cannot quantify these savings. It is anticipated that these savings will be offset by costs related to the Company's corporate management and by the costs associated with being a public company. However, because these costs cannot be accurately quantified at this time, they have not been included in the pro forma financial information of the Company.

The pro forma adjustments are based on estimates, available information and certain assumptions and may be revised, as additional information becomes available. The pro forma financial data do not purport to represent what the Company's financial position or results of operations would actually have been if such transactions in fact had occurred on those dates and are not necessarily representative of the Company's financial position or results of operations for any future period. Since the Company and the Acquired Companies were not under common control or management, historical combined results may not be comparable to, or indicative of, future performance. The unaudited pro forma financial statements should be read in conjunction with the other financial statements and notes thereto included elsewhere in this Prospectus.

COMFORT SYSTEMS USA, INC.
PRO FORMA STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1997
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	COMFORT SYSTEMS	COMBINED FOUNDING COMPANIES THROUGH JUNE 30, 1997	PURCHASED COMPANIES THROUGH ACQUISITION DATE	PRO FORMA ADJUSTMENTS	PRO FORMA
REVENUES	$237,709	$ 86,900	$181,480	$ --	$506,089
COST OF SERVICES	171,941	62,395	146,765	--	381,101
Gross profit	65,768	24,505	34,715	--	124,988
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	59,386	17,430	29,075	(26,072)	79,819
GOODWILL AND OTHER AMORTIZATION	1,851	--	--	3,248	5,099
Operating income	4,531	7,075	5,640	22,824	40,070
OTHER INCOME (EXPENSE):					
Interest income	1,149	167	530	--	1,846
Interest expense	(1,212)	(403)	(481)	(2,394)	(4,490)
Other	132	227	83	(135)	307
Other income (expense)	69	(9)	132	(2,529)	(2,337)
INCOME BEFORE INCOME TAXES	4,600	7,066	5,772	20,295	37,733
PROVISION FOR INCOME TAXES	7,430	537	195	7,990	16,152
NET INCOME (LOSS)	$ (2,830)	$ 6,529	$ 5,577	$ 12,305	$ 21,581
NET INCOME (LOSS) PER SHARE:					
Basic	$ (.16)				$ .79
Diluted	$ (.16)				$ .78
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:					
Basic	17,515				27,438
Diluted	17,708				27,631

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

COMFORT SYSTEMS USA, INC.
PRO FORMA STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	COMFORT SYSTEMS	PURCHASED COMPANIES THROUGH ACQUISITION DATE	PRO FORMA ADJUSTMENTS	PRO FORMA
REVENUES	$117,838	$ 11,400	$ --	$129,238
COST OF SERVICES	89,410	10,355	--	99,765
Gross profit	28,428	1,045	--	29,473
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	20,695	2,080	(506)	22,269
GOODWILL AND OTHER AMORTIZATION	1,170	--	117	1,287
Operating income	6,563	(1,035)	389	5,917
OTHER INCOME (EXPENSE):				
Interest income	194	60	--	254
Interest expense	(777)	(62)	(199)	(1,038)
Other	52	(112)	67	7
Other income (expense)	(531)	(114)	(132)	(777)
INCOME BEFORE INCOME TAXES	6,032	(1,149)	257	5,140
PROVISION FOR INCOME TAXES	2,654	27	(419)	2,262
NET INCOME (LOSS)	$ 3,378	$ (1,176)	$ 676	$ 2,878
NET INCOME (LOSS) PER SHARE:				
Basic	$ .12			$ .10
Diluted	$ .12			$ .10
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:				
Basic	27,887			28,796
Diluted	28,318			29,227

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

COMFORT SYSTEMS USA, INC.
NOTES TO PRO FORMA FINANCIAL STATEMENTS
(UNAUDITED)

1. GENERAL:

Comfort Systems USA, Inc. ("Comfort Systems" and collectively with its subsidiaries, the "Company") was founded in 1996 to become a leading national provider of HVAC services focusing primarily on commercial and industrial markets. On July 2, 1997, Comfort Systems completed the initial public offering (the "IPO") of its common stock (the "Common Stock") and simultaneously acquired in separate concurrent transactions, twelve companies (collectively referred to as the "Founding Companies"). For financial statement purposes, Comfort Systems has been identified as the accounting acquirer. Subsequent to the IPO, and through March 31, 1998, the Company acquired 38 HVAC and related businesses. Of the 38 acquisitions, 14 were accounted for as poolings-of-interests (the "Pooled Companies") and 24 were accounted for as purchases (the "Purchased Companies").

2. BUSINESS COMBINATIONS:

The accompanying pro forma financial statements include allocations of the respective purchase prices to the assets acquired and liabilities assumed based on preliminary estimates of fair value and is subject to adjustment. The preliminary allocations resulted in approximately $206.2 million of total pro forma goodwill, which represents the excess of purchase price over the estimated fair value of the net assets acquired for the Founding Companies and the Purchased Companies.

3. PRO FORMA STATEMENT OF OPERATIONS ADJUSTMENTS:

YEAR ENDED DECEMBER 31, 1997

(a) Includes (i) certain reductions in salaries, bonuses and benefits to the former owners, to which they agreed would take effect as of the date of acquisition of the Acquired Companies (the "Compensation Differential") through March 31, 1998 of $14.3 million and (ii) excludes $0.6 million of acquisition-related costs incurred in the acquisition of the Pooled Companies. These reductions in salaries, bonuses and benefits are in accordance with the terms of their employment agreements.

(b) Includes the amortization of goodwill using a 40-year life.

(c) Certain of the Acquired Companies were S Corporations prior to their acquisition by the Company. Prior to the acquisitions by the Company, various Acquired Companies made distributions to their stockholders which represented substantially all of their previously taxed undistributed earnings (the "S Corporation Distributions") which were funded through borrowings by the Acquired Companies. Accordingly, pro forma interest expense has been increased to include the interest expense on (i) borrowings of $22.8 million that would have been necessary to fund certain S Corporation Distributions of the Acquired Companies through March 31, 1998, (ii) $16.6 million of cash consideration related to the acquisition of certain of the Acquired Companies purchased from January 1, 1998 through March 31, 1998, and (iii) the subordinated convertible notes issued in connection with the acquisition of certain Acquired Companies purchased from January 1, 1998 through March 31, 1998.

(d) Includes the incremental provision for federal and state income taxes relating to the other statements of operations adjustments and for income taxes on Acquired Companies, and Pooled Companies which were C Corporations prior to the acquisition by the Company.

(e) Excludes the non-recurring, non-cash compensation charge of $11.6 million (the "Compensation Charge") recorded by the Company in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company offset by the increase in compensation expense to reflect the ongoing salaries received by corporate management of the Company of $0.4 million as though those salaries were being paid prior to the IPO. The issuances of Common

Stock were made in contemplation of the IPO and acquisition of the Founding Companies, and no future issuances of this nature are anticipated.

(f) Includes the reversal of gains and losses from sales of fixed assets.

The following table summarizes unaudited pro forma statement of operations adjustments (in thousands):

	ADJUSTMENT						PRO FORMA
	(A)	(B)	(C)	(D)	(E)	(F)	ADJUSTMENTS
SELLING, GENERAL AND ADMINISTRATION EXPENSES	$ (14,946)	$ --	$ --	$ --	$ (11,126)	$ --	$(26,072)
GOODWILL AMORTIZATION	--	3,248	--	--	--	--	3,248
INCOME (LOSS) FROM OPERATIONS	14,946	(3,248)	--	--	11,126	--	22,824
OTHER INCOME (EXPENSE):							
Interest expense	--	--	(2,394)	--	--	--	(2,394)
Other	--	--	--	--	--	(135)	(135)
INCOME (LOSS) BEFORE INCOME TAXES	14,946	(3,248)	(2,394)	--	11,126	(135)	20,295
PROVISION FOR INCOME TAXES	--	--	--	7,990	--	--	7,990
NET INCOME (LOSS)	$ 14,946	$ (3,248)	$ (2,394)	$ (7,990)	$ 11,126	$ (135)	$ 12,305

THREE MONTHS ENDED MARCH 31, 1998

(a) Includes the Compensation Differential of $0.5 million. These reductions in salaries, bonuses and benefits are in accordance with the terms of their employment agreements.

(b) Includes the amortization of goodwill using a 40-year life.

(c) Includes the interest expense on (i) borrowings of $11.8 million that would have been necessary to fund certain S Corporation Distributions of the Acquired Companies acquired subsequent to December 31, 1997, (ii) the $16.6 million of cash consideration related to the acquisition of certain Acquired Companies acquired subsequent to December 31, 1997, and (iii) the subordinated convertible notes, issued in connection with the acquisition of certain Acquired Companies from January 1, 1998 through March 31, 1998.

(d) Includes the incremental provision for federal and state income taxes relating to the other statements of operations adjustments and for income taxes on Acquired Companies, and Pooled Companies which were C Corporations prior to the acquisition by the Company.

(e) Includes the reversal of gains and losses from sales of fixed assets.

The following table summarizes unaudited pro forma combined statement of operations adjustments (in thousands):

	ADJUSTMENT					PRO FORMA
	(A)	(B)	(C)	(D)	(E)	ADJUSTMENTS
SELLING, GENERAL AND ADMINISTRATION EXPENSES	$ (506)	$ --	$ --	$ --	$ --	$ (506)
GOODWILL AMORTIZATION	--	117	--	--	--	117
INCOME (LOSS) FROM OPERATIONS	506	(117)	--	--	--	389
OTHER INCOME (EXPENSE):						
Interest expense	--	--	(199)	--	--	(199)
Other	--	--	--	--	67	67
INCOME (LOSS) BEFORE INCOME TAXES	506	(117)	(199)	--	67	257
PROVISION FOR INCOME TAXES	--	--	--	(419)	--	(419)
NET INCOME (LOSS)	$ 506	$ (117)	$ (199)	$ 419	$ 67	$ 676

4. WEIGHTED AVERAGE SHARES:

The following table summarizes weighted average shares outstanding (in thousands):

	YEAR ENDED DECEMBER 31, 1997	THREE MONTHS, ENDED MARCH 31, 1998
Shares issued in connection with the acquisitions of the Founding Companies	9,721	9,721
Shares sold pursuant to the IPO	6,100	6,100
Shares issued to Notre Capital Ventures II, L.L.C., Comfort Systems' management and consultants	4,240	4,240
Shares issued in connection with the acquisitions of the Pooled Companies	4,507	4,507
Shares issued in connection with the underwriter's overallotment	434	915
Shares issued in connection with the acquisitions of the Purchased Companies	3,313	3,313
Less: Shares sold in the IPO that were not used for the cash portion of the acquisition of the Founding Companies	877	--
Weighted average shares outstanding -- Basic	27,438	28,796
Weighted average portion of shares related to stock options under the treasury stock method	193	431
Weighted average shares outstanding -- Diluted	27,631	29,227

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Comfort Systems USA, Inc.

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	MARCH 31, 1998 (UNAUDITED)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 6,141	$ 14,533	$ 5,687
Accounts receivable	16,899	73,826	97,983
Less -- Allowance	227	1,034	1,352
Accounts receivable, net	16,672	72,792	96,631
Other receivables	278	884	1,845
Inventories	1,090	6,214	7,012
Prepaid expenses and other	1,743	4,428	6,483
Costs and estimated earnings in excess of billings	1,476	12,050	15,640
Total current assets	27,400	110,901	133,298
PROPERTY AND EQUIPMENT, net	3,363	12,046	14,585
GOODWILL, net	--	163,126	205,652
OTHER NONCURRENT ASSETS	716	1,707	8,241
Total assets	$ 31,479	$ 287,780	$361,776
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 1,770	$ 869	$ 150
Accounts payable	6,074	22,805	29,854
Accrued compensation and benefits	2,604	5,622	8,842
Payable to stockholders/affiliates	500	16	125
Billings in excess of costs and estimated earnings	3,760	10,100	12,546
Income taxes payable	384	4,928	4,316
Other current liabilities	2,793	9,286	12,636
Total current liabilities	17,885	53,626	68,469
DEFERRED INCOME TAXES	502	960	561
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,317	20,326	50,785
PAYABLE TO STOCKHOLDERS/AFFILIATES	342	--	--
OTHER LONG-TERM LIABILITIES	76	200	247
Total liabilities	20,122	75,112	120,062
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Preferred Stock, $.01 par, 5,000,000 shares authorized, none issued and outstanding	--	--	--
Common stock, $.01 par, 52,969,912 shares authorized, 4,628,545, 26,575,669 and 28,796,085 shares issued and outstanding, respectively	46	266	288
Additional paid-in capital	96	205,709	231,355
Retained earnings	11,215	6,693	10,071
Total stockholders' equity	11,357	212,668	241,714
Total liabilities and stockholders' equity	$ 31,479	$ 287,780	$361,776

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,			THREE MONTHS ENDED MARCH 31,	
	1995	1996	1997	1997	1998
				(UNAUDITED)	
REVENUES	$ 65,167	$ 96,296	$ 237,709	$ 26,401	$ 117,838
COST OF SERVICES	48,743	72,123	171,941	19,809	89,410
Gross profit	16,424	24,173	65,768	6,592	28,428
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,707	19,097	58,811	19,486	20,695
GOODWILL AND OTHER AMORTIZATION	--	--	1,851	--	1,170
ACQUISITION RELATED EXPENSES	--	--	575	--	--
Operating income	1,717	5,076	4,531	(12,894)	6,563
OTHER INCOME (EXPENSE):					
Interest income	209	283	1,149	85	194
Interest expense	(203)	(244)	(1,212)	(67)	(777)
Other	73	(108)	132	(14)	52
Other income (expense)	79	(69)	69	4	(531)
INCOME BEFORE INCOME TAXES	1,796	5,007	4,600	(12,890)	6,032
PROVISION (BENEFIT) FOR INCOME TAXES	503	1,417	7,430	(749)	2,654
NET INCOME (LOSS)	$ 1,293	$ 3,590	$ (2,830)	$ (12,141)	$ 3,378
NET INCOME (LOSS) PER SHARE:					
Basic	$ .17	$ .42	$ (.16)	$ (1.41)	$ .12
Diluted	$ .17	$ .42	$ (.16)	$ (1.41)	$ .12
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:					
Basic	7,686	8,535	17,515	8,626	27,887
Diluted	7,686	8,535	17,708	8,626	28,318

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
Issuance of Common Stock:					
Acquisition of Purchased Companies (unaudited)......	2,220,416	22	25,646	--	25,668
Net Income (unaudited).............	--	--	--	3,378	3,378
BALANCE AT MARCH 31, 1998 (unaudited)...	28,796,085	$ 288	$ 231,355	$ 10,071	$ 241,714

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	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997 (UNAUDITED)	THREE MONTHS ENDED MARCH 31, 1998 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$ 1,293	$ 3,590	$ (2,830)	$ (12,141)	$ 3,378
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization expense	643	967	3,997	312	2,114
Bad debt expense	36	177	347	--	111
Compensation expense related to issuance of management shares	--	--	11,556	11,556	--
Deferred tax expense (benefit)	(24)	279	(663)	(1,276)	(787)
Loss (gain) on sale of property and equipment	11	4	(100)	--	(21)
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)	701	(1,564)
Inventories	(16)	(422)	1,053	183	(95)
Prepaid expenses and other current assets	183	(1,285)	160	(2,486)	(435)
Cost and estimated earnings in excess of billings	(625)	1,312	(4,261)	(1,619)	(1,596)
Other noncurrent assets	(162)	221	(63)	88	(352)
Increase (decrease) in --					
Accounts payable and accrued liabilities	888	545	(478)	5,051	(4,264)
Billings in excess of costs and estimated earnings	(195)	1,434	402	683	(377)
Other, net	49	(184)	30	--	(82)
Net cash provided by (used in) operating activities	1,022	3,267	(1,740)	1,052	(3,970)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment	(785)	(1,865)	(3,930)	(443)	(1,531)
Proceeds from sales of property and equipment	79	43	474	--	90
Cash paid for Founding Companies, net of cash acquired	--	--	(42,295)	--	--
Cash paid for Purchased Companies, net of cash acquired	--	--	(11,781)	--	(15,449)
Net cash used in investing activities	(706)	(1,822)	(57,532)	(443)	(16,890)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments on long-term debt	(383)	(1,699)	(37,114)	(62)	(20,469)
Borrowings of long-term debt	1,684	1,455	26,453	520	32,483
S Corporation distributions paid by certain Pooled Companies	(137)	(613)	(1,591)	--	--
Proceeds from issuance of common stock, net of offering costs	--	--	79,916	41	--
Other	(42)	52	--	--	--
Net cash provided by (used in) financing activities	1,122	(805)	67,664	499	12,014
NET INCREASE IN CASH	1,438	640	8,392	1,108	(8,846)
CASH AND CASH EQUIVALENTS, beginning of year	4,063	5,501	6,141	6,141	14,533
CASH AND CASH EQUIVALENTS, end of year	$ 5,501	$ 6,141	$ 14,533	$ 7,249	$ 5,687

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
	(IN THOUSANDS)	
Deferred income tax assets --		
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.

13. SUBSEQUENT EVENT (UNAUDITED):

Subsequent to December 31, 1997 through March 31, 1998, the Company has acquired 11 additional mechanical contracting companies engaged principally in the HVAC business. The Company paid approximately $16.6 million in cash, issued 2,220,417 shares of Common Stock and issued $2.0 million in convertible subordinated notes as consideration for those companies. The Company funded the $16.6 million cash portion of the purchase price through borrowings on the Credit Facility. The Company has accounted for these acquisitions as purchase transactions.

From April 1, 1998, through May 20, 1998, the Company has acquired thirteen additional mechanical contracting companies engaged principally in the HVAC business. The Company paid approximately $29.6 million in cash, issued 1,495,648 shares of Common Stock and issued $15.4 million in convertible subordinated notes as consideration for these companies. The Company funded the cash portion of the purchase price through borrowing on the Credit Facility. The Company has accounted for these acquisitions as purchase transactions.

In April 1998, the Credit Facility was further amended in order to increase borrowing capacity and 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 $175 million. The interest rate under the second option available to the Company was revised to LIBOR plus .75 to 1.5 percentage points. In addition, commitment fees have decreased to .125% to .325% per annum, depending on the ratio of debt to EBITDA, which are payable on the unused portion of the line of credit. The amended Credit Facility expires on April 14, 2001, at which time, all amounts outstanding under the facility is due. As of May 20, 1998, $75.6 million was outstanding under the Credit Facility.

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, 1994	YEAR ENDED JUNE 30, 1995	YEAR ENDED JUNE 30, 1996	SIX MONTHS ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 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, 1994	1995	1996	SIX MONTHS ENDED DECEMBER 31, 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, 1994	1995	1996	SIX MONTHS ENDED JUNE 30, 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	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 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	$ 1,958	$ 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	DECEMBER 31, 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	COMMON STOCK 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			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL SHAREHOLDER'S 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.

EASTERN HEATING AND COOLING, INC.
NOTES TO 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	1995	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			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' 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, 1995	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 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				
	SHARES	AMOUNT	TREASURY STOCK	RETAINED EARNINGS	TOTAL SHAREHOLDERS' 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. SHAREHOLDERS' 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
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			TOTAL
	SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	SHAREHOLDERS' EQUITY
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		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT			
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.

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	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	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	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.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
F & G Mechanical Corp. and Affiliate
348 New County Road
Secaucus, New Jersey 07094

We have audited the accompanying combined balance sheet of F & G Mechanical Corp. and affiliate as of December 31, 1997, and the related combined statements of income, retained earnings, and cash flows for the year then ended. 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 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 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 combined financial statement presentation. We believe that our audit provides 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 F & G Mechanical Corp. and affiliate at December 31, 1997, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1, the combined financial statements include the accounts of F &G Mechanical ("F&G") and Meadowlands Fire Protection Corp. ("Meadowlands") which are related by common stockholder interests. In prior years separate financial statements were issued for F&G and Meadowlands. On February 12, 1998, both companies were purchased by Comfort Systems USA, Inc. ("Comfort Systems"). Accordingly, the current combined financial statements are presented to reflect the activity of these companies as a single economic unit.

MARDEN, HARRISON & KREUTER
Certified Public Accountants, P.C.
Port Chester, New York
March 24, 1998

F & G MECHANICAL CORP. AND AFFILIATE
COMBINED BALANCE SHEET
DECEMBER 31, 1997

ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,400,941
Marketable securities	1,780,888
Accounts receivable, net of allowance for doubtful accounts of $200,000	12,833,931
Retainage receivable	3,631,046
Costs and estimated earnings in excess of billings on uncompleted contracts	952,827
Loans receivable -- officers	1,554,123
Notes and loans receivable -- related parties	1,065,963
Deferred contract costs	176,776
Prepaid expenses and other receivables	199,548
Total current assets	23,596,043
Property and equipment:	
Machinery and equipment	503,499
Transportation equipment	1,489,008
Furniture and fixtures	489,469
Leasehold improvements	26,665
	2,508,641
Less accumulated depreciation and amortization	1,657,075
Net property and equipment	851,566
Other assets:	
Notes and loans receivable -- related parties, net of current portion	5,778,005
Total other assets	5,778,005
Total assets	$ 30,225,614
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable -- bank	$ 1,945,510
Accounts payable	7,788,790
Billings in excess of costs and estimated earnings on uncompleted contracts	2,455,659
Accrued expenses and payroll taxes payable	4,790,407
Deferred contract revenue	206,140
Loans payable -- affiliates	133,595
Income taxes payable	75,363
Total liabilities	17,395,464
Commitments and contingencies	
Stockholders' equity:	
Common stock	11,000
Retained earnings	12,721,653
Net unrealized holding gain on available-for-sale securities	97,497
Total stockholders' equity	12,830,150
Total liabilities and stockholders' equity	$ 30,225,614

See notes to combined financial statements.

F & G MECHANICAL CORP. AND AFFILIATE
COMBINED STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1997

Contract revenue	$ 69,592,885
Direct costs	61,792,317
Gross profit	7,800,568
General and administrative expenses	5,280,332
Income from operations	2,520,236
Other income (expense):	
Interest income	417,891
Other income	29,351
Gain on sale of marketable securities	20,786
Interest expense	(139,498)
	328,530
Income before income taxes	2,848,766
Income taxes	89,982
Net income	2,758,784
Retained earnings, beginning of year	10,145,289
Distributions	(182,420)
Retained earnings, end of year	$ 12,721,653

See notes to combined financial statements.

F & G MECHANICAL CORP. AND AFFILIATE
COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1997

Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 2,758,784	
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	233,003	
Provision for losses on accounts receivable	126,380	
Gain on sale of marketable securities	(20,786)	
Changes in assets (increase) decrease:		
Accounts receivable	(2,641,044)	
Retainage receivable	(1,320,282)	
Costs and estimated earnings in excess of billings on uncompleted contracts	115,323	
Deferred contract costs	(8,607)	
Prepaid expenses and other receivables	(85,631)	
Changes in liabilities increase (decrease):		
Accounts payable	1,781,309	
Billings in excess of costs and estimated earnings on uncompleted contracts	(306,261)	
Accrued expenses and payroll taxes payable	2,851,818	
Deferred contract revenue	177,740	
Income taxes payable	75,363	
Net cash provided by operating activities		$ 3,737,109
Investing activities:		
Proceeds from sales of marketable securities	116,786	
Purchase of marketable securities	(302,055)	
Capital expenditures	(436,780)	
Net loans to related parties	(3,265,154)	
Net loans to officers	(943,359)	
Net cash used in investing activities		(4,830,562)
Financing activities:		
Net loans from affiliates	133,595	
Principal payments on long-term debt	(79,481)	
Proceeds from borrowings under line of credit	1,800,000	
Distributions to stockholders	(182,420)	
Net cash provided by financing activities		1,671,694
Net increase in cash and cash equivalents		578,241
Cash and cash equivalents, beginning of year		822,700
Cash and cash equivalents, end of year		$ 1,400,941
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for income taxes		$ 16,494
Cash paid during the year for interest		$ 139,498

See notes to combined financial statements.

F & G MECHANICAL CORP. AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1997

(1) PRINCIPLES OF COMBINATION AND NATURE OF OPERATIONS:

The combined financial statements include the accounts of F&G Mechanical Corp. and Meadowlands Fire Protection Corp. (collectively the "Company"), which are affiliated by majority stockholder interests. All intercompany accounts and transactions have been eliminated in combination.

In prior years, separate financial statements were presented for F & G Mechanical Corp. and Meadowlands Fire Protection Corp. The current combined financial statement presentation reflects the companies as a single economic unit.

F&G Mechanical Corp. is engaged in plumbing and HVAC construction activities primarily in New Jersey and the New York Metropolitan area. Meadowlands Fire Protection Corp., is engaged in the installation of fire protection systems for customers located in New Jersey and in the New York metropolitan area.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(A) REVENUE AND COST RECOGNITION:

Revenue is recognized on the "percentage of completion" method for reporting revenue on contracts not yet completed, measured by the percentage of total costs incurred to date to estimated total costs for each contract. This method is utilized because management considers the cost-to-cost method the best method available to measure progress on these contracts. Because of the inherent uncertainties in estimating revenue and costs, it is at least reasonably possible that the estimates used will change within the near term.

Contract costs include all direct material and labor costs and those other direct and indirect costs related to contract performance including, but not limited to, indirect labor, subcontract costs and supplies. General and administrative costs are charged to expense as incurred.

The Company has contracts that may extend over more than one year, therefore, revisions in cost and profit estimates during the course of the work are reflected in the accounting period in which the facts, which require the revisions, become known.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Claims on contracts are not recorded until it is probable that the claim will result in additional contract revenue and the amounts can be reliably estimated.

Revenues recognized in excess of amounts billed are recorded as a current asset under the caption "Costs and estimated earnings in excess of billings on uncompleted contracts." Billings in excess of revenues recognized are recorded as a current liability under the caption "Billings in excess of costs and estimated earnings on uncompleted contracts."

In accordance with construction industry practice, the Company reports in current assets and liabilities those amounts relating to construction contracts realizable and payable over a period in excess of one year.

(B) CASH EQUIVALENTS:

The Company considers all highly liquid instruments with original maturities of less than three months to be cash equivalents. At December 31, 1997, cash equivalents consist of investments in money market funds.

(C) INVESTMENTS:

Investments, consisting of U.S. Treasury Notes, corporate bonds and notes, mutual funds and common stock are classified as "available-for-sale" securities and are stated at fair value. Realized gains and losses, determined using the specific identification cost method, are included in earnings. Unrealized holding gains and losses are reported as a separate component of stockholders' equity.

(D) DEFERRED CONTRACT REVENUE AND COSTS:

The Company's policy is to defer all revenue and costs associated with individual contracts prior to the mobilization of the project.

(E) PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets using principally the straight-line method. Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful life of the asset. Expenditures for maintenance and repairs are charged to operations in the period incurred.

(F) 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.

(G) USE OF ESTIMATES:

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) MARKETABLE SECURITIES:

Cost and fair value of marketable securities at December 31, 1997 are as follows:

	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Available-for-sale:				
U.S. Treasury Notes	$ 321,232	$ 16,527	$--	$ 337,759
Corporate bonds and notes	1,009,668	27,589	6,317	1,030,940
Mutual Funds	228,438	86,160	1,469	313,129
Common Stocks	124,053	2,649	27,642	99,060
	$ 1,683,391	$ 132,925	$35,428	$ 1,780,888

At December 31, 1997, U.S. Treasury notes and corporate bonds and notes (at fair value) mature as follows:

	YEAR ENDING DECEMBER 31,			
	1998	1999 TO 2002	THEREAFTER	TOTAL
U.S. Treasury Notes	$ 180,000	$ --	$ 157,759	$ 337,759
Corporate bonds and notes	39,767	341,478	649,695	1,030,940
	$ 219,767	$ 341,478	$ 807,454	$ 1,368,699

The net unrealized holding gain increased by $24,510 for the year ended December 31, 1997. For the year ended December 31, 1997, gross realized gains pertaining to marketable securities totaled $20,786.

(4) RETAINAGE RECEIVABLE:

The retained contract receivables include approximately $1,416,000 at December 31, 1997, that are not collectible within one year.

(5) CONTRACTS IN PROGRESS:

Information with respect to contracts in progress at December 31, 1997 is as follows:

Expenditures on uncompleted contracts	$ 27,953,123
Estimated earnings thereon	4,139,313
	32,092,436
Less billings applicable thereto	33,595,268
	$ (1,502,832)
Included in the accompanying balance sheet under the following captions:	
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 952,827
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,455,659)
	$ (1,502,832)

(6) NOTES PAYABLE -- BANK:

The Company had a discretionary line of credit with a bank, which provided for aggregate borrowings of up to $4,750,000, with interest at the bank's prime rate plus 1%. Borrowings were guaranteed by the Company's stockholders. The Company had outstanding borrowings under the line of credit totaling $1,800,000 at December 31, 1997.

The Company also had term notes payable which were collateralized by equipment. The notes were payable in aggregate monthly installments of $7,998 with interest at 8%. The outstanding balance of the notes payable was $145,510 at December 31, 1997.

The outstanding balances were repaid in February 1998 concurrent with the subsequent merger of the Company, and the facility was terminated (see Note 18).

(7) ACCRUED EXPENSES AND PAYROLL TAXES PAYABLE:

At December 31, 1997, accrued expenses and payroll taxes payable consists of the following:

Payroll taxes	$ 1,627,663
Union benefits	1,003,526
Insurance	806,370
Other	1,352,848
	$ 4,790,407

(8) STOCKHOLDERS' EQUITY:

The combined financial statements reflect the following capital structures at December 31, 1997:

F&G MECHANICAL CORP.		
Common stock, no par value; 1000 shares authorized; 200 shares issued and outstanding	$	1,000
Retained earnings		9,364,045
Net unrealized holding gain on available-for-sale securities		47,190
Total stockholders' equity		9,412,235
MEADOWLANDS FIRE PROTECTION CORP.		
Common stock, no par value; 1000 shares authorized; 400 shares issued and outstanding		10,000
Retained earnings		3,357,608
Net unrealized gain on available-for-sale securities		50,307
Total stockholders' equity		3,417,915
Total combined stockholders' equity	$	12,830,150

(9) CONCENTRATION RISKS:

(A) CREDIT RISK:

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and trade accounts and retainage receivables.

The Company maintains its cash and cash equivalents in accounts which exceed Federally insured limits. The Company limits its credit risk by selecting financial institutions considered to be highly creditworthy.

Trade accounts and retainage receivables are due from customers located primarily in New Jersey and the New York metropolitan area. The Company does not require collateral in most cases, but may file statutory liens against the construction projects if a default in payment occurs.

(B) DIRECT LABOR:

The Company's direct labor is supplied primarily by two unions which have collective bargaining agreements expiring in April 1999. Although the Company's past experience was favorable with respect to resolving conflicting demands with these unions, it is always possible that a protracted conflict may occur which could impact the renewal of the collective bargaining agreements.

(10) RELATED PARTY TRANSACTIONS:

(A) LOANS RECEIVABLE -- OFFICERS:

The Company has loans receivable from officers totaling $1,554,123 at December 31, 1997. The loans are noninterest bearing. In January 1998, $950,000 was repaid.

(B) NOTES AND LOANS RECEIVABLE -- RELATED PARTIES:

The Company has loans receivable from an entity related through common management control totalling $1,009,518 at December 31, 1997. The loans are noninterest bearing. Subsequent to December 31, 1997 this entity was purchased by Meadowlands Fire Protection Corp. (see Note 10D).

In addition, the Company has notes receivable totaling $5,834,450, from an entity in which the stockholders of the Company have an ownership interest. At December 31, 1997, $56,445 of the loans were classified as current assets. One note amounting to $3,960,000 bears interest at 8.5% per annum. The balance of $1,818,005 is noninterest bearing. In conjunction with the terms of the subsequent merger of the Company, the notes, plus accrued interest, are due February 2001.

(C) LOANS PAYABLE -- AFFILIATES:

The Company has loans payable to entities related through common ownership totalling $133,595. The loans are noninterest bearing.

(D) PAYROLL:

The Company used an entity affiliated through common management control as a common paymaster to process certain payrolls. The Company reimbursed the affiliate at cost with no mark-up. Reimbursements amounted to $3,373,308 for the year ended December 31, 1997.

In February 1998, the Company acquired the affiliate for a purchase price of $25,000.

(E) OPERATING FACILITIES:

The Company leases administrative, warehouse and yard space from an entity affiliated by common ownership through a noncancelable net operating lease expiring May 2004. Rent expense including utilities, maintenance and real estate taxes for this lease totaled $485,375 for the year ended December 31, 1997. At December 31, 1997, the future minimum rental payments to be made under the noncancellable operating lease are as follows:

YEAR ENDING DECEMBER 31,	AMOUNT
1998	$ 338,616
1999	355,890
2000	355,890
2001	355,890
2002	355,890
Thereafter	504,178
	$ 2,266,354

On March 16, 1998 the Company increased the amount of space occupied. The monthly rent increased by approximately $7,000 per month, plus real estate taxes.

The Company also leases warehouse space from a related entity on a month to month basis. Rent expense for this lease was $18,000 for the year ended December 31, 1997.

(11) COMMITMENTS AND CONTINGENCIES:

(A) PERFORMANCE BONDS:

The Company is contingently liable to a surety under a general indemnity agreement. The Company agrees to indemnify the surety for any payments made on contracts of suretyship, guaranty or indemnity. The Company believes that all contingent liabilities will be satisfied by its performance on the specific bonded contracts involved.

(B) 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.

(12) INCOME TAXES:

Both F&G Mechanical Corp. and Meadowlands Fire Protection Corp. have elected and the stockholders have consented, under the applicable provisions of the Internal Revenue Code, New Jersey, and New York State Franchise Tax Codes to have the Company report its income for Federal Corporation, New Jersey Corporation, and New York State Franchise tax purposes as an "S" corporation. The stockholders report the net taxable income or loss of the Company in their personal income tax returns. Therefore, no provision is made in the accompanying combined financial statements for Federal Corporation, New Jersey Corporation, and New York State Franchise taxes except for the New Jersey and New York State tax on "S" corporations, when applicable.

In accordance with the subsequent merger of the Company, the "S" Corporation elections were terminated and the Company will be subject to corporate income taxes subsequent to the merger date (see Note 18).

(13) PROFIT-SHARING PLAN:

The Company has a profit-sharing plan that covers substantially all nonunion employees meeting the age and length of service requirements of the plan. Contributions to the plan are at the discretion of the Company's Board of Directors and are based on a percentage of the participants' compensation. Profit-sharing expense was $161,860 for the year ended December 31, 1997. In conjunction with the terms of the subsequent merger of the Company, the profit-sharing plan was terminated February 9, 1998 (see Note 18).

(14) MULTIEMPLOYER PENSION PLANS:

The Company made contributions to multiemployer pension plans that cover its various union employees. These plans provide benefits based on union members' earnings and periods of coverage under the respective plans. It is not cost-effective to accumulate information regarding the pension expense under these plans. In the event of plan terminations or company withdrawal from the plans, the Company may be liable for a portion of the plans' unfunded vested benefits, the amounts of which, if any, have not been determined.

(15) MAJOR CUSTOMERS:

The Company earned approximately 15% and 10%, respectively, from two major customers during the year ended December 31, 1997.

(16) BACKLOG:

Backlog represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at year end and from contractual agreements on which work has not commenced. Backlog consists of the following:

Estimated revenue to be recognized from:	
Uncompleted contracts in progress	$ 18,896,494
Contracts on which work has not commenced	11,589,000
Total	$ 30,485,494

(17) CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE:

Retained earnings at January 1, 1997 were restated to account for a change in accounting principle due to a business combination. The change in accounting principle is related to accounting for warranty costs which management believes results in a closer matching of costs and revenues. The cummulative effect of this change on prior years' retained earnings was $296,418.

(18) SUBSEQUENT EVENT:

On February 12, 1998, F&G Mechanical Corp merged with Comfort Systems and Meadowlands Fire Protection Corp. merged with INRI Acquisition Corp., a wholly owned subsidiary of Comfort Systems.

In conjunction with the merger, the outstanding balances of notes payable -- bank were paid in full, the profit-sharing plan was terminated, and the stockholders of F&G Mechanical Corp. entered into 5 year employment agreements with Comfort Systems. In addition, the Company distributed $11,800,000 to the stockholders at the closing.

[Inside Back Cover]

[Photos -- HVAC systems and buildings]

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NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THE OFFERING MADE HEREBY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANY PERSON OR BY ANYONE IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

3,774,074 SHARES

[LOGO]
COMFORT SYSTEMS USA, INC.
COMMON STOCK

PROSPECTUS

BT ALEX. BROWN
BEAR, STEARNS & CO. INC.
DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION
SANDERS MORRIS MUNDY

, 1998

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses payable by the Company in connection with the registration of the securities being registered. In connection with future acquisitions, additional printing, legal, accounting and miscellaneous expenses are expected to be incurred with respect to the issuance and distribution of the securities being registered hereby. All amounts are estimates except for the fees payable to the SEC.

	AMOUNT TO BE PAID
SEC registration fee....................	$ 26,376
NYSE listing fee........................	10,000
Printing expenses.......................	100,000
Legal fees and expenses.................	60,000
Accounting fees and expenses............	80,000
Transfer Agent's and Registrar's fees...	15,000
Miscellaneous...........................	208,624
TOTAL.........................	$ 500,000

ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

The Company's Certificate of Incorporation, as amended, and Bylaws incorporate substantially the provisions of the Delaware General Corporation Law ("DGCL") providing for indemnification of directors and officers of the Company against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that such person is or was an officer or director of the Company or is or was serving at the request of the Company as a director, officer or employee of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

As permitted by Section 102 of the DGCL, the Company's Certificate of Incorporation, as amended, contains provisions eliminating a director's personal liability for monetary damages to the Company and its stockholders arising from a breach of a director's fiduciary duty except for liability (a) for any breach of the director's duty of loyalty to the Company or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the DGCL, or (d) for any transaction from which the director derived an improper personal benefit.

Section 145 of the DGCL provides generally that a person sued as a director, officer, employee or agent of a corporation may be indemnified by the corporation for reasonable expenses, including attorneys' fees, if in the case of other than derivative suits such person has acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation (and, in the case of a criminal proceeding, had no reasonable cause to believe that such person's conduct was unlawful). In the case of a derivative suit, an officer, employee or agent of the corporation which is not protected by the Certificate of Incorporation may be indemnified by the corporation for reasonable expenses, including attorneys' fees, if such person has acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in the case of a derivative suit in respect of any claim as to which an officer, employee or agent has been adjudged to be liable to the corporation unless that person is fairly and reasonably entitled to indemnity for proper expenses. Indemnification is mandatory in the case of a director, officer, employee, or agent who is successful on the merits in defense of a suit against such person.

The Company has entered into Indemnity Agreements with its directors and certain key officers pursuant to which the Company generally is obligated to indemnify its directors and such officers to the full extent permitted by the DGCL as described above.

The Company has purchased liability insurance policies covering directors and officers in certain circumstances.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

On December 12, 1996, Comfort Systems issued and sold 1,000 shares of Common Stock to Notre for a consideration of $1,000. This sale was exempt from registration under Section 4(2) of the Securities Act, no public offering being involved.

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: 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 a 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 Mercandante, Jr. -- 82.55 shares for a consideration of $100.00; Larry Martin -- 82.55 shares for a consideration of $100.00; Norton Family Trust -- 61.9125 shares for a consideration of $75.00; Larry E. Jacobs -- 61.9125 shares for a 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 -- 132.08 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 shares of Common Stock. This sale was exempt from registration under Section 4(2) of the Securities Act, 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.

In the first quarter of 1998, the Company issued 1,778,631 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. There were no issuances of unregistered securities in the second quarter of 1998.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) EXHIBITS

The exhibits listed below are filed as exhibits to this registration statement and are filed manually herewith or incorporated by reference to the statements or reports indicated below:

		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
1.1--	Form of Underwriting Agreement		Filed herewith
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
5.1	-- Opinion of Bracewell & Patterson, L.L.P.		Previously filed
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 Beitenmiller.	10.4	333-24021
10.5	-- Form of Employment Agreement between Comfort Systems USA, Inc. and William George, III.	10.5	333-34021
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 System, Inc. and Thomas J. Beaty.	10.7	333-34021
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, incorportated 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`, 1998, 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

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS	INCORPORATED BY REFERENCE TO THE EXHIBIT INDICATED BELOW AND TO THE FILING WITH THE COMMISSION INDICATED BELOW — EXHIBIT NUMBER	FILING OR FILE NUMBER
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.	10.27	1997 Form 10-K
10.28	-- Promissory Note dated February 12, 1998 by Sorce Properties LLC in favor of F&G Mechanical Corporation.	10.28	1997 Form 10-K
10.29	-- Pledge Agreement dated February 12, 1998 by Salvatore Fichera and Salvatore P. Giardina in favor of F&G Mechanical Corporation.	10.29	1997 Form 10-K
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

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS	INCORPORATED BY REFERENCE TO THE EXHIBIT INDICATED BELOW AND TO THE FILING WITH THE COMMISSION INDICATED BELOW — EXHIBIT NUMBER	FILING OR FILE NUMBER
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 Brian 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

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS	INCORPORATED BY REFERENCE TO THE EXHIBIT INDICATED BELOW AND TO THE FILING WITH THE COMMISSION INDICATED BELOW — EXHIBIT NUMBER	FILING OR FILE NUMBER
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 Heating & 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

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS	INCORPORATED BY REFERENCE TO THE EXHIBIT INDICATED BELOW AND TO THE FILING WITH THE COMMISSION INDICATED BELOW: EXHIBIT NUMBER	FILING OR FILE NUMBER
21.1	-- List of subsidiaries of Comfort Systems USA, Inc.		Previously filed
23.1	-- Consent of Arthur Andersen L.L.P.		Filed herewith
23.2	-- Consent of Marden, Harrison & Kreuter		Filed herewith

(b) FINANCIAL STATEMENT SCHEDULES

All schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions, are inapplicable, or the information is included in the consolidated financial statements, and therefore have been omitted.

ITEM 17. UNDERTAKINGS.

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the provisions described in Item 14, or otherwise, the Company has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represents a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b), if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, COMFORT SYSTEMS USA, INC. HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON, STATE OF TEXAS, ON MAY 20, 1998.

COMFORT SYSTEMS USA, INC.
By _____/s/__FRED M. FERREIRA_________
FRED M. FERREIRA
CHIEF EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT OR AMENDMENT THERETO HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE INDICATED CAPACITIES ON MAY 20, 1998.

SIGNATURE	TITLE
/s/FRED M. FERREIRA FRED M. FERREIRA	Chairman of the Board, Chief Executive Officer and President
* J. GORDON BEITTENMILLER	Executive Vice President, Chief Financial Officer and Director (PRINCIPAL ACCOUNTING OFFICER)
* BRIAN S. ATLAS	Director
* THOMAS J. BEATY	Director
* ROBERT R. COOK	Director
* ALFRED J. GIARDENELLI	Director
* CHARLES W. KLAPPERICH	Director
* SAMUEL M. LAWRENCE III	Director
* JOHN C. PHILLIPS	Director
* ROBERT J. POWERS	Director
* LARRY MARTIN	Director
* JOHN MERCADANTE, JR.	Director
* SALVATORE P. GIARDINA	Director

/s/FRED M. FERREIRA
BY FRED M. FERREIRA, ATTORNEY-IN-FACT

____________ SHARES

COMFORT SYSTEMS USA, INC.

Common Stock

UNDERWRITING AGREEMENT

__________, 1998

BT ALEX. BROWN INCORPORATED
BEAR, STEARNS & CO. INC.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
SANDERS MORRIS MUNDY INC.
c/o BT Alex. Brown Incorporated
One South Street
Baltimore, Maryland 21202

Gentlemen:

Comfort Systems USA, Inc., a Delaware corporation (the "Company"), and certain shareholders of the Company (the "Selling Shareholders") propose to sell to you (the "Underwriters") for whom you are acting as representatives ("the Representatives") an aggregate of _____________ shares of the Company's Common Stock, par value $.01 per share (the "Firm Shares"). The respective amounts of the Firm Shares, of which _______ shares will be sold by the Company and ________ shares will be sold by the Selling Shareholders. The respective amounts of the Firm Shares to be so purchased by each of the several Underwriters are set forth opposite their names in Schedule I hereto, and the respective amounts to be sold by the Selling Shareholders are set forth opposite their names in Schedule II hereto. The Company and the Selling Shareholders are sometimes referred to herein collectively as the "Sellers." The Company also propose to sell at the Underwriters' option an aggregate of up to _______ additional shares of the Company's Common Stock (the "Option Shares") as set forth below.

As the Representatives, you have advised the Company and the Selling Shareholders (a) that you are authorized to enter into this Agreement, and (b) that you are willing, acting severally and not jointly, to purchase the numbers of Firm Shares set forth opposite your respective names in Schedule I, plus your pro rata portion of the Option Shares if you elect to exercise the over-allotment option in whole or in part for the accounts of the Underwriters. The Firm Shares and

the Option Shares (to the extent the aforementioned option is exercised) are herein collectively called the "Shares."

In consideration of the mutual agreements contained herein and of the interests of the parties in the transactions contemplated hereby, the parties hereto agree as follows:

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLING SHAREHOLDERS.

The Company represents and warrants to each of the Underwriters as follows:

(a) The Company represents and warrants to each of the Underwriters as follows:

(i) A registration statement on Form S-1 (Reg. No. 333-_______) with respect to the Shares has been carefully prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder and has been filed with the Commission. Copies of such registration statement, including any amendments thereto, the preliminary prospectuses (meeting the requirements of the Rules and Regulations) contained therein and the exhibits, financial statements and schedules, as finally amended and revised, have heretofore been delivered by the Company to you. Such registration statement, together with any registration statement filed by the Company pursuant to Rule 462(b) under the Act, herein referred to as the "Registration Statement," which shall be deemed to include all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, has become effective under the Act and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. "Prospectus" means (a) the form of prospectus first filed with the Commission pursuant to Rule 424(b), or (b) the last preliminary prospectus included in the Registration Statement filed prior to the time it becomes effective or filed pursuant to Rule 424(a) under the Act that is delivered by the Company to the Underwriters for delivery to purchasers of the Shares, together with the term sheet or abbreviated term sheet filed with the Commission pursuant to Rule 424(b)(7) under the Act. Each preliminary prospectus included in the Registration Statement prior to the time it becomes effective is herein referred to as a "Preliminary Prospectus."

(ii) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement. Each of the acquired companies listed on Exhibit 21.1 to the Registration Statement (collectively the "Acquired Companies") has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement. As of the date hereof, the Company has no subsidiaries except those listed in Exhibit 21.1 to the Registration Statement. The Company and each of the Acquired Companies are duly qualified to transact business in all jurisdictions in which the conduct of their respective businesses requires such qualification, except where the failure to so qualify would not have a materially adverse effect on the business and operations of the Company and the Acquired Companies taken as a whole. The outstanding shares of capital stock of each of the Acquired Companies have been duly authorized and validly issued, are fully paid and non-assessable. As of the Closing Date (as hereinafter defined), all of the outstanding shares of capital stock of each of the Acquired Companies will be owned by the Company free and clear of all liens, encumbrances and equities and claims; and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in any of the Acquired Companies will be outstanding.

(iii) The outstanding shares of Common Stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable; the Shares to be issued and sold by the Company have been duly authorized and when issued and paid for as contemplated herein will be validly issued, fully paid and non-assessable; and no preemptive rights of stockholders exist with respect to any of the Shares or the issue and sale thereof. Neither the filing of the Registration Statement nor the offering or sale of the Shares as contemplated by this Agreement gives rise to any rights, other than those which have been waived or satisfied, for or relating to the registration of any shares of Common Stock.

(iv) The information set forth under the caption "Capitalization" in the Prospectus is true and correct. All of the Shares conform to the description thereof contained in the Registration Statement. The form of certificates for the Shares conforms to the corporate law of the jurisdiction of the Company's incorporation.

(v) The Commission has not issued an order preventing or suspending the use of any Prospectus relating to the proposed offering of the Shares nor instituted proceedings for that purpose. The Registration Statement contains, and the Prospectus and any amendments or supplements thereto will contain, all statements which are required to be stated therein by, and will conform to the requirements of the Act and the Rules and Regulations. The Registration Statement and any amendment thereto do not contain, and will not contain, any untrue statement of a material fact and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Prospectus and any supplements thereto do not contain, and will not contain, any untrue statement of a material fact and do not omit, and will not omit, to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

provided, however, that the Company makes no representations or warranties as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of any Underwriter through the Representatives, specifically for use in the preparation thereof.

(vi) All of the financial statements of the Company and the separate financial statements of any Acquired Company, in each case together with related notes and schedules, as set forth in the Registration Statement, present fairly in all material respects the financial position and the results of operations and cash flows of the Company and of the Acquired Companies, respectively, at the indicated dates and for the indicated periods. Such financial statements and related schedules have been prepared in accordance with generally accepted principles of accounting, consistently applied throughout the periods involved, except as disclosed therein, and all adjustments necessary for a fair presentation of results for such periods have been made. The summary historical, pro forma and pro forma combined financial and statistical data included in the Registration Statement present fairly the information shown therein and such data have been compiled on a basis consistent with the financial statements presented therein and the books and records of the Company and the Acquired Companies, as applicable. The pro forma financial statements of the Company and the Acquired Companies (including the supplemental pro forma information shown therein), together with the related notes, as set forth in the Registration Statement, present fairly the information shown therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly compiled on the pro forma bases described therein, and in the opinon of the Company, the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions or circumstances referred to therein.

(vi) Arthur Andersen LLP and Marden, Harrison & Kreuter, who have each certified certain of the financial statements filed with the Commission as part of the Registration Statement, are each independent public accountants as required by the Act and the Rules and Regulations.

(vii) There is no action, suit, claim or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of the Acquired Companies before any court or administrative agency or otherwise, which if determined adversely to the Company or such Acquired Company is reasonably likely to result in any material adverse change in the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Acquired Companies, taken as a whole, or to prevent the consummation of the transactions contemplated hereby except as set forth in the Registration Statement.

(viii) Each of the Company and the Acquired Companies has good and marketable title to all of its properties and assets reflected in its financial statements (or as described in the Registration Statement) hereinabove described, subject to no lien, mortgage, pledge, charge or encumbrance of any kind except those reflected in such financial statements (or as described in the Registration Statement) or which are not material in amount. Each of the Company and the Acquired Companies occupies its leased properties under valid and binding leases conforming in all material respects to the description thereof set forth in the Registration Statement.

(ix) Each of the Company and the Acquired Companies has filed all Federal, state, local and foreign income tax returns which have been required to be filed and have paid all taxes indicated by said returns and all assessments received by it or any of them to the extent that such taxes have become due and are not being contested in good faith. All tax liabilities have been adequately provided for in the financial statements of the Company and the Acquired Companies, as applicable.

(x) Since the respective dates as of which information is given in the Registration Statement, as it may be amended or supplemented, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise), or prospects of the Company and the Acquired Companies, taken as a whole, whether or not occurring in the ordinary course of business, and there has not been any material transaction entered into or any material transaction that is probable of being entered into by the Company or the Acquired Companies, other than transactions in the ordinary course of business and changes and transactions described in the Registration Statement, as it may be amended or supplemented. Neither the Company nor any of the Acquired Companies has any material contingent obligations which are not disclosed in the Company's or such Acquired Company's financial statements, as applicable, included in the Registration Statement.

(xi) Neither the Company nor any of the Acquired Companies is, or with the giving of notice or lapse of time or both, will be, in violation of or in default under its Charter or By-Laws or under any agreement, lease, contract, indenture or other instrument or obligation to which it is a party or by which it, or any of its properties, is bound and which default is of material significance in respect of the condition (financial or otherwise) of the Company and the Acquired Companies, taken as a whole, or the business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Acquired Companies, taken as a whole. The execution and delivery of this Agreement and the consummation of the transactions herein contemplated and the fulfillment of the terms hereof will not conflict with or result in a material breach of any of the terms or provisions of, or constitute a material default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company or any of the Acquired Companies is a party, or of the Charter or By-Laws of the Company or any of the Acquired Companies or any order, rule or regulation applicable to the Company or any of the Acquired Companies of any court or, assuming compliance with all applicable state securities or blue sky laws, of any regulatory body or administrative agency or other governmental body having jurisdiction.

(xii) Each material approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body necessary in connection with the execution and delivery by the Company of this Agreement and the consummation of the transactions herein contemplated (except such additional steps as may be required by the Commission, the National Association of Securities Dealers, Inc. (the "NASD") or such additional steps as may be necessary to qualify the Shares for public offering by the Underwriters under state securities or Blue Sky laws) has been obtained or made and is in full force and effect.

(xiii) The Company and each of the Acquired Companies hold all material licenses, certificates and permits from governmental authorities which are necessary to the conduct of their businesses; and neither the Company nor any of the Acquired Companies has infringed any patents, patent rights, trade names, trademarks or copyrights, which infringement is material to the business of the Company or such Acquired Company. The Company knows of no material infringement by others of patents, patent rights, trade names, trademarks or copyrights owned by or licensed to the Company or any of the Acquired Companies.

(xiv) Neither the Company, nor to the Company's best knowledge, any of its affiliates or any of the Acquired Companies or any of their affiliates, has taken or may take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of Common Stock to facilitate the sale or resale of the Shares.

(xv) Neither the Company nor any of the Acquired Companies is an "investment company" within the meaning of such term under the Investment Company Act of 1940 and the rules and regulations of the Commission thereunder.

(xvi) The Company and each of the Acquired Companies maintain a system of internal accounting controls sufficient to provide reasonable assurances that (a) transactions are executed in accordance with management's general or specific authorization; (b) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (c) access to assets is permitted only in accordance with management's general or specific authorization; and (d) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xvii) The Company and each of the Acquired Companies carry, or are covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies engaged in similar industries.

(xviii) The Company and each of the Acquired Companies are in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any of the Acquired Companies would have any liability; neither the Company nor any of the Acquired Companies has incurred nor expects to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan," or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "Code"); and each "pension plan" for which the Company or any of the Acquired Companies would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(b) Each of the Selling Shareholders severally represent and warrant as follows:

(i) Such Selling Shareholder now has and at the Closing Date and the Option Closing Date, as the case may be (as such dates are hereinafter defined) will have good and marketable title to the Firm Shares and the Option Shares to be sold by such Selling Shareholder, free and clear of any liens, encumbrances, equities and claims, and full right, power and authority to effect the sale and delivery of such Firm Shares and Option Shares; and upon delivery of, against payment for, such Firm Shares and Option Shares pursuant to this Agreement, the Underwriters will acquire good and marketable title thereto, free and clear of any liens, encumbrances, equities and claims.

(ii) Such Selling Shareholder has full right, power and authority to execute and deliver this Agreement, the Power of Attorney, and the Custodian Agreement referred to below and to perform its obligations under such Agreements. The execution and delivery of this Agreement and the consummation by such Selling Shareholder of the transactions herein contemplated and the fulfillment by such Selling Shareholder of the terms hereof will not require any consent, approval, authorization, or other order of any court, regulatory body, administrative agency or other governmental body (except as may be required under the Act, state securities laws or Blue Sky laws) and will not result in a breach of any of the terms and provisions of, or constitute a default under, organizational documents of such Selling Shareholder, of not an individual, or any indenture, mortgage, deed of trust or other agreement or instrument to which such Selling Shareholder is a party, or of any order, rule or regulation applicable to such Selling Shareholder of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction.

(iii) Such Selling Shareholder has not taken and will not take, directly or indirectly, any action designed to, or which has constituted, or which might reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock of the Company and, other than as permitted by the Act, the Selling Shareholder will not distribute any prospectus or other offering material in connection with the offering of the Shares.

(iv) Without having undertaken to determine independently the accuracy or completeness of either the representations and warranties of the Company contained herein or the information contained in the Registration Statement, such Selling Shareholder has no reason to believe that the representation and warranties of the Company contained in this Section 1 are not true and correct, is familiar with the Registration Statement and has no knowledge of any material fact, condition or information not disclosed in the Registration Statement which has adversely affected or may adversely affect the business of the Company or any of the Acquired Companies; and the sale of the Firm Shares and the Option Shares by such Selling Shareholder pursuant hereto is not prompted by any information concerning the Company or any of the Acquired Companies which is not set forth in the Registration Statement. The information pertaining to such Selling Shareholder under the Caption "Principal and Selling Stockholders" in the Prospectus is complete and accurate in all material respects.

2. PURCHASE, SALE AND DELIVERY OF THE FIRM SHARES.

(a) On the basis of the representations, warranties and covenants herein contained, and subject to the conditions herein set forth, the Sellers agree to sell to the Underwriters and each Underwriter agrees, severally and not jointly, to purchase, at a price of $______ per share, the number of Firm Shares set forth opposite the name of each Underwriter in Schedule I hereof, subject to adjustments in accordance with Section 9 hereof. The number of Firm Shares to be purchased by each Underwriter from each Seller shall be as nearly as practicable in the same proportion to the total number of Firm Shares being sold by each Seller as the number of Firm Shares being purchased by each of the Underwriters bears to the total number of Firm Shares to be sold hereunder. The obligation of the Company and of each of the Selling Shareholders shall be several and not joint.

(b) Certificates in negotiable form for the total number of the Shares to be sold hereunder by the Selling Shareholders have been place in custody with William George, III, as custodian (the "Custodian") pursuant to the Custodian and Power of Attorney Agreements executed by each Selling Shareholder for delivery of all Firm Shares. Each of the Selling Shareholders specifically agrees that the Firm Shares held in custody for the Selling Shareholders under the Custodian and Power of Attorney Agreement are subject to the interests of the Underwriters hereunder, that the arrangements made by the Selling Shareholders for such custody are to that extent irrevocable, and that the obligations of the Selling Shareholders hereunder shall not be terminable by any act or deed of the Selling Shareholders (or by any other person, firm or corporation including the Company, the Custodian or the Underwriters) or by operation of law (including the death of an individual Selling Shareholder or the dissolution of a corporate Selling Shareholder) or by the occurence of any other event or events, except as set forth in the Custodian and Power of Attorney Agreement. If any such event should occur prior to the delivery to the Underwriters of the Firm Shares hereunder, certificates for the Firm Shares shall be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such event has not occured. The Custodian is authorized to receive and acknowledge receipt of the proceeds of sale of the Shares held by it against delivery of such Shares.

(c) Payment for the Firm Shares to be sold hereunder is to be made in same day funds via wire transfer to the order of the Company for the shares to be sold by it and to the order of Willian George, III, "as Custodian" for the shares to be sold by the Selling Shareholders, in each case against delivery of certificate therefor to the Representatives for the several accounts of the Underwriters. Such payment and delivery are to be made at the offices of BT Alex. Brown Incorporated, 1 South Street, Baltimore, Maryland, at 10:00 a.m., Baltimore time, on the third business day after the date of this Agreement or at such other time and date not later than five business days thereafter as you and the Company shall agree upon, such time and date being herein referred to as the "Closing Date." (As used herein, "business day" means a day on which the New York Stock Exchange is open for trading and on which banks in New York are open for business and not permitted by law or executive order to be closed.) The certificates for the Firm Shares will be delivered in such denominations and in such registrations as the Representatives request in writing not later than the second full business day prior to the Closing Date, and will be made available for inspection by the Representatives at least one business day prior to the Closing Date.

(d) In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company hereby grants an option to the several Underwriters to purchase the Option Shares at the price per share as set forth in the first paragraph of this Section 2. The option granted hereby may be exercised in whole or in part by giving written notice (i) at any time before the

Closing Date and (ii) only once thereafter within 30 days after the date of this Agreement, by you, as Representatives of the several Underwriters, to the Company, the Attorney-in-Fact and the Custodian setting forth the number of Option Shares as to which the several Underwriters are exercising the option, the names and denominations in which the Option Shares are to be registered and the time and date at which such certificates are to be delivered. The time and date at which certificates for Option Shares are to be delivered shall be determined by the Representatives but shall not be earlier than three nor later than 10 full business days after the exercise of such option, nor in any event prior to the Closing Date (such time and date being herein referred to as the "Option Closing Date"). If the date of exercise of the option is three or more days before the Closing Date, the notice of exercise shall set the Closing Date as the Option Closing Date. The number of Option Shares to be purchased by each Underwriter shall be in the same proportion to the total number of Option Shares being purchased as the number of Firm Shares being purchased by such Underwriter bears to the total number of Firm Shares, adjusted by you in such manner as to avoid fractional shares. The option with respect to the Option Shares granted hereunder may be exercised only to cover over-allotments in the sale of the Firm Shares by the Underwriters. You, as Representatives of the several Underwriters, may cancel such option at any time prior to its expiration by giving written notice of such cancellation to the Company. To the extent, if any, that the option is exercised, payment for the Option Shares shall be made on the Option Closing Date in same day funds via wire transfer to the order of the Company for the Option Shares sold by it against delivery of certificates therefor at the offices of BT Alex. Brown Incorporated, 1 South Street, Baltimore, Maryland.

(e) If on the Closing Date or the Option Closing Date, as the case may be, any Selling Shareholder fails to sell the Firm Shares which such Selling Shareholder has agreed to sell on such date as set forth in Schedule II hereto, the Company agrees that it will sell or arrange for the sale of that number of shares of Common Stock to the Underwriters which represents Firm Shares which such Selling Shareholder has failed to so sell, as set forth in Schedule II hereto, or such lesser number as may be requested by the Representatives.

3. OFFERING BY THE UNDERWRITERS.

It is understood that the Underwriters are to make a public offering of the Firm Shares as soon as the Representatives deem it advisable to do so following execution of this Agreement. The Firm Shares are to be initially offered to the public at the public offering price set forth on the cover of the Prospectus. The Representatives may from time to time thereafter change the public offering price and other selling terms. To the extent, if at all, that any Option Shares are purchased pursuant to Section 2 hereof, the Underwriters will offer them to the public on the foregoing terms.

It is further understood that you will act in accordance with a Master Agreement Among Underwriters.

4. COVENANTS OF THE COMPANY AND THE SELLING SHAREHOLDERS.

(a) The Company covenants and agrees with the Underwriters that:

(i) The Company will (A) use its best efforts to cause the Registration Statement to become effective or, if the procedure in Rule 430A of the Rules and Regulations is followed, to prepare and timely file with the Commission under Rule 424(b) of the Rules and Regulations a Prospectus in a form approved by the Representatives containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A of the Rules and Regulations, and (B) not file any amendment to the Registration Statement or supplement to the Prospectus of which the Representatives shall not previously have been advised and furnished with a copy or to which the Representatives shall have reasonably objected in writing or which is not in compliance with the Rules and Regulations.

(ii) The Company will advise the Representatives promptly (A) when the Registration Statement or any post-effective amendment thereto shall have become effective, (B) of receipt of any comments from the Commission, (C) of any request of the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, and (D) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus or of the institution of any proceedings for that purpose. The Company will use its best efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus and to obtain as soon as possible the lifting thereof, if issued.

(iii) The Company will cooperate with the Representatives in endeavoring to qualify the Shares for sale under the securities laws of such jurisdictions as the Representatives may reasonably have designated in writing and will make such applications, file such documents, and furnish such information as may be reasonably required for that purpose, provided the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction where it is not now so qualified or required to file such a consent. The Company will, from time to time, prepare and file such statements, reports, and other documents, as are or may be required to continue such qualifications in effect for so long a period as the Representatives may reasonably request for distribution of the Shares.

(iv) The Company will deliver to, or upon the order of, the Representatives , from time to time, as many copies of any Preliminary Prospectus as the Representatives may reasonably request. The Company will deliver to, or upon the order of, the Representatives during the period when delivery of a Prospectus is required under the Act, as many copies of the Prospectus in final form, or as thereafter amended or supplemented, as the Representatives may reasonably request. The Company will deliver to the Representatives at or before the Closing Date, three signed, xeroxed copies of the Registration Statement and all amendments thereto including all exhibits filed therewith, and will deliver to the Representatives such number of copies of the Registration Statement (including such number of copies of the exhibits filed therewith that may reasonably be requested), including any documents incorporated by reference therein, and of all amendments thereto, as the Representatives may reasonably request.

(v) The Company will comply with the Act and the Rules and Regulations and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission thereunder, so as to permit the completion of the distribution of the Shares as contemplated in this Agreement and the Prospectus. If during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, any event shall occur as a result of which, in the judgment of the Company or in the reasonable opinion of the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances existing at the time the Prospectus is delivered to a purchaser, not misleading, or, if it is necessary at any time to amend or supplement the Prospectus to comply with any law, the Company promptly will prepare and file with the Commission an appropriate amendment to the Registration Statement or supplement to the Prospectus so that the Prospectus as so amended or supplemented will not, in the light of the circumstances when it is so delivered, be misleading, or so that the Prospectus will comply with the law.

(vi) The Company will make generally available to its security holders, as soon as it is practicable to do so, but in any event not later than 15 months after the effective date of the Registration Statement, an earnings statement (which need not be audited) in reasonable detail, covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement, which earnings statement shall satisfy the requirements of Section 11(a) of the Act and Rule 158 of the Rules and Regulations and will advise you in writing when such statement has been so made available.

(vii) The Company will, for a period of five years from the Closing Date, deliver to the Underwriters copies of annual reports and copies of all other documents, reports and information furnished by the Company to its stockholders or filed with any securities exchange pursuant to the requirements of such exchange or with the Commission pursuant to the Act or the Exchange Act. The Company will deliver to the Representatives similar reports with respect to significant subsidiaries, as that term is defined in the Rules and Regulations, which are not consolidated in the Company's financial statements.

(viii) No offering, sale, short sale or other disposition of any shares of Common Stock of the Company or other securities convertible into or exchangeable or exercisable for shares of Common Stock or derivative of Common Stock (or agreement for such) will be made for a period of 180 days after the date of the Prospectus, directly or indirectly, by the Company otherwise than hereunder or with the prior written consent of BT Alex. Brown Incorporated, except that the Company may, without such consent, issue shares (A) upon exercise of options granted under its stock option plans, (B) upon exercise of warrants outstanding on the date of this Agreement, (C) in connection with acquisitions of businesses, (D) in connection with conversion of shares of Restricted Common Stock to Common Stock or (E) pursuant to employee benefit or compensation plans existing on the date hereof.

(ix) The Company will use its best efforts to list, subject to notice of issuance, the Shares on the New York Stock Exchange.

(x) The Company has caused each executive officer and director of the Company to furnish to you, on or prior to the date of this Agreement, a letter or letters, in form and substance satisfactory to the Underwriters, pursuant to which each such person has agreed not to offer, sell, sell short or otherwise dispose of any shares of Common Stock of the Company owned by such person (or as to which such person has the right to direct the disposition of) or request the registration for the offer or sale of any of the foregoing for a period of 180 days after the date of the Prospectus, directly or indirectly, except with the prior written consent of BT Alex. Brown Incorporated ("Lockup Agreements").

(xi) The Company shall apply the net proceeds of its sale of the Shares as set forth in the Prospectus and shall file such reports with the Commission with respect to the sale of the Shares and the application of the proceeds therefrom as may be required in accordance with Rule 463 under the Act.

(xii) The Company shall not invest, or otherwise use, the proceeds received by the Company from its sale of the Shares in such a manner as would require the Company or any of the Acquired Companies to register as an investment company under the Investment Company Act of 1940, as amended (the "1940 Act").

(xiii) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar for the Common Stock.

(xiv) The Company will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

(b) Each of the Selling Shareholders covenants and agrees with the several Underwriters that:

(i) No offering, sale, short sale or other disposition of any shares of Common Stock of the Company or other capital stock of the Company or other securities convertible, exchangeable or exercisable for Common Stock or derivative of Common Stock owned by the Selling Shareholder or request for registration for the offer or sale of any of the foregoing (or as to which the Selling Shareholder has the right to direct the disposition of) will be made for a period of 180 days after the date of this Agreement, directly or indirectly, by such Selling Shareholder otherwise than hereunder or with the prior written consent of BT Alex. Brown Incorporated.

(ii) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 and the Interest and Dividend Tax Compliance Act of 1983 with respect to the transactions herein contemplated, each of the Selling Shareholders agrees to deliver to you prior or at the Closing Date a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof).

(iii) Such Selling Shareholder will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

5. COSTS AND EXPENSES.

The Company will pay all costs, expenses and fees incident to the performance of the obligations of the Sellers under this Agreement, including, without limiting the generality of the foregoing, the following: accounting fees of the Company; the fees and disbursements of counsel for the Company and the Selling Shareholders; the cost of printing and delivering to, or as requested by, the Underwriters copies of the Registration Statement, Preliminary Prospectuses, the Prospectus, this Agreement; the filing fees of the Commission; the filing fees and expenses (including disbursements but excluding legal fees of counsel to the Underwriters) incident to securing any required review by the National Association of Securities Dealers, Inc. (the "NASD") of the terms of the sale of the Shares; the Listing Fee of The New York Stock Exchange; and the expenses, including the fees and disbursements of counsel for the Underwriters, incurred in connection with the qualification of the Shares under State securities or Blue Sky laws. The Selling Shareholders have agreed with the Company to reimburse the Company for a portion of such expenses. To the extent, if at all, that any of the Selling Shareholders engage special counsel to represent them in connection with this offering, the fees and expenses of such counsel shall be borne by such Selling Shareholder. Any transfer taxes imposed on the sale of the Shares to the several Underwriters will be paid by the Sellers pro rata.

The Sellers shall not, however, be required to pay for any of the Underwriters' expenses (other than those related to qualification under NASD regulations and State securities or Blue Sky laws) except that, if this Agreement shall not be consummated because the conditions in Section 6 hereof are not satisfied, or because this Agreement is terminated by the Underwriters pursuant to Section 11 hereof, or by reason of any failure, refusal or inability on the part of the Company or the Selling Shareholders to perform any undertaking or satisfy any condition of this Agreement or to comply with any of the terms hereof on their part to be performed, unless such failure to satisfy said condition or to comply with said terms be due to the default or omission of any Underwriter, then the Company shall reimburse the Underwriters for reasonable out-of-pocket expenses, including fees and disbursements of counsel, reasonably incurred in connection with investigating, marketing and proposing to market the Shares or in contemplation of performing their obligations hereunder; but the Company and the Selling Shareholders shall not in any event be liable to any of the Underwriters for damages on account of loss of anticipated profits from the sale by them of the Shares.

6. CONDITIONS OF OBLIGATIONS OF THE UNDERWRITERS.

The several obligations of the Underwriters to purchase the Firm Shares on the Closing Date and the Option Shares, if any, on the Option Closing Date are subject to the accuracy, as of the Closing Date or the Option Closing Date, as the case may be, of the representations and warranties of the Company and the Selling Shareholders contained herein, and to the performance by the Company and the Selling Shareholders of their covenants and obligations hereunder and to the following additional conditions:

(a) The Registration Statement and all post-effective amendments thereto shall have become effective and any and all filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made, and any request of the Commission for additional information (to be included in the Registration Statement or otherwise) shall have been disclosed to the Representatives and complied with to their reasonable satisfaction. No stop order suspending the effectiveness of the Registration Statement, as amended from time to time, shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company and the Selling Shareholders, shall be contemplated by the Commission and no injunction, restraining order, or order of any nature by a Federal or state court of competent jurisdiction shall have been issued as of the Closing Date or the Option Closing Date, as the case may be, which would prevent the issuance of the Shares.

(b) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, the opinion of Bracewell & Patterson L.L.P., counsel for the Company and the Selling Shareholders, dated the Closing Date or the Option Closing Date, as the case may be, addressed to the Underwriters (and stating that it may be relied upon by counsel to the Underwriters) to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; each of the Acquired Companies has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation, with corporate power and authority to own or lease its properties and conduct its business; the Company and each of the Acquired Companies are duly qualified to transact business in each of the jurisdictions set forth on a schedule to such opinion; and the outstanding shares of capital stock of each of the Acquired Companies have been duly authorized and validly issued and will be fully paid and non-assessable and will be owned by the Company; and, to the best of such counsel's knowledge, the outstanding shares of capital stock of each of the Acquired Companies will be owned by the Company, free and clear of all liens, encumbrances and equities and claims, and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into any shares of capital stock of or other ownership interests in any of the Acquired Companies will be outstanding.

(ii) The Company has authorized capital stock as set forth under the caption "Capitalization" in the Prospectus; the authorized shares of the Company's Preferred Stock and Common Stock have been duly authorized; the outstanding shares of the Company's Common Stock, including the Shares to be sold by the Selling Shareholders, have been duly authorized and validly issued and are fully paid and non-assessable; all of the Shares conform to the description thereof contained in the Prospectus; the certificates for the Shares, assuming they are in the form filed with the Commission, are in due and proper form; the Firm Shares and Option Shares, if any, to be sold by the Company pursuant to this Agreement have been duly authorized and will be validly issued, fully paid and non-assessable when issued and paid for as contemplated by this Agreement; and no preemptive rights of stockholders exist under statute or under agreements known to such counsel with respect to any of the Shares or the issue or sale thereof.

(iii) Except as described in or contemplated by the Prospectus, to the knowledge of such counsel, there are no outstanding securities of the Company convertible or exchangeable into or evidencing the right to purchase or subscribe for any shares of capital stock of the Company and there are no outstanding or authorized options, warrants or rights of any character obligating the Company to issue any shares of its capital stock or any securities convertible or exchangeable into or evidencing the right to purchase or subscribe for any shares of such stock; and except as described in the Prospectus, to the knowledge of such counsel, no holder of any securities of the Company or any other person has the right, contractual or otherwise, which has not been satisfied or effectively waived, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, any of the Shares or the right to have any shares of Common Stock or other securities of the Company included in the Registration Statement or the right, as a result of the filing of the Registration Statement, to require registration under the Act of any shares of Common Stock or other securities of the Company.

(iv) The Registration Statement has become effective under the Act and, to the best of the knowledge of such counsel, no stop order proceedings with respect thereto have been instituted or are pending or threatened under the Act.

(v) The Registration Statement, the Prospectus and each amendment or supplement thereto comply as to form in all material respects with the requirements of the Act and the applicable rules and regulations thereunder (except that such counsel need express no opinion as to the financial statements, notes thereto and related schedules and other financial and statistical information included therein or any information furnished by the Underwriters for use therein).

(vi) The statements under the captions "Business-Regulation," "Business-Legal Proceedings," "Management-Executive Compensation; Employment Agreements; Covenants-not-to-Compete," "Management-Long-Term Incentive Compensation Plan," "Certain Transactions," "Description of Capital Stock" and "Shares Eligible for Future Sale" in the Prospectus, insofar as such statements constitute a summary of documents referred to therein or matters of law, are accurate summaries and fairly present in all material respects the information called for with respect to such documents and matters.

(vii) Such counsel does not know of any contracts or documents required to be filed as exhibits to the Registration Statement or described in the Registration Statement or the Prospectus which are not so filed or described as required, and the descriptions of such contracts and documents required to be described in the Registration Statement or the Prospectus are correct in all material respects.

(viii) Such counsel knows of no material legal or governmental proceedings pending or threatened against the Company or any of the Acquired Companies except as set forth in the Prospectus.

(ix) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated do not and will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the Charter or By-Laws of the Company, or, in any respect material to the Company and the Acquired Companies, taken as a whole, any agreement or instrument known to such counsel to which the Company or any of the Acquired Companies is a party or by which the Company or any of the Acquired Companies may be bound.

(x) This Agreement has been duly authorized, executed and delivered by the Company.

(xi) No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body is necessary in connection with the execution and delivery of this Agreement and the consummation of the transactions herein contemplated (other than as may be required by the NASD or as required by State securities and Blue Sky laws as to which such counsel need express no opinion), except such as have been obtained or made, specifying the same.

(xii) The Company is not, and will not become, as a result of the consummation of the transactions contemplated by this Agreement, and application of the net proceeds therefrom as described in the Prospectus, required to register as an investment company under the 1940 Act.

(xiii) This Agreement has been duly authorized, executed and delivered on behalf of the Selling Shareholders.

(xiv) Each Selling Shareholder has full legal right, power and authority, and any approval required by law (other than as required by State securities and Blue Sky laws as to which such counsel need express no opinion), to sell, assign, transfer and deliver the portion of the Shares to be sold by such Selling Shareholder.

(xv) The Custodian Agreement and the Power of Attorney executed and delivered by each Selling Shareholder is valid and binding.

(xvi) The Underwriters (assuming that they are bona fide purchasers within the meaning of the Uniform Commercial Code) have acquired good and marketable title to the Shares being sold by each Selling Shareholder on the Closing Date free and clear of all liens, encumbrances, equities and claims.

In rendering such opinion, Bracewell & Patterson L.L.P. may provide that its opinion is limited to matters governed by the laws of Texas and the General Corporation law of the State of Delaware, and the Federal securities laws of the United States, may rely on counsel to one or more of the Acquired Companies with respect to matters related to the Acquired Companies and as to matters set forth in subparagraphs (xiii), (xiv), (xv) and (xvi) on opinions of other counsel representing the Selling Shareholders, provided that, in lieu of such reliance, Bracewell & Patterson L.L.P. may provide separate opinions of such counsel so long as such opinions are addressed to the Underwriters, and further provided, that, in each case, Bracewell & Patterson L.L.P. shall state that they believe that they and the Underwriters are justified in relying on such other counsel. In addition to the matters set forth above, the opinion of Bracewell & Patterson L.L.P. shall also include a statement of belief to the effect that nothing has come to the attention of such counsel which leads them to believe that (i) the Registration Statement, at the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements, schedules or other financial and statistical information therein). With respect to such statement of belief, Bracewell & Patterson L.L.P. may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

(c) The Representatives shall have received from Piper & Marbury L.L.P., counsel for the Underwriters, an opinion dated the Closing Date or the Option Closing Date, as the case may be, substantially to the effect specified in subparagraphs (ii), (iii), (iv), and (xi) of Paragraph (b) of this Section 6, and that the Company is a duly organized and validly existing corporation under the laws of the State of Delaware. In rendering such opinion, Piper & Marbury L.L.P. may rely as to the matters relating to the laws of the States other than Maryland and Delaware on the opinions of counsel referred to in Paragraph (b) of this Section 6. In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel which leads them to believe that (i) the Registration Statement, or any amendment thereto, as of the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact, necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements, schedules and statistical information therein). With respect to such statement, Piper & Marbury L.L.P. may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

(d) The Representatives shall have received, on the date hereof, the Closing Date and the Option Closing Date, as the case may be, letters dated the date hereof, the Closing Date or the Option Closing Date, as the case may be, in form and substance satisfactory to the Underwriterss, of Arthur Andersen LLP confirming that they are independent public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating that, in their opinion, the financial statements and schedules of the Company and the Acquired Companies examined by them and included in the Registration Statement comply in form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations; and containing such other statements and information as is ordinarily included in accountants' "comfort letters" to Underwriters with respect to such financial statements and certain financial and statistical information contained in the Registration Statement and Prospectus.

(e) The Representatives shall have received, on the date hereof, the Closing Date and the Option Closing Date, as the case may be, letters dated the date hereof, the Closing Date or the Option Closing Date, as the case may be, in form and substance satisfactory to the Underwriterss, of Marden, Harrison & Kreuter confirming that they are independent public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating that, in their opinion, the financial statements and schedules of F&G Mechanical Corp. and its affiliate examined by them and included in the Registration Statement comply in form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations; and containing such other statements and information as is ordinarily included in accountants' "comfort letters" to Underwriters with respect to such financial statements and certain financial and statistical information contained in the Registration Statement and Prospectus.

(f) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, a certificate or certificates of the Company and signed by the Chief Executive Officer and the Chief Financial Officer of the Company to the effect that, as of the Closing Date or the Option Closing Date, as the case may be:

(i) The Registration Statement has become effective under the Act and no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for such purpose have been taken or are, to his knowledge, contemplated by the Commission;

(ii) The representations and warranties of the Company contained in Section 1 hereof are true and correct in all material respects as of the Closing Date or the Option Closing Date, as the case may be;

(iii) All filings required to have been made pursuant to Rules 424 or 430A under the Act have been made;

(iv) As of the effective date of the Registration Statement, the statements contained in the Registration Statement were true and correct in all material respects, and such Registration Statement and Prospectus did not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, and since the effective date of the Registration Statement, no event has occurred which should have been set forth in a supplement to or an amendment of the Prospectus which has not been so set forth in such supplement or amendment; and

(v) Since the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company or any of the Acquired Companies or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company or any of the Acquired Companies, whether or not arising in the ordinary course of business, except as set forth in, or contemplated by, the Prospectus or as described in such certificate.

(g) The Company and the Selling Shareholders shall have furnished to the Representatives such further certificates and documents confirming the representations and warranties, covenants and conditions contained herein and related matters as the Representatives may reasonably have requested.

(h) The Firm Shares and Option Shares, if any, shall have been approved for designation upon notice of issuance on the New York Stock Exchange.

(i) The Lockup Agreements described in Section 4(j) shall be in full force and effect.

The opinions and certificates mentioned in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in all material respects satisfactory to the Representatives and to Piper & Marbury L.L.P., counsel for the Underwriters, in their reasonable judgment.

If any of the conditions hereinabove provided for in this Section 6 shall not have been fulfilled when and as required by this Agreement to be fulfilled, the obligations of the Underwriters hereunder may be terminated by the Underwriters by notifying the Company and the Selling Shareholders of such termination in writing or by telegram at or prior to the Closing Date or the Option Closing Date, as the case may be.

In such event, the Selling Shareholders, the Company and the Underwriters shall not be under any obligation to each other (except to the extent provided in Sections 5 and 8 hereof).

7. CONDITIONS OF THE OBLIGATIONS OF THE SELLERS.

The obligations of the Sellers to sell and deliver the portion of the Shares required to be delivered as and when specified in this Agreement are subject to the conditions that at the Closing Date or the Option Closing Date, as the case may be, no stop order suspending the effectiveness of the Registration Statement shall have been issued and in effect or proceedings therefor initiated or threatened.

8. INDEMNIFICATION.

(a) The Company and the Selling Shareholders, jointly and severally, agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities to which such Underwriter or any such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse each Underwriter and each such controlling person upon demand for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating or defending any such loss, claim, damage or liability, action or proceeding or in responding to a subpoena or governmental inquiry related to the offering of the Shares, whether or not such Underwriter or controlling person is a party to any action or proceeding; provided, however, that the Company and the Selling Shareholders will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement, or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof. In no event, however, shall the liability of any Selling Shareholder for indemnification under Section 8(a) exceed the proceeds received by such Selling Shareholder from the Underwriters in the offering. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Underwriter severally and not jointly will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the Registration Statement, the Selling Shareholders, and each person, if any, who controls the Company or the Selling Shareholders within the meaning of the Act against any losses, claims, damages or liabilities to which the Company or any such director, officer, Selling Shareholder or controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made; and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, Selling Shareholder or controlling person in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that each Underwriter will be liable in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission has been made in the Registration Statement, any Preliminary Prospectus, the Prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to this Section 8, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing. No indemnification provided for in Section 8(a) or (b) shall be available to any party who shall fail to give notice as provided in this Section 8(c) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was materially prejudiced by the failure to give such notice, but the failure to give such notice shall not relieve the indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of the provisions of Section 8(a) or (b). In case any such proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party and shall pay as incurred the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel at its own expense. Notwithstanding the foregoing, the indemnifying party shall pay as incurred (or within 30 days of presentation) the fees and expenses of the counsel retained by the indemnified party in the event (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them or (iii) the indemnifying party shall have failed to assume the defense and employ counsel acceptable to the indemnified party within a reasonable period of time after notice of commencement of the action. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm for all such indemnified parties. Such firm shall be designated in writing by you in the case of parties indemnified pursuant to Section 8(a) and by the Company and the Selling Shareholders in the case of parties indemnified pursuant to Section 8(b). The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. In addition, the indemnifying party will not, without the prior written consent of the indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding of which indemnification may be sought hereunder (whether or not any indemnified party is an actual or potential party to such claim, action or proceeding) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action or proceeding.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or (b) above (other than by reason of the exceptions provided in such paragraphs) in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Shareholders on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Selling Shareholders on the one hand and the Underwriters on the other in connection with the statements, omissions or breaches of representations and warranties which resulted in such losses, claims, damages or liabilities, (or actions or proceedings in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Shareholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the Selling Shareholders bears to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and the Selling Shareholders on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Selling Shareholders and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 8(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to above in this Section 8(d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), (i) no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions applicable to the Shares purchased by such Underwriter and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation, and (iii) no Selling Shareholders shall be required to contribute any amount in excess of the lesser of (A) that proportion of the total of such losses, claims, damages or liabilities indemnified or contributed against equal to the proportion of the total Shares sold hereunder which is being sold by such Selling Shareholder, or (B) the proceeds received by such Selling Shareholder from the Underwriters in the offering. The Underwriters' obligations in this Section 8(d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) In any proceeding relating to the Registration Statement, any Preliminary Prospectus, the Prospectus or any supplement or amendment thereto, each party against whom contribution may be sought under this Section 8 hereby consents to the jurisdiction of any court having jurisdiction over any other contributing party, agrees that process issuing from such court may be served upon him or it by any other contributing party and consents to the service of such process and agrees that any other contributing party may join him or it as an additional defendant in any such proceeding in which such other contributing party is a party.

(f) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 8 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 8 and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any persons controlling the Company , (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 8.

9. DEFAULT BY UNDERWRITERS.

If on the Closing Date or the Option Closing Date, as the case may be, either Underwriter shall fail to purchase and pay for any portion of the Shares which such Underwriter has agreed to purchase and pay for on such date (otherwise than by reason of any default on the part of the Company or a Selling Shareholder), the non-defaulting Underwriters, shall use their reasonable efforts to procure within 36 hours thereafter one or more other underwriters to purchase from the Company and the Selling Shareholder such amounts as may be agreed upon and upon the terms set forth herein, the Firm Shares or Option Shares, as the case may be, which the defaulting Underwriter failed to purchase. If during such 36 hours the non-defaulting Underwriter shall not have procured such other underwriters, or any others, to purchase the Firm Shares or Option Shares, as the case may be, agreed to be purchased by the defaulting Underwriter, then (a) if the aggregate number of shares with respect to which such default shall occur does not exceed 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the non-defaulting Underwriter shall be obligated, severally, in proportion to the respective numbers of Firm Shares or Option Shares, as the case may be, which they are obligated to purchase hereunder, to purchase the Firm Shares or Option Shares, as the case may be, which such defaulting Underwriter failed to purchase, or (b) if the aggregate number of shares of Firm Shares or Option Shares, as the case may be, with respect to which such default shall occur exceeds 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the Company and the Selling Shareholders or the non-defaulting Underwriter will have the right, by written notice given within the next 36-hour period to the parties to this Agreement, to terminate this Agreement without liability on the part of the non-defaulting Underwriter or of the Company or of the Selling Shareholders except to the extent provided in Section 8 hereof. In the event of a default by any Underwriter, as set forth in this Section 9, the Closing Date or Option Closing Date, as the case may be, may be postponed for such period, not exceeding seven days, as the non-defaulting Underwriter may determine in order that the required changes in the Registration Statement or in the Prospectus or in any other documents or arrangements may be effected. The term "Underwriter" includes any person substituted for a defaulting Underwriter. Any action taken under this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10. NOTICES.

All communications hereunder shall be in writing and, except as otherwise provided herein, will be mailed, delivered, telecopied or telegraphed and confirmed as follows: if to the Underwriters, to BT Alex. Brown Incorporated, One Street, Baltimore, Maryland 21202, Attention: Jay S. Eastman, Principal, with a copy to BT Alex. Brown Incorporated, One South Street, Baltimore, Maryland 21202 Attention: General Counsel; and if to the Company or the Selling Shareholders; to Comfort Sytems USA, Inc., Three Riverway, Suite 200, Houston, Texas 77056, Attention: Fred M Ferreira, Chief Executive Officer, with copies to Bracewell & Patterson L.L.P., South Tower Pennzoil Place, 711 Louisiana Street, Suite 2900, Houston, Texas 77002-2718, Attention: William D. Gutermuth, Esq. and William George III, Esq., General Counsel, Comfort Systems USA, Inc., Three Riverway, Suite 200, Houston, Texas 77056.

11. TERMINATION.

This Agreement may be terminated by you by notice to the Sellers as follows:

(a) at any time prior to the earlier of (i) the time the Shares are released by you for sale by notice to the Underwriters, or (ii) 11:30 a.m. on the date of this Agreement;

(b) at any time prior to the Closing Date if any of the following has occurred: (i) since the respective dates as of which information is given in the Registration Statement and the Prospectus, any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company and the Acquired Companies taken as a whole or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Acquired Companies taken as a whole, whether or not arising in the ordinary course of business, (ii) any outbreak or escalation of hostilities or declaration of war or national emergency or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, escalation, declaration, emergency, calamity, crisis or change on the financial markets of the United States would, in your reasonable judgment, make it impracticable to market the Shares or to enforce contracts for the sale of the Shares, (iii) suspension of trading in securities generally on the New York Stock Exchange or the American Stock Exchange or limitation on prices (other than limitations on hours or numbers of days of trading) for securities on either such Exchange, (iv) the enactment, publication, decree or other promulgation of any statute, regulation, rule or order of any court or other governmental authority which in your opinion materially and adversely affects or may materially and adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by United States or New York State authorities, (vi) the suspension of trading of the Company's Common Stock by the Commission on the New York Stock Exchange, or (vii) the taking of any action by any governmental body or agency in respect of its monetary or fiscal affairs which in your reasonable opinion has a material adverse effect on the securities markets in the United States; or

(c) as provided in Sections 6 and 9 of this Agreement.

12. SUCCESSORS.

This Agreement has been and is made solely for the benefit of the Underwriters, the Company and the Selling Shareholders and their respective successors, executors, administrators, heirs and assigns, and the officers, directors and controlling persons referred to herein, and no other person will have any right or obligation hereunder. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign merely because of such purchase.

13. INFORMATION PROVIDED BY UNDERWRITERS.

The Company and the Underwriters acknowledge and agree that the only information furnished or to be furnished by any Underwriter to the Company for inclusion in any Prospectus or the Registration Statement consists of the information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), legends required by Item 502(d) of Regulation S-K under the Act and the information under the caption "Underwriting" in the Prospectus.

14. MISCELLANEOUS.

The reimbursement, indemnity and contribution agreements contained in this Agreement and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any persons controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware.

If the foregoing letter is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Selling Shareholders, the Company and the Underwriters in accordance with its terms.

Any person executing and delivering this Agreement as Attorney-in-Fact for a Selling Shareholder represents by so doing that he has been duly appointed as Attorney-in-Fact by such Selling Shareholder pursuant to a validly existing and binding Power of Attorney which authorizes such Attorney-in-Fact to take such action.

Very truly yours,

COMFORT SYSTEMS USA, INC.

By: ________________________________
Fred M. Ferreira,
Chief Executive Officer

Selling Shareholders listed on Schedule II

By: ________________________________
William George III,
Attorney-in-Fact

The foregoing Underwriting Agreement
is hereby confirmed and accepted as
of the date first above written.

BT ALEX. BROWN INCORPORATED
BEAR, STEARNS & CO. INC.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
SANDERS MORRIS MUNDY INC.

As Representatives of the several
Underwriters listed on Schedule I

By: BT Alex. Brown Incorporated

By ________________________
Authorized Officer

SCHEDULE I

SCHEDULE OF UNDERWRITERS

UNDERWRITER	Number of Firm Shares TO BE PURCHASED
BT Alex. Brown Incorporated...	
Bear, Stearns & Co. Inc...	
Donaldson, Lufkin & Jenrette Securities Corporation...................	
Sanders Morris Mundy Inc..	
Total...	________

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP
Houston, Texas
May 20, 1998

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the use of our report dated March 24, 1998 (and to all references to our Firm as they relate to F&G Mechanical Corp. and affiliate) included in this Registration Statement of Comfort Systems USA, Inc. on Form S-1, relating to the combined financial statements of F&G Mechanical Corp. & Affiliate as of December 31, 1997, and for the year then ended.

MARDEN, HARRISON & KREUTER
Certified Public Accountants, P.C.
Port Chester, New York
May 20, 1998