UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 1-13011

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

DELAWARE	76-0526487
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

777 POST OAK BOULEVARD
SUITE 500
HOUSTON, TEXAS 77056
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

Registrant's telephone number, including area code: (713) 830-9600

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

The number of shares outstanding of the issuer's common stock, as of August 10, 2000, was 37,129,747.

COMFORT SYSTEMS USA, INC.
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FOR THE QUARTER ENDED JUNE 30, 2000

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

	DECEMBER 31, 1999	JUNE 30, 2000 (UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,664	$ 8,902
Accounts receivable	314,599	354,922
Less -- Allowance	5,568	6,661
Accounts receivable, net	309,031	348,261
Other receivables	4,575	5,711
Inventories	20,907	20,581
Prepaid expenses and other	19,891	23,221
Costs and estimated earnings in excess of billings	54,575	52,868
Total current assets	412,643	459,544
PROPERTY AND EQUIPMENT, net	41,964	45,315
GOODWILL, less accumulated amortization of $20,665 and $26,997	474,529	468,179
OTHER NONCURRENT ASSETS	14,136	5,543
Total assets	$943,272	$978,581
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,353	$ 254
Current maturities of notes to affiliates and former owners	24,536	19,472
Accounts payable	96,032	114,727
Accrued compensation and benefits	36,187	35,807
Billings in excess of costs and estimated earnings	52,170	69,929
Other current liabilities	27,799	27,904
Total current liabilities	240,077	268,093
DEFERRED INCOME TAXES	4,547	6,844
LONG-TERM DEBT, NET OF CURRENT MATURITIES	225,471	246,119
NOTES TO AFFILIATES AND FORMER OWNERS, NET OF CURRENT MATURITIES	52,473	36,637
OTHER LONG-TERM LIABILITIES	1,739	1,257
Total liabilities	524,307	558,950
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par, 5,000,000 shares authorized, none issued and outstanding	--	--
Common stock, $.01 par, 102,969,912 shares authorized, 39,258,913 shares issued	393	393
Treasury stock, at cost, 1,695,524 and 2,129,166 shares, respectively	(11,978)	(14,273)
Additional paid-in capital	342,655	342,513
Retained earnings	87,895	90,998
Total stockholders' equity	418,965	419,631
Total liabilities and stockholders' equity	$943,272	$978,581

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

COMFORT SYSTEMS USA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	2000	1999	2000
REVENUES	$341,493	$404,970	$633,419	$767,536
COST OF SERVICES	265,254	334,332	494,002	626,031
Gross profit	76,239	70,638	139,417	141,505
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	43,333	56,687	88,191	111,515
GOODWILL AMORTIZATION	2,883	3,149	5,667	6,332
Operating income	30,023	10,802	45,559	23,658
OTHER INCOME (EXPENSE):				
Interest income	225	207	392	378
Interest expense	(4,628)	(6,681)	(8,816)	(12,778)
Other	61	(12)	103	90
Other income (expense)	(4,342)	(6,486)	(8,321)	(12,310)
REDUCTIONS IN NON-OPERATING ASSETS AND LIABILITIES, NET	--	(5,190)	--	(5,190)
INCOME (LOSS) BEFORE INCOME TAXES	25,681	(874)	37,238	6,158
PROVISION FOR INCOME TAXES	11,036	31	16,029	3,055
NET INCOME (LOSS)	$ 14,645	$ (905)	$ 21,209	$ 3,103
NET INCOME (LOSS) PER SHARE:				
Basic	$ 0.38	$ (0.02)	$ 0.55	$ 0.08
Diluted	$ 0.37	$ (0.02)	$ 0.54	$ 0.08
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:				
Basic	38,734	37,496	38,524	37,528
Diluted	40,644	37,496	40,725	37,538

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

COMFORT SYSTEMS USA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK		TREASURY STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT			
BALANCE AT DECEMBER 31, 1998.....	38,141,180	$381	--	$ --	$ 333,978	$ 45,573	$379,932
Issuance of Common Stock:							
Acquisition of purchased companies.....	958,533	10	125,197	885	6,164	--	7,059
Issuance of Employee Stock Purchase Plan shares.....	142,276	2	--	--	2,036	--	2,038
Issuance of shares for options exercised.....	16,924	--	--	--	477	--	477
Common Stock repurchases.....	--	--	(1,820,721)	(12,863)	--	--	(12,863)
Net income.....	--	--	--	--	--	42,322	42,322
BALANCE AT DECEMBER 31, 1999.....	39,258,913	393	(1,695,524)	(11,978)	342,655	87,895	418,965
Issuance of Common Stock:							
Issuance of Employee Stock Purchase Plan shares (unaudited).....	--	--	127,867	904	(142)	--	762
Common Stock repurchases (unaudited).....	--	--	(175,513)	(1,224)	--	--	(1,224)
Shares exchanged in repayment of notes receivable (unaudited).....	--	--	(385,996)	(1,975)	--	--	(1,975)
Net income (unaudited).....	--	--	--	--	--	3,103	3,103
BALANCE AT JUNE 30, 2000 (unaudited).....	39,258,913	$393	(2,129,166)	$(14,273)	$342,513	$90,998	$419,631

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

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

	SIX MONTHS ENDED JUNE 30,	
	1999	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 21,209	$ 3,103
Adjustments to reconcile net income to net cash provided by operating activities --		
Depreciation and amortization expense	11,033	12,191
Bad debt expense	315	1,875
Deferred tax expense (benefit)	(542)	203
Gain on sale of property and equipment	(190)	(156)
Reduction in non-operating assets and liabilities, net	--	5,190
Changes in operating assets and liabilities, net of effects of acquisitions of purchased companies --		
(Increase) decrease in --		
Receivables, net	(32,480)	(40,570)
Inventories	(2,219)	194
Prepaid expenses and other current assets	2,508	4,649
Costs and estimated earnings in excess of billings	(6,375)	1,898
Other noncurrent assets	1,376	927
Increase (decrease) in --		
Accounts payable and accrued liabilities	10,647	10,913
Billings in excess of costs and estimated earnings	(573)	17,605
Other, net	(188)	(524)
Net cash provided by operating activities	4,521	17,498
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,692)	(9,430)
Proceeds from sales of property and equipment	862	485
Cash paid for purchased companies, net of cash acquired	(17,202)	--
Other	(500)	--
Net cash used in investing activities	(24,532)	(8,945)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(100,063)	(148,519)
Borrowings of long-term debt	116,582	145,666
Proceeds from issuance of common stock	913	762
Repurchases of common stock	--	(1,224)
Net cash provided by (used in) financing activities	17,432	(3,315)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,579)	5,238
CASH AND CASH EQUIVALENTS, beginning of period	6,985	3,664
CASH AND CASH EQUIVALENTS, end of period	$ 4,406	$ 8,902

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

COMFORT SYSTEMS USA, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2000
(UNAUDITED)

1. BUSINESS AND ORGANIZATION:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

These interim statements should be read in conjunction with the historical Consolidated Financial Statements and related notes of Comfort Systems included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 1999 (the "Form 10-K").

There were no significant changes in the accounting policies of the Company during the periods presented. For a description of the significant accounting policies of the Company, refer to Note 2 of Notes to Consolidated Financial Statements of Comfort Systems included in the Form 10-K.

The accompanying unaudited consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information or footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Form 10-K. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results for the fiscal year.

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

CASH FLOW INFORMATION

Cash paid for interest for the six months ended June 30, 1999 and 2000 was approximately $7.3 million and $11.9 million, respectively. Cash paid for income taxes for the six months ended June 30, 1999 and 2000 was approximately $14.8 million and $10.8 million, respectively.

3. REDUCTIONS IN NON-OPERATING ASSETS AND LIABILITIES, NET

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

4. BUSINESS COMBINATIONS:

During fiscal 1999, the Company acquired 25 businesses which were accounted for as purchases. These companies provide HVAC and related services. The aggregate consideration paid in these transactions was $38.0 million in cash, 1,151,907 shares of the Company's common stock ("Common Stock") with a fair value at the dates of acquisition totaling $8.5 million, $2.2 million in the form of convertible subordinated notes and $21.3 million in the form of subordinated notes. In addition, the Company received 68,177 shares from a former owner related to a prior year acquisition. Subsequent to the issuance of certain of the convertible subordinated notes, the Company entered into agreements with certain of the convertible noteholders to modify the terms of $2.1 million of these notes in order to eliminate the provisions relating to convertibility into Common Stock. The remaining convertible subordinated notes are convertible in 2000 into 5,133 shares of Common Stock.

There were no acquisitions during the six months ended June 30, 2000.

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

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

	SIX MONTHS ENDED JUNE 30, 1999
Revenues	$680,269
Net income	$ 21,998
Net income per share -- diluted	$ 0.55
Shares used in computing net income per share -- diluted	41,466

Pro forma adjustments included in the preceding table regarding the purchased companies primarily relate to (a) certain reductions in salaries and benefits to the former owners of the purchased companies which the former owners agreed would take effect as of the acquisition date, (b) amortization of goodwill related to the purchased companies, (c) interest expense on borrowings of $38.0 million related to the purchase price of the purchased companies acquired during 1999 and (d) interest expense related to subordinated notes issued in connection with the acquisition of certain purchased companies. In addition, an incremental tax provision has been recorded as if all applicable purchased companies had been subject to federal and state income taxes.

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

5. LONG-TERM DEBT OBLIGATIONS:

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

	DECEMBER 31, 1999	JUNE 30, 2000 (UNAUDITED)
Revolving credit facility.....	$225,215	$246,000
Notes to affiliates and former owners.....	77,009	56,109
Other.....	3,609	373
Total debt.....	305,833	302,482
Less: current maturities.....	27,889	19,726
	$277,944	$282,756

REVOLVING CREDIT FACILITY

The Company has a revolving credit facility ("Credit Facility") provided by Bank One, Texas, N.A. and other banks (the "Bank Group"). The Credit Facility provides the Company with a revolving line of credit of up to $300 million secured by accounts receivable, inventory and the shares of capital stock of the Company's subsidiaries. The Credit Facility expires on November 1, 2001, at which time all amounts outstanding under the Credit Facility are due. The Company currently 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 0.5% or the bank's prime rate. An additional margin of 0.25% to 1.75% is then added to the higher of these two rates. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate LIBOR) plus 1.25% to 3.00%. The additional margin for both options depends on the ratio of the Company's debt to EBITDA (as defined). Commitment fees of 0.25% to 0.5% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the facility.

The Credit Facility prohibits payment of dividends by the Company, limits certain non-Bank Group debt, and restricts outlays of cash by the Company relating to certain investments, capital expenditures, vehicle leases, acquisitions and principal repayments of subordinate debt. The Credit Facility also provides for the maintenance of certain levels of shareholder equity and EBITDA, and for the maintenance of certain ratios of the Company's EBITDA to interest expense and debt to EBITDA. Under the terms of the Credit Facility that were in effect as of June 30, 2000, the Company was in violation of the ratio requirements of senior debt to EBITDA and subordinate debt repayments, in both cases by small amounts. The Bank Group has waived these violations. In connection with these waivers, the Bank Group has agreed to reduce the required ratios of EBITDA to interest expense and debt to EBITDA through the maturity of the Credit Facility.

As of June 30, 2000, the Company had borrowed $246.0 million under the Credit Facility at an average interest rate of approximately 8.3% per annum for the first six months of 2000. The Credit Facility's interest rate terms as summarized above are effective as of August 11, 2000 and will result in an increase of approximately 0.50% in the additional margin and related costs the Company pays in excess of the indicated market interest rate in either of the interest rate options. The Company's unused committed borrowing capacity under the Credit Facility was $51.6 million at June 30, 2000. As of August 10, 2000, $257.0 million was outstanding under this facility.

INTENDED REFINANCINGS

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

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

NOTES TO AFFILIATES AND FORMER OWNERS

Subordinated notes were issued to former owners of certain purchased companies as partial consideration of the acquisition purchase price and had an outstanding balance of $56.1 million as of June 30, 2000. Of these notes, $55.8 million bear interest, payable quarterly, at a weighted average interest rate of 5.81% and $1.4 million of these notes are convertible by the holders into shares of the Company's Common Stock at a weighted average price of $25.40 per share. The remaining notes in the amount of $0.3 million are non-interest bearing and require principal payments in equal annual installments in 2001, 2002 and 2003. The terms of the convertible subordinated notes require $0.2 million of principal payments in 2000, $0.6 million of principal payments in 2001 and $0.6 million of principal payments in 2002. The terms of the nonconvertible interest bearing subordinated notes require $5.3 million of principal payments in 2000, $26.9 million of principal payments in 2001, $21.3 million of principal payments in 2002 and $0.9 million of principal payments in 2003.

Under the current terms of the Credit Facility, the Company may be restricted from making scheduled repayments of subordinate debt beginning in October 2000. If this occurs, the Company has at least one year to regain compliance with the terms of the subordinate debt. The Company intends to negotiate the disposition of this issue in connection with pursuing an extension of the maturity of borrowings outstanding under the Credit Facility as discussed above.

6. COMMITMENTS AND CONTINGENCIES:

CLAIMS AND LAWSUITS

The Company is party to litigation in the ordinary course of business. There are currently no pending legal proceedings that, in management's opinion, would have a material adverse effect on the Company's operating results or financial condition. The Company maintains various insurance coverages in order to limit financial risk associated with certain claims. The Company has provided accruals for probable losses and legal fees associated with certain of these actions in the accompanying consolidated financial statements.

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

7. STOCKHOLDERS' EQUITY:

TREASURY STOCK

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

RESTRICTED COMMON STOCK

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

Each share of Restricted Voting Common Stock will automatically convert to Common Stock on a share-for-share basis (i) in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a distribution which is a distribution by a holder to its partners or beneficial owners, or a transfer to a related party of such holders (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)), (ii) in the event any person acquires beneficial ownership of 15% or more of the total number of outstanding shares of Common Stock of the Company, or (iii) in the event any person offers to acquire 15% or more of the total number of outstanding shares of Common Stock of the Company. After July 1, 1998, the Board of Directors may elect to convert any remaining shares of Restricted Voting Common Stock into shares of Common Stock in the event 80% or more of the originally outstanding shares of Restricted Voting Common Stock have been previously converted into shares of Common Stock. As of June 30, 2000, 1,270,328 shares of Restricted Voting Common Stock had been converted to shares of Common Stock.

EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted EPS is computed considering the dilutive effect of stock options and convertible subordinated notes. Options to purchase 4.0 million shares of Common Stock at prices ranging from $7.625 to $21.438 per share were outstanding for the six months ended June 30, 2000, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the respective average market price of the Common Stock. Options had an anti-dilutive effect for the three months ended June 30, 2000 because the Company reported a net loss during this period, and therefore, are not included in the diluted EPS calculation. Diluted EPS is also computed by adjusting both net earnings and shares outstanding as if the conversion of the convertible subordinated notes occurred on the first day of the year. The after-tax interest expense related to the assumed conversion of the convertible subordinated notes during the three months and six months ended June 30, 1999 was $0.3 million and $0.7 million, respectively. The convertible subordinated notes had an anti-dilutive effect during the three months and six months ended June 30, 2000, and therefore, are not included in the diluted EPS calculation.

The following table reconciles the number of shares outstanding with the number of shares used in computing basic and diluted earnings per share for each of the periods presented (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	2000	1999	2000
Common shares outstanding, end of period	38,878	37,130	38,878	37,130
Effect of using weighted average common shares outstanding	(144)	366	(354)	398
Shares used in computing earnings per share -- basic	38,734	37,496	38,524	37,528
Effect of shares issuable under stock option plans based on the treasury stock method	286	--	223	10
Effect of shares issuable related to convertible notes	1,624	--	1,978	--
Shares used in computing earnings per share -- diluted	40,644	37,496	40,725	37,538

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

INTRODUCTION

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

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

Historical results are not necessarily indicative of future results of the Company because, among other things, the businesses acquired were not under common control or management prior to their acquisition. The results of the Company have historically 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. These interim historical statements of operations should be read in conjunction with the historical consolidated financial statements and related notes of Comfort Systems, filed herewith, and the additional information and the respective financial statements and related notes of Comfort Systems included in the Form 10-K.

RESULTS OF OPERATIONS -- (IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30,				SIX MONTHS ENDED JUNE 30,			
	1999		2000		1999		2000	
Revenues	$341,493	100.0%	$404,970	100.0%	$633,419	100.0%	$767,536	100.0%
Cost of services	265,254	77.7	334,332	82.6	494,002	78.0	626,031	81.6
Gross profit	76,239	22.3	70,638	17.4	139,417	22.0	141,505	18.4
Selling, general and administrative expenses	43,333	12.7	56,687	14.0	88,191	13.9	111,515	14.5
Goodwill amortization	2,883	0.8	3,149	0.8	5,667	0.9	6,332	0.8
Operating income	30,023	8.8	10,802	2.7	45,559	7.2	23,658	3.1
Other income (expense)	(4,342)	1.3	(6,486)	(1.6)	(8,321)	1.3	(12,310)	(1.6)
Reductions in non-operating assets and liabilities, net	--	--	(5,190)	(1.3)	--	--	(5,190)	(0.7)
Income (loss) before income taxes	25,681	7.5	(874)	(0.2)	37,238	5.9	6,158	0.8
Provision for income taxes	11,036	--	31	--	16,029	--	3,055	--
Net income (loss)	$ 14,645	4.3	$ (905)	(0.2)	$ 21,209	3.3	$ 3,103	0.4

REVENUES -- Revenues increased $63.5 million, or 18.6%, to $405.0 million for the second quarter of 2000 and increased $134.1 million, or 21.2%, to $767.5 million for the first six months of 2000, compared to the same periods in 1999. For the three months ended June 30, 2000, approximately 13.8% of the increase in revenues related to internal growth and the remaining 4.8% resulted from acquisition activity in 1999. Approximately 13.8% of the increase in revenues for the first six months of 2000 related to internal growth and the remaining 7.4% resulted from acquisition activity during 1999. Approximately 3% of the total increase in revenues for both the three and six months ended June 30, 2000 resulted from the Company's ability to increase volume by subcontracting portions of projects to other contractors. The Company believes that the construction industry is continuing to experience capacity issues, principally relating to shortages of labor, which could hinder the Company's ability to increase its revenue volume while maintaining its historical margins.

GROSS PROFIT -- Gross profit decreased $5.6 million, or 7.3%, to $70.6 million for the second quarter of 2000 and increased $2.1 million, or 1.5%, to $141.5 million for the first six months of 2000, compared to the same periods in 1999. As a percentage of revenues, gross profit decreased from 22.3% for the three months ended June 30, 1999 to 17.4% for the three months ended June 30, 2000 and from 22.0% for the first six months of 1999 to 18.4% for the first six months of 2000. During the second quarter of 2000, the Company reported negative gross profit of approximately $4.6 million related to its operations at a company in the Midwest. These losses were realized in connection with several projects priced significantly below cost, execution problems and other management shortfalls. The remaining decrease in gross profit as a percentage of revenues resulted from increased labor costs, pricing pressures in certain markets and scheduling and efficiency challenges associated with labor availability and productivity at the high levels of activity at most of our operations. The Company has also realized a change in its mix of revenue volume to include more subcontracting activities which generally carry lower margins. In addition, the Company also experienced weak performance at several locations relating to ongoing turnaround efforts and execution difficulties.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A") -- SG&A increased $13.4 million, or 30.8%, to $56.7 million for the second quarter of 2000 and increased $23.3 million, or 26.4%, to $111.5 million for the first six months of 2000, compared to the same periods in 1999. As a percentage of revenues, selling, general and administrative expenses increased from 12.7% for the three months ended June 30, 1999 to 14.0% for the three months ended June 30, 2000 and from 13.9% for the first six months of 1999 to 14.5% for the first six months of 2000. This increase in SG&A as a percentage of revenues resulted primarily from 1999 acquisitions including Outbound Services where the Company has incurred additional SG&A to support expansion of its e-commerce

activities. The Company also increased corporate and regional office spending to support the requirements of a larger organization and expand its focus on serving national accounts. In addition, as discussed above, the Company has experienced weak performance at several locations relating to turnaround efforts and execution difficulties and these companies have realized a disproportionate amount of SG&A as compared to their revenue volumes.

OTHER INCOME (EXPENSE) -- Other expense, net, increased $2.1 million, or 49.4%, to $6.5 million for the second quarter of 2000 and increased $4.0 million, or 47.9%, to $12.3 million for the first six months of 2000, compared to the same periods in 1999. This increase was primarily due to the increase in interest expense related to the acquisition of purchased companies in 1999 and repurchases of the Company's common stock ("Common Stock").

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

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2000, net cash provided by operating activities was $17.5 million and represents an increase of $13.0 million over the comparable period of the prior year. During the current year, the Company has focused on improving its cash flow. The increase is primarily as a result of the increase in accounts payable and accrued liabilities and the increase in billings in excess of costs and estimated earnings. Cash provided by operating activities for the six months ended June 30, 1999 was $4.5 million primarily due to an increase in accounts payable and accrued liabilities.

Cash used in investing activities was $8.9 million for the six months ended June 30, 2000, primarily in connection with purchases of property and equipment for $9.4 million. Cash used in investing activities for the six months ended June 30, 1999 was $24.5 million, primarily for the acquisition of purchased companies.

Cash used in financing activities for the six months ended June 30, 2000 was $3.3 million and was primarily attributable to net payments of long-term debt of $2.9 million. Net cash provided by financing activities for the six months ended June 30, 1999 was $17.4 million and was primarily attributable to net borrowings of long-term debt related to the acquisition of purchased companies.

The Company has a revolving credit facility ("Credit Facility") provided by Bank One, Texas, N.A. and other banks ("the Bank Group"). The Credit Facility provides the Company with a revolving line of credit of up to $300 million secured by accounts receivable, inventory and the shares of capital stock of the Company's subsidiaries. The Credit Facility expires on November 1, 2001, at which time all amounts outstanding under the Credit Facility are due. The Company currently 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 0.5% or the bank's prime rate. An additional margin of 0.25% to 1.75% is then added to the higher of these two rates. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate LIBOR) plus 1.25% to 3.00%. The additional margin for both options depends on the ratio of the Company's debt to EBITDA (as defined). Commitment fees of 0.25% to 0.5% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the facility.

The Credit Facility prohibits payment of dividends by the Company, limits certain non-Bank Group debt, and restricts outlays of cash by the Company relating to certain investments, capital expenditures, vehicle leases, acquisitions and principal repayments of subordinate debt. The Credit Facility also provides for the maintenance of certain levels of shareholder equity and EBITDA, and for the maintenance of certain ratios of the Company's EBITDA to interest expense and debt to EBITDA. Under the terms of the Credit Facility that were in effect as of June 30, 2000, the Company was in violation of the ratio requirements of

senior debt to EBITDA and subordinate debt repayments, in both cases by small amounts. The Bank Group has waived these violations. In connection with these waivers, the Bank Group has agreed to reduce the required ratios of EBITDA to interest expense and debt to EBITDA through the maturity of the Credit Facility.

As of June 30, 2000, the Company had borrowed $246.0 million under the Credit Facility at an average interest rate of approximately 8.3% per annum for the first six months of 2000. The Credit Facility's interest rate terms as summarized above are effective as of August 11, 2000 and will result in an increase of approximately 0.50% in the additional margin and related costs the Company pays in excess of the indicated market interest rate in either of the interest rate options. The Company's unused committed borrowing capacity under the Credit Facility was $51.6 million at June 30, 2000. As of August 10, 2000, $257.0 million was outstanding under this facility.

Earlier this year, the Company intended to refinance a portion of its variable-rate debt under the Credit Facility with fixed-rate private placement debt. In anticipation of this transaction, the Company entered into interest rate lock agreements to hedge against increases in market interest rates. In the second quarter, the Company elected not to complete this refinancing and terminated the interest lock agreements at a nominal gain. The Company is considering steps to extend the maturity of, or otherwise refinance, its borrowings under the Credit Facility. These amounts currently mature in November 2001.

Subordinated notes were issued to former owners of certain purchased companies as partial consideration of the acquisition purchase price and had an outstanding balance of $56.1 million as of June 30, 2000. Of these notes, $55.8 million bear interest, payable quarterly, at a weighted average interest rate of 5.81% and $1.4 million of these notes are convertible by the holders into shares of the Company's Common Stock at a weighted average price of $25.40 per share. The remaining notes in the amount of $0.3 million are non-interest bearing and require principal payments in equal annual installments in 2001, 2002 and 2003. The terms of the convertible subordinated notes require $0.2 million of principal payments in 2000, $0.6 million of principal payments in 2001 and $0.6 million of principal payments in 2002. The terms of the nonconvertible interest bearing subordinated notes require $5.3 million of principal payments in 2000, $26.9 million of principal payments in 2001, $21.3 million of principal payments in 2002 and $0.9 million of principal payments in 2003.

Under the current terms of the Credit Facility, the Company may be restricted from making scheduled repayments of subordinate debt beginning in October 2000. If this occurs, the Company has at least one year to regain compliance with the terms of the subordinate debt. The Company intends to negotiate the disposition of this issue in connection with pursuing an extension of the maturity of borrowings outstanding under the Credit Facility as discussed above.

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

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

YEAR 2000

Computers, software, and other equipment utilizing embedded technology that use only two digits to identify a year in a date field may be unable to accurately process certain date-based information at or after

the year 2000. This is commonly referred to as the "Year 2000 issue." The Company implemented a Year 2000 program and used both internal and external resources to assess and replace or reprogram computers, software and other equipment as needed. Key areas of the Company's operations that were addressed included external customers, external suppliers and internal computers, software and potential back-up and contingency plans. To date, the Company has not experienced any significant Year 2000 issues.

The Company's initial assessment identified Year 2000 issues within the Company's operating systems. The total cost of Year 2000 enhancements was approximately $800,000 and was funded from operating cash flows. The majority of such costs was for the acquisition of hardware and software and was capitalized. The remaining costs were expensed as incurred and did not have a material effect on the results of operations.

The ability of third parties with which the Company transacts business to adequately address remaining 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 adequately address their respective remaining Year 2000 issues will not have a material adverse effect on the Company's financial condition or results of operations. Accordingly, as part of the Year 2000 program, contingency plans were developed to respond to any failures. At this time, the Company does not expect that any failure of the Company or third parties to achieve Year 2000 compliance will adversely affect the Company.

SEASONALITY AND CYCLICALITY

The HVAC industry is subject to seasonal variations. Specifically, the demand for new installation and replacement is generally lower during the winter months due to reduced construction activity during inclement weather and less use of air conditioning during the colder months. Demand for HVAC services is generally higher in the second and third calendar quarters due to increased construction activity and increased use of air conditioning during the warmer months. Accordingly, the Company expects its revenues and operating results generally will be lower in the first and fourth calendar quarters.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. RECENT SALES OF UNREGISTERED SECURITIES

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

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

The Company held its annual meeting of stockholders in Houston, Texas on May 18, 2000. The following sets forth matters submitted to a vote of stockholders:

(a) The following individuals were elected to the Board of Directors as stated in the Company's Proxy Statement dated April 24, 2000, for terms expiring at the 2003 annual stockholders' meeting or until their successors have been elected and qualified -- Class III directors are Alfred J. Giardinelli, Samuel M. Lawrence, Robert M. Powers, Diane D. Sanders, and Steven S. Harter. Every director was elected by more than a majority of the outstanding shares of Common Stock of the Company, except for Mr. Harter who was elected by more than a majority of the outstanding shares of Restricted Voting Common Stock. Mr. Giardinelli had 30,304,902 shares voted in favor, with 546,103 shares withheld, Mr. Harter had 1,273,004 shares voted in favor, with no shares withheld, Mr. Lawrence had 30,304,844 shares voted in favor, with 546,161 shares withheld, Mr. Powers had 30,304,776 shares voted in favor, with 546,229 shares withheld, Diane D. Sanders had 31,640,800 shares voted in favor, with 295,926 shares withheld.

(b) A majority of the outstanding shares of Common Stock of the Company approved the amendment of the 1998 Employee Stock Purchase Plan to increase the number of shares issuable by 600,000 shares. Shares voted in favor 24,239,970, with 872,151 shares against, and 108,637 shares abstained.

(c) A majority of the outstanding shares of Common Stock of the Company approved the adoption of the 2000 Incentive Plan, and to authorize the issuance of up to 3,500,000 options to purchase shares. Shares voted in favor 23,271,825, with 3,071,061 shares against, and 150,839 abstained.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 -- Severance and General Release Agreement between Fred M. Ferreira and the Company dated June 30, 2000. (Filed herewith).

10.2 -- Employment Agreement between William F. Murdy and the Company dated June 27, 2000. (Filed herewith).

10.3 -- Note Modification Agreement between Mark Shambaugh and the Company dated August 8, 2000. (Filed herewith).

10.4 -- Note Termination Agreement among Salvatore Fichera and Salvatore Giardina, Sorce Properties LLC, and F&G Mechanical Corporation dated June 23, 2000. (Filed herewith).

10.5 -- Third Amendment to Credit Agreement dated as of August 11, 2000 amending the Third Amended and Restated Credit Agreement dated December 14, 1998 among the Company and its subsidiaries, Bank One, Texas, N.A., as agent and the banks listed therein. (Filed herewith).

10.6 -- Amendment to 1998 Employee Stock Purchase Plan dated May 18, 2000. (Filed herewith).

10.7 -- Comfort Systems USA, Inc. 2000 Incentive Plan. (Filed herewith).

27.1 -- Financial Data Schedule. (Filed herewith)

(b) Reports on Form 8-K

None.

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

None.

SIGNATURE

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

COMFORT SYSTEMS USA, INC.

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

Dated: August 14, 2000

EXHIBIT 10.1

SEVERANCE AND GENERAL RELEASE AGREEMENT

THIS SEVERANCE AND GENERAL RELEASE AGREEMENT (the "Agreement") is entered into as of the 30th day of June, 2000, by and between Comfort Systems USA, Inc., a Delaware corporation (the "Company") and Fred Ferreira (the "Employee"). The Company and the Employee each hereby covenant and agree as follows:

1. TERMINATION. Employee's last active day of employment with the Company will be June 30, 2000 (the "Termination Date"). Employee's employment with the Company will terminate effective on that date.

2. SEVERANCE PAYMENTS. As consideration for the Employee's commitments set forth in this Agreement, the Company agrees to pay to Employee upon expiration of the revocation period provided in paragraph 6 below a single cash payment equal to $300,000. The Company also agrees that for a period of 18 months it will reimburse Employee for amounts paid by him to continue welfare benefits under COBRA. The payments provided for in this paragraph will be made promptly after expiration of the revocation period described in paragraph 6 and shall be in full and complete satisfaction of, without limitation, any claim for salary, benefits, compensation of any sort, or any other claim for anything of economic value which the Employee may have arising out of his or her employment with the Company, or the termination thereof. Employee agrees and acknowledges that as a result of his separation any outstanding options held by him shall immediately terminate, and he agrees to return his option certificates.

The payment will be made in accordance with the Company's standard pay practices, and thus the Company will make all legally required deductions for FICA, taxes, etc. The check will be mailed to the Employee, unless otherwise advised in writing, at the Employee's home address as indicated in the Company's records.

3. RETURN OF MATERIALS, CONFIDENTIALITY, NONDISPARAGEMENT. In consideration for the payments and benefits described in Section 2 the Employee hereby agrees that Employee will promptly return to the Company all documents, files, books, keys, passes, identification materials and other properties of the Company and will vacate his office and the premises of the Company. The Employee agrees that he shall not disclose and shall protect all of the Company's proprietary information, including without limitation its customers, plans, agreements, attributes, processes, documents, etc. The Employee further agrees that he will not disparage the Company or those associated with it, and that he will take no steps and make no statements detrimental to the reputation or interests of the Company or those associated with it and will keep the terms of this Agreement strictly confidential.

4. NONCOMPETITION AGREEMENT. The Employee acknowledges that he has certain valid noncompetition obligations to the Company as contained in his Employment Agreement and in agreements executed in connection with the Company's formation and initial public offering.

5. GENERAL RELEASE OF CLAIMS. This letter constitutes the entire agreement between the Employee and the Company (and supersedes any prior communication, written or oral without limitation the Employment Agreement except as set forth herein) with respect to all matters relating hereto. The Employee hereby agrees that he has no additional rights to salary, benefits,

or compensation of any sort or any other thing of economic value from the Company except as explicitly set forth in this letter. This letter shall be in complete and final settlement of any and all causes of action or claims that the Employee may have had, now has or may have in any way related to or arising out of such employment and its termination or pursuant to any federal, state or local employment and its termination or pursuant to any federal, state or local employment laws, regulations, orders or other requirements including without limitation Title VII of the Civil Rights Act of 1964, the Employee Retirement Income Security Act of 1974, the Age Discrimination in Employment Act of 1967, the Rehabilitation Act of 1973, the Older Workers Benefit Protection Act, and the Americans with Disabilities Act of 1990, as they may be amended. In consideration of the special benefits that the Employee will receive under this Agreement, the Employee, personally and on behalf of his heirs, assigns and representatives, hereby releases, waives and discharges any and all such causes of action or claims against the Company and their respective past, present and future affiliates, directors, trustees, officers, agents, employees, successors and assigns, and agrees never to bring any such claim or cause of action in any forum.

6. REVOCATION PERIOD. For a period of seven days following the Employee's execution of this Agreement the Employee may revoke this Agreement, and the Agreement shall not be effective or enforceable until this seven day revocation period has expired. After such revocation period, the parties intend that this Agreement shall have the effect of a sealed instrument under the laws of the State of Texas.

In signing this Agreement the Employee acknowledges that he or she understands its provisions, and that such Agreement is knowing and voluntary, that he or she has been afforded a full and reasonable opportunity to consider its terms and to consult with or seek advice from any attorney or other person of Employee's choosing, and that Employee has been advised by the Company to consult with an attorney prior to executing this Agreement. This offer of severance shall be valid until the Employee has considered it for a period 21 days without accepting it, after which it will automatically expire.

EMPLOYEE: COMFORT SYSTEMS USA, INC.

/s/ Fred Ferreira
FRED FERREIRA

Date Executed:_____

/s/ William George
WILLIAM GEORGE
SENIOR VICE PRESIDENT

EXHIBIT 10.2

EMPLOYMENT AGREEMENT

This Employment Agreement (this "AGREEMENT") by and among COMFORT SYSTEMS USA (TEXAS), L.P., a Texas limited partnership (the "COMPANY"), and William F. Murdy ("EMPLOYEE") is hereby entered into and effective as of the 27th day of June, 2000.

R E C I T A L S

A. The Company is engaged primarily in the heating, ventilation, air conditioning, plumbing, electrical, fire protection and process piping industry.

B. Company desires to employ Employee hereunder in a confidential relationship wherein Employee, in the course of his employment, will become familiar with and aware of information as to the Company's customers, specific manner of doing business, processes, techniques and trade secrets and future plans with respect thereto, all of which have been and will be established and maintained at great expense to the Company, which information is a trade secret and constitutes the valuable good will of the Company; and

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, it is hereby agreed as follows:

A G R E E M E N T S

1. EMPLOYMENT AND DUTIES.

(a) Company hereby employs Employee to serve as Chief Executive Officer of the Company. As such, Employee shall have responsibilities, duties and authority customarily accorded to and expected of an officer holding such position directly with the Company. Employee hereby accepts this employment upon the terms and conditions herein contained and agrees to devote his full time, attention and efforts to promote and further the business of Company.

(b) Employee shall faithfully adhere to, execute and fulfill all policies established by Company from time to time.

2. COMPENSATION. For all services rendered by Employee, Company shall compensate Employee as follows:

(a) BASE SALARY; PERFORMANCE BONUS; COMPANY STOCK OPTIONS. Effective as of the Effective Date, the base salary payable to Employee shall be $400,000 per year, payable on a regular basis in accordance with Company's standard payroll procedures but not less frequently than monthly. On at least an annual basis, Company will review Employee's performance and may, in its sole discretion, (i) make

increases to such base salary; (ii) pay a performance bonus; or (iii) recommend Employee for the grant of Company stock options.

(b) EMPLOYEE PERQUISITES, BENEFITS AND OTHER COMPENSATION. Employee shall be entitled to receive additional benefits and compensation from Company in such form and to such extent as specified below:

(i) Coverage, subject to contributions required of executives of the Company generally, for Employee and his dependent family members under health, hospitalization, disability, dental, life and other insurance plans that Company may have in effect from time to time. Benefits provided to Employee under this clause (i) shall be equal to such benefits provided to other Company employees of the same level.

(ii) Reimbursement for all business travel and other out-of-pocket expenses reasonably incurred by Employee in the performance of services pursuant to this Agreement. All reimbursable expenses shall be appropriately documented in reasonable detail by Employee upon submission of any request for reimbursement, and in a format and manner consistent with Company's expense reporting policy.

(iii) Company shall provide Employee with other employee perquisites as may be available to or deemed appropriate for Employee by Company and participation in all other Company-wide employee benefits as are available from time to time.

3. NONCOMPETITION AGREEMENT.

(a) Employee shall not, during the term of his employment hereunder, be engaged in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes with Employee's duties and responsibilities hereunder. The foregoing limitations shall not be construed as prohibiting Employee from making personal investments in such form or manner as will neither require his services in the operation or affairs of the companies or enterprises in which such investments are made nor violate the terms of this paragraph 3. Employee will not, during the period of his employment by or with Company, and for a period of two (2) years immediately following the termination of his employment under this Agreement, except as provided below, directly or indirectly, for himself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation or business of whatever nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint

venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any business in direct competition with Company or any of its subsidiaries and affiliates within 100 miles of where the Company or any of its subsidiaries and affiliates conduct

business, including any territory serviced by the Company or any of such subsidiaries (the "TERRITORY");

(ii) call upon any person who is, at that time, an employee of Company or any of its subsidiaries or affiliates sales or managerial capacity for the purpose or with the intent of enticing such employee away from or out of the employ of Company or any of its subsidiaries or affiliates or any its subsidiaries or affiliates;

(iii) call upon any person or entity which is, at that time, or which has been, within one (1) year prior to that time, a customer of the Company or any of its subsidiaries or affiliates for the purpose of soliciting or selling products or services in direct competition with the Company or any of its subsidiaries or affiliates; or

(iv) call upon any prospective acquisition candidate, on Employee's own behalf or on behalf of any competitor, which candidate was, to Employee's actual knowledge after due inquiry, either called upon by Company or any of its subsidiaries or affiliates or for which Employee participated in an acquisition analysis for the purpose of acquiring such entity or all or substantially all of such entity's assets.

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit Employee from acquiring as a passive investment not more than two percent (2%) of the capital stock of a competing business the stock of which is traded on a national securities exchange or on an over-the -counter or similar market.

(b) Because of the difficulty of measuring economic losses to Company or any of its subsidiaries or affiliates as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to Company or any of its subsidiaries or affiliates for which they would have no other adequate remedy, Employee agrees that the foregoing covenant may be enforced by Company or any of its subsidiaries or affiliates in the event of breach or threatened breach by Employee, by injunctions, restraining orders and other appropriate equitable relief.

(c) It is agreed by the parties that the foregoing covenants in this paragraph 3 impose a reasonable restraint on Employee in light of the activities and business of the Company on the date of the execution of this Agreement and the current plans of the Company or any of its subsidiaries or affiliates; but it is also the intent of the Company and Employee that such covenants be construed and enforced in accordance with the changing activities, business and locations of the Company or any of its subsidiaries or affiliates throughout the term of this covenant, whether before or after the date of termination of the employment of Employee. For example, if, during the term of this Agreement, the Company or any of its subsidiaries or affiliates engages in new and different activities, enters a new business or establishes new locations for its current activities or business in addition to or other than the activities or business enumerated under the Recitals above or the locations currently established therefor, then Employee

will be precluded from soliciting the customers or Employees of such new activities or business or from such new location and from directly competing with such new business within 100 miles of its then-established operating location(s) through the term of this covenant.

It is further agreed by the parties hereto that, in the event that Employee shall cease to be employed hereunder, and shall enter into a business or pursue other activities not in competition with the Company or any of its subsidiaries or affiliates, or similar activities or business in locations the operation of which, under such circumstances, does not violate clause (i) of paragraph 3(a), Employee shall not be chargeable with a violation of this paragraph 3 if the Company or any of its subsidiaries or affiliates shall thereafter enter the same, similar or a competitive (i) business, (ii) course of activities or (iii) location, as applicable.

(d) The covenants in this paragraph 3 are severable and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth herein are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which the court deems reasonable, and this Agreement shall thereby be reformed.

(e) All of the covenants in this paragraph 3 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Employee against Company or any of its subsidiaries or affiliates, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Company or any of its subsidiaries or affiliates of such covenants. It is specifically agreed that the period of two (2) years following termination of employment stated at the beginning of this paragraph 3, during which the agreements and covenants of Employee made in this paragraph 3 shall be effective, shall be computed by excluding from such computation any time during which Employee is in violation of any provision of this paragraph 3.

4. PLACE OF PERFORMANCE; RELOCATION RIGHTS.

(a) Employee understands that he may be requested by Company or any of its subsidiaries or affiliates to relocate from his present residence to another geographic location in order to more efficiently carry out his duties and responsibilities under this Agreement or as part of a promotion or other increase in duties and responsibilities. In such event, if Employee agrees to relocate, Company or any of its subsidiaries or affiliates will pay all relocation costs to move Employee, his immediate family and their personal property and effects. Such costs may include, by way of example, but are not limited to, pre-move visits to search for a new residence, investigate schools or for other purposes; temporary lodging and living costs prior to moving into a new permanent residence; duplicate home carrying costs; all closing costs on the sale of Employee's present residence and on the purchase of a comparable residence in the new location; and added income taxes that Employee may incur if any relocation costs are not deductible

for tax purposes. The general intent of the foregoing is that Employee shall not personally bear any out-of-pocket cost as a result of the relocation, with an understanding that Employee will use his best efforts to incur only those costs which are reasonable and necessary to effect a smooth, efficient and orderly relocation with minimal disruption to the business affairs of Company or any of its subsidiaries or affiliates and the personal life of Employee and his family.

(b) Notwithstanding the above, if Employee is requested by Company to relocate and Employee refuses, such refusal shall not constitute "CAUSE" for termination of this Agreement under the terms of paragraph 5(a)(iii).

5. TERM; TERMINATION; RIGHTS ON TERMINATION.

(a) TERM. The term of this Agreement shall begin on the date hereof and continue for three (3) years (the "INITIAL TERM") unless terminated sooner as herein provided, and shall automatically renew after the Initial Term on a year-to-year basis on the same terms and conditions contained herein in effect as of the time of renewal unless the Company notifies Employee at least 60 days prior to such expiration (the "TERM"). This Agreement and Employee's employment may be terminated in any one of the following ways:

(i) TERMINATION AS A RESULT OF THE EMPLOYEE'S DEATH. The death of Employee shall immediately terminate this Agreement and upon such termination Employee's Estate shall receive from the Company, in a lump-sum payment, the base salary at the rate then in effect for one (1) year, provided, however, that such lump-sum payment shall be reduced by the amount, if any, of benefit payable under any life insurance policies to the extent such policies are procured and paid for by the Company.

(ii) TERMINATION ON ACCOUNT OF DISABILITY. If, as a result of incapacity due to physical or mental illness or injury, Employee shall have been absent from his full-time duties hereunder for four (4) consecutive months, then thirty (30) days after receiving written notice (which notice may occur before or after the end of such four (4) month period, but which shall not be effective earlier than the last day of such four (4) month period), Company may terminate Employee's employment hereunder provided Employee is unable to resume his full-time duties with or without reasonable accommodation at the conclusion of such notice period. Also, Employee may terminate his employment hereunder if his health should become impaired to an extent that makes the continued performance of his duties hereunder hazardous to his physical or mental health or his life, provided that Employee shall have furnished Company with a written statement from a qualified doctor to such effect and provided, further, that, at Company's request made within thirty (30) days of the date of such written statement, Employee shall submit to an examination by a doctor selected by Company who is reasonably

acceptable to Employee or Employee's doctor and such doctor shall have concurred in the conclusion of Employee's doctor. In the event this Agreement is terminated as a result of Employee's disability, Employee shall receive from Company, in a lump-sum payment due within ten (10) days of the effective date of termination, the base salary at the rate then in effect for whatever time period is remaining under the Initial Term of this Agreement or for one (1) year, whichever amount is greater; provided, however, that any such payments shall be reduced by the amount of any disability insurance payments payable to the Employee as a result of such disability.

(iii) TERMINATION BY THE COMPANY FOR CAUSE. Company may terminate this Agreement immediately for "CAUSE," which shall be: (1) Employee's willful and material breach of this Agreement (which breach cannot be cured or, if capable of being cured, is not cured within ten (10) days after receipt of written notice to cure); (2) Employee's gross negligence in the performance or intentional nonperformance of any of Employee's material duties and responsibilities hereunder; (3) Employee's willful dishonesty, fraud or misconduct with respect to the business or affairs of Company or any of its subsidiaries or affiliates which materially and adversely affects the operations or reputation of Company or any of its subsidiaries or affiliates; (4) Employee's conviction of a felony crime; (5) Employee's confirmed positive illegal drug test result; (6) confirmed sexual harassment by Employee; or (7) Employee's material and willful violation of the Company's Compliance and Business Ethics Policies. In the event of a termination for Cause, as enumerated above, Employee shall have no right to any severance compensation.

(iv) TERMINATION WITHOUT CAUSE. At any time after the commencement of employment, either Employee or Company may, voluntarily or without cause, respectively, terminate this Agreement and Employee's employment, effective thirty (30) days after written notice is provided to the other. Should Employee be terminated by Company without Cause during the Initial Term, Employee shall receive from Company, in a lump-sum payment due on the effective date of termination, the base salary at the rate then in effect for whatever time period is remaining under the Initial Term of this Agreement or for one (1) year, whichever amount is greater. Should Employee be terminated by Company without Cause after the Initial Term, Employee shall receive from Company, in a lump-sum payment due on the effective date of termination, the base salary at the rate then in effect equivalent to one (1) year of salary. Further, any termination without Cause by Company shall operate to shorten the period set forth in paragraph 3(a) and during which the terms of paragraph 3 apply to one (1) year from the date of termination of employment. Except as provided in paragraph 12 below,

if Employee resigns or otherwise terminates this Agreement, the provisions of paragraph 3 hereof shall apply, except that Employee shall receive no severance compensation. If Employee is terminated by the Company without Cause, or if the Employee terminates his employment for Good Reason pursuant to paragraph 12(c) below, then the Company shall make the insurance premium payments contemplated by COBRA for a period of twelve (12) months immediately following such termination.

(b) CHANGE IN CONTROL OF THE COMPANY. In the event of a Change in Control of the Company (as defined below) during the Term, paragraph 12 below shall apply.

(c) EFFECT OF TERMINATION. Upon termination of this Agreement for any reason provided above, Employee shall be entitled to receive all compensation earned and all benefits and reimbursements due through the effective date of termination. Additional compensation subsequent to termination, if any, will be due and payable to Employee only to the extent and in the manner expressly provided herein. All other rights and obligations of Company and Employee under this Agreement shall cease as of the effective date of termination, except that Company's obligations under paragraph 9 herein and Employee's obligations under paragraphs 3, 6, 7, 8 and 10 herein shall survive such termination in accordance with their terms.

(d) BREACH BY COMPANY. If termination of Employee's employment arises out of Company's material failure to pay Employee on a timely basis the amounts to which he is entitled under this Agreement or as a result of any other breach of this Agreement by Company, as determined by a court of competent jurisdiction or pursuant to the provisions of paragraph 16 below, Company shall pay all amounts and damages to which Employee may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expenses and other costs incurred by Employee to enforce his rights hereunder. Further, none of the provisions of paragraph 3 shall apply in the event this Agreement is terminated as a result of a breach by Company.

6. RETURN OF COMPANY PROPERTY. All records, designs, patents, business plans, financial statements, manuals, memoranda, lists and other property delivered to or compiled by Employee by or on behalf of the Company or its representatives, vendors or customers which pertain to the business of the Company shall be and remain the property of the Company and be subject at all times to its discretion and control. Likewise, all correspondence, reports, records, charts, advertising materials and other similar data pertaining to the business, activities or future plans of the Company which is collected by Employee shall be delivered promptly to the Company without request by it upon termination of Employee's employment.

7. INVENTIONS. Employee shall disclose promptly to the Company any and all significant conceptions and ideas for inventions, improvements and valuable discoveries, whether patentable or not, which are conceived or made by Employee, solely or jointly with another, during the period of employment or within one (1) year thereafter, and which are directly related to the business or activities of the Company and which Employee conceives as a result of his employment hereunder. Employee hereby assigns and agrees to assign all his interests therein to the Company or its nominee. Whenever requested to do so by the Company, Employee shall execute any and all applications, assignments or other instruments that the Company shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect the Company's interest therein.

8. TRADE SECRETS. Employee agrees that he will not, during or after the Term of this Agreement, disclose the specific terms of the Company's relationships or agreements with their respective significant vendors or customers or any other significant and material trade secret of the Company, whether in existence or proposed, to any person, firm, partnership, corporation or business for any reason or purpose whatsoever, except and only to the extent required by law or legal process following notice to the Company.

9. INDEMNIFICATION. In the event Employee is made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by Company against Employee), by reason of the fact that he is or was performing services under this Agreement, then Company shall indemnify Employee against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, as actually and reasonably incurred by Employee in connection therewith, to the maximum extent permitted by applicable law. The advancement of expenses shall be mandatory to the extent permitted by applicable law. In the event that both Employee and Company are made a party to the same third-party action, complaint, suit or proceeding, Company agrees to engage counsel, and Employee agrees to use the same counsel, provided that if counsel selected by Company shall have a conflict of interest that prevents such counsel from representing Employee, Employee may engage separate counsel and Company shall pay all reasonable attorneys' fees of such separate counsel. Company shall not be required to pay the fees of more than one law firm except as described in the preceding sentence, and shall not be required to pay the fees of more than two law firms under any circumstances. Further, while Employee is expected at all times to use his best efforts to faithfully discharge his duties under this Agreement, Employee cannot be held liable to Company for errors or omissions made in good faith where Employee has not exhibited gross, willful and wanton negligence or misconduct or performed criminal or fraudulent acts.

10. NO PRIOR AGREEMENTS. Employee hereby represents and warrants to Company and the Company that the execution of this Agreement by Employee and his employment by Company and the performance of his duties hereunder will not violate or be a breach of any agreement with a former Company, client or any other person or entity. Further, Employee agrees to indemnify Company and the Company for any claim,

including, but not limited to, attorneys' fees and expenses of investigation, by any such third party that such third party may now have or may hereafter come to have against Company or any of its subsidiaries or affiliates based upon or arising out of any noncompetition agreement, invention or secrecy agreement between Employee and such third party which was in existence as of the date of this Agreement.

11. ASSIGNMENT; BINDING EFFECT. Employee understands that he has been selected for employment by Company and/or the Company on the basis of his personal qualifications, experience and skills. Employee agrees, therefore, he cannot assign all or any portion of his performance under this Agreement. Subject to the preceding two (2) sentences and the express provisions of paragraph 12 below, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective heirs, legal representatives, successors and assigns.

12 CHANGE IN CONTROL.

(a) Upon notice by Employee at any time during the 90 days following a Change in Control, the Employee may elect to terminate his employment and shall be entitled to receive in a lump-sum payment due upon the date of such termination the amount equal to three (3) times his annual base salary then in effect, and the noncompetition provisions of paragraph 3 shall apply for a period of one (1) year immediately following the effective date of termination.

(b) Upon a Change in Control, any options outstanding to Employee that have not previously vested shall be immediately vested.

(c) In any Change in Control situation, if Employee is terminated by Company without Cause at any time during the twelve (12) months immediately following the closing of the transaction giving rise to the Change in Control, or Employee terminates this Agreement for Good Reason (as defined below) at any time during the twelve (12) months immediately following the closing of the transaction giving rise to the Change in Control, Employee shall be entitled to receive in a lump-sum payment, due on the effective date of termination, the amount equal to three (3) times the greater of (i) his annual base salary then in effect or (ii) his annual base salary in effect immediately prior to the closing of the transaction giving rise to the Change in Control, and the noncompetition provisions of paragraph 3 shall apply for a period of one (1) year immediately following the effective date of termination. For purposes of this Agreement, Employee shall have "GOOD REASON" to terminate this Agreement and his employment hereunder if, without Employee's consent, (x) Employee is demoted by means of a reduction in authority, responsibilities, duties or title to a position of materially less stature or importance within the Company than as described in paragraph 1 hereof or (y) the Company breaches this Agreement in any material respect and fails to cure such breach within ten (10) days after Employee delivers written notice and a written

description of such breach to the Company, which notice shall specifically refer to this section of this Agreement.

(d) For purposes of applying paragraph 5 under the circumstances described in (b) above, the effective date of termination will be the closing date of the transaction giving rise to the Change in Control and all compensation, reimbursements and lump-sum payments due Employee must be paid in full by Company at or prior to such closing. Further, Company shall ensure that Employee will be given sufficient time and opportunity to elect whether to exercise all or any of his vested options to purchase the Company's Common Stock, including any options with accelerated vesting under the provisions of the Company's 1998 Long-Term Incentive Plan (or other applicable plan then in effect), such that he may convert the options to shares of the Company's Common Stock at or prior to the closing of the transaction giving rise to the Change in Control, if he so desires.

(e) A "CHANGE IN CONTROL" shall be deemed to have occurred if:

(i) any person, other than Comfort Systems USA, Inc., a Delaware corporation and the beneficial owner of the Company ("CSUSA"), or an employee benefit plan of CSUSA, or any entity controlled by either, acquires directly or indirectly the Beneficial Ownership (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended) of any voting security of the CSUSA and immediately after such acquisition such Person is, directly or indirectly, the Beneficial Owner of voting securities representing fifty percent (50%) or more of the total voting power of all of the then-outstanding voting securities of CSUSA;

(ii) the following individuals no longer constitute a majority of the members of the Board of Directors of CSUSA: (A) the individuals who, as of the date hereof, constitute the Board of Directors of CSUSA (the "ORIGINAL DIRECTORS"); (B) the individuals who thereafter are elected to the Board of Directors of the CSUSA and whose election, or nomination for election, to the Board of Directors of CSUSA was approved by a vote of at least two-thirds (2/3) of the Original Directors then still in office (such directors becoming "ADDITIONAL ORIGINAL DIRECTORS" immediately following their election); and (C) the individuals who are elected to the Board of Directors of CSUSA and whose election, or nomination for election, to the Board of Directors of CSUSA was approved by a vote of at least two-thirds (2/3) of the Original Directors and Additional Original Directors then still in office (such directors also becoming "ADDITIONAL ORIGINAL DIRECTORS" immediately following their election);

(iii) the stockholders of CSUSA shall approve a merger, consolidation, recapitalization, or reorganization of CSUSA, a reverse stock split of outstanding voting securities, or consummation of any such transaction if

stockholder approval is not obtained, other than any such transaction which would result in at least seventy-five percent (75%) of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being Beneficially Owned by at least seventy-five percent (75%) of the holders of outstanding voting securities of CSUSA immediately prior to the transaction, with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction; or

(iv) the stockholders of CSUSA shall approve a plan of complete liquidation of CSUSA or an agreement for the sale or disposition of all or a substantial portion of the CSUSA's assets (i.e., fifty percent (50%) or more of the total assets of CSUSA).

(f) Employee must be notified in writing by Company or any of its subsidiaries or affiliates at anytime that either Company or any of its subsidiaries or affiliates anticipates that a Change in Control may take place.

(f) If it shall be determined that any payment or distribution by Company, the Company or any other person to or for the benefit of the Employee (a "PAYMENT") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "EXCISE TAX"), as a result of the termination of employment of the Employee in the event of a Change in Control, then Company, the Company or the successor to the Company shall pay an additional payment (a "GROSS-UP PAYMENT") in an amount such that after payment by the Employee of all taxes, including, without limitation, any income taxes and Excise Tax imposed on the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed on the Payments. Such amount will be due and payable by Company, the Company or the successor to the Company within ten (10) days after the Employee delivers written request for reimbursement accompanied by a copy of the Employee's tax return(s) or other tax filings showing the excise tax actually incurred by the Employee.

13. COMPLETE AGREEMENT. This Agreement sets forth the entire agreement of the parties hereto relating to the subject matter hereof and supersedes any other employment agreements or understandings, written or oral, between or among Company, the Company and Employee. This Agreement is not a promise of future employment. Employee has no oral representations, understandings or agreements with Company or any of its subsidiaries or affiliates or any of its officers, directors or representatives covering the same subject matter as this Agreement. This Agreement is the final, complete and exclusive statement and expression of the agreement between Company and Employee and of all the terms of this Agreement, and it cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Agreement may not be later modified except by a further writing signed by a duly authorized officer of Company and Employee, and

no term of this Agreement may be waived except in writing signed by the party waiving the benefit of such term.

14. NOTICE. Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To Company: Comfort Systems USA (Texas), L.P.
777 Post Oak Blvd, Suite 500
Houston, Texas 77056
Attention: Law Department

To Employee: William F. Murdy

Notice shall be deemed given and effective on the earlier of three (3) days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received by means of hand delivery, delivery by Federal Express or other courier service, or by facsimile transmission. Either party may change the address for notice by notifying the other party of such change in accordance with this paragraph 14.1

15. SEVERABILITY; HEADINGS. If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The paragraph headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of this Agreement or of any part hereof.

16. ARBITRATION. With the exception of paragraphs 3 and 7, any unresolved dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three (3) arbitrators in Houston, Texas, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA") then in effect, provided that Employee shall comply with Company's grievance procedures in an effort to resolve such dispute or controversy before resorting to arbitration, and provided further that the parties may agree to use arbitrators other than those provided by the AAA. The arbitrators shall not have the authority to add to, detract from, or modify any provision hereof nor to award punitive damages to any injured party. The arbitrators shall have the authority to order back-pay, severance compensation, vesting of options (or cash compensation in lieu of vesting of options), reimbursement of costs, including those incurred to enforce this Agreement, and interest thereon in the event the arbitrators determine that Employee was terminated without disability or Cause, as defined in paragraphs 5(a)(ii) and 5(a)(iii), respectively, or that Company has breached this Agreement in any material respect. A decision by a majority of the arbitration panel shall be final and binding. Judgment may

be entered on the arbitrators' award in any court having jurisdiction. The direct expense of any arbitration proceeding shall be borne by Company.

17. GOVERNING LAW. This Agreement shall in all respects be construed according to the laws of the State of Texas.

18. COUNTERPARTS. This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

19. THIRD-PARTY BENEFICIARY. The Company is intended to be a third-party beneficiary under this Agreement, and shall be entitled to enforce the provisions hereof benefiting the Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMFORT SYSTEMS USA (TEXAS), L.P.

By: Comfort Systems USA G.P., Inc.

By: /s/ William George
WILLIAM GEORGE
VICE PRESIDENT

COMFORT SYSTEMS USA, INC.

By: /s/ William George
WILLIAM GEORGE
SENIOR VICE PRESIDENT AND GENERAL COUNSEL

EMPLOYEE:

/s/ William F. Murdy
WILLIAM F. MURDY

EXHIBIT 10.3

NOTE MODIFICATION AGREEMENT

THIS NOTE MODIFICATION AGREEMENT is entered into effective as of August 8, 2000, and is binding on Mark Shambaugh (the "Holder"), and all of his assignees, successors in interest and any other person or entity claiming by or through any of them. Reference is hereby made to (i) each of those four certain Convertible Subordinated Note(s) due November 15, 2001, each in the original principal amount of $7,437,500 made by the Comfort Systems USA, Inc., a Delaware corporation (the "Company"), in favor of the Holder, each as amended effective as of July 1, 1999 (each individually a "Note", and collectively, the "Notes"), and (ii) the Agreement and Plan of Merger dated November 15, 1998 by and among the Company, CS42 Acquisition Corp., a Delaware corporation, Shambaugh & Son, Inc., an Indiana corporation ("S&S") and the Holder (the "Merger Agreement").

WHEREAS, the Company has notified the holder pursuant to the Merger Agreement of certain liabilities (the "Potential Liabilities") to which S&S is or may be liable and which relate to the fire protection activities of the Company with GTE North, Incorporated and its affiliates ("GTE") prior to the date of the Merger Agreement; and

WHEREAS, the parties to such dispute have indicated that they are willing to settle all civil liabilities with respect to such matter upon the payment by S&S a cash settlement (the "Settlement Amount") to GTE; and

WHEREAS, payment of the Settlement Amount would constitute Damages under the Merger Agreement; and

WHEREAS, pursuant to the Merger Agreement the Company is entitled to offset Damages as set forth therein against amounts payable pursuant to the Notes; and

WHEREAS, the civil liabilities satisfied and released as consideration for the Settlement Amount do not necessarily comprise all of the Potential Liabilities; and

WHEREAS, the Holder and the Company desire to document and clarify the note modification required to effectuate such right of offset,

NOW THEREFORE, the Holder and the Company hereby agree as follows:

1. Holder hereby represents that he is the holder of the Notes free and clear of all liens and obligations, that he has not transferred or alienated his interest in the Notes, and that he has full power to enter into this Agreement and thereby modify the Notes.

2. Holder acknowledges and agrees that, if and when the Company pays the Settlement Amount, the Company may offset such payment by reducing the principal of each Note by an amount equal to the Settlement Amount

   minus the Indemnification Threshold divided by four. Such amounts shall be taken from the principal amounts due and payable on January 1, 2001. The offset and reduction shall be effective as of the date that the Company actually pays the Settlement Amount.

3. To the extent that the Company has additional, valid Damages with respect to the Potential Liabilities, such Damages shall be gathered and itemized by the Company and reported to Holder by the Company. Such offset amounts, once determined, shall be taken from the principal amounts due and payable on January 1, 2001. The offset and reduction shall be effective as of the date that the Company delivers a final itemized accounting to the Holder pursuant to this Agreement.

Except for the offsets and reductions specifically set forth under this Agreement, each of the Notes, as amended, are hereby reaffirmed in all respects.

COMFORT SYSTEMS USA, INC.

/s/ William Murdy
WILLIAM MURDY
CHIEF EXECUTIVE OFFICER

/s/ Mark Shambaugh
MARK SHAMBAUGH

EXHIBIT 10.4

NOTE TERMINATION AGREEMENT

THIS NOTE TERMINATION AGREEMENT is entered into effective as of June 23, 2000, by and among Salvatore Fichera and Salvatore Giardina (collectively, the "Pledgors"), Sorce Properties LLC, a New Jersey limited liability company ("Borrower"), and F&G Mechanical Corporation, a Delaware corporation ("Lender"). Reference is hereby made to (i) that certain Promissory Note by Borrower in favor of Lender dated February 12, 1998 in the principal amount of $5,600,000 (the "Note") and (ii) that certain Pledge Agreement dated as of February 12, 1998 by the Pledgors in favor of Lender (the "Pledge Agreement"). Terms not otherwise defined herein shall have the same definition as is set forth in the Pledge Agreement.

Lender hereby represents that it is the holder of the Note free and clear of all liens and obligations, that it has not transferred or alienated its interest in the Note, and that it has full power to enter into this agreement and thereby terminate the Note. Each of the Pledgors hereby represents that he is the holder of the Pledged Stock designated in his name free and clear of all liens and obligations, that he has not transferred or alienated his interest in the Note, and that he has full power to enter into this agreement and deliver the Pledged Stock.

Each of the Pledgors hereby irrevocably transfers all of its right, title and interest in the Collateral (represented by Stock Certificates CS0520 in the name of Salvatore Fichera, and CS0524 in the name of Salvatore P. Giardina, each for 180,262 shares of the Common Stock of Comfort Systems USA, Inc.), and simultaneously with his execution hereof will deliver stock powers, executed in blank, pertaining to the Pledged Shares. The Lender agrees that upon receipt of a fully executed Note Termination and the required stock powers it will, without other payment in respect thereof, cancel the Obligations and deliver to the Borrower the original Note marked "Cancelled".

IN WITNESS WHEREOF, the parties set forth above hereby execute this Note Termination at the date set forth above.

F&G MECHANICAL CORPORATION	SORCE PROPERTIES LLC
/s/ William George	/s/ Santo Sorce
WILLIAM GEORGE	SANTO SOURCE
VICE PRESIDENT	PRESIDENT
/s/ Salvatore Fichera	/s/ Salvatore P. Giardina
SALVATORE FICHERA	SALVATORE P. GIARDINA

COMFORT SYSTEMS USA, INC.

THIRD AMENDMENT TO CREDIT AGREEMENT

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

RECITALS

WHEREAS, the Company has advised the Banks that certain Events of Default will arise on August 14, 2000 as a result of the Company's failure to comply with certain financial covenants contained in the Credit Agreement with respect to the fiscal quarter of the Company ended June 30, 2000;

WHEREAS, the Banks have advised the Company that they are willing to waive such Events of Default only if the Company, the Credit Support Parties and the Guarantors accept the amendments to the Credit Agreement set forth herein, which amendments include, without limitation, (i) the revision of certain financial covenants and (ii) the addition of an event of default

that occurs if the Company makes scheduled principal payments against its subordinated indebtedness at any time that the Company is not in compliance with the financial covenants currently set forth in the Credit Agreement;

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

SECTION 1. AMENDMENT TO THE CREDIT AGREEMENT

1.1 AMENDMENTS TO SECTION 1.1: DEFINITIONS.

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

> ""EBITDA" means, for any period, the consolidated pre-tax income for such period, plus the aggregate amount which was deducted for such period in determining such consolidated, pre-tax income in respect of Interest Expense (including amortization of debt discount, imputed interest and capitalized interest), depreciation and amortization, provided, the calculations of EBITDA after the acquisition of assets or entities permitted under Section 8.5(d) shall include pro forma adjustments consistent with the regulations and practices of the United States Securities and Exchange Commission (whether or not applicable) to account for such acquired entity's historical EBITDA for the relevant period or similar adjustments in the case of an asset acquisition. For the second fiscal quarter of 2000, (and only for the second fiscal quarter of 2000) an amount, not in excess of $5,500,000, of non-cash unusual charges incurred during the second fiscal quarter of 2000 may be added back to determine EBITDA."

The definition of "Financial Compliance" is added in proper alphabetical order to read as follows:

> ""FINANCIAL COMPLIANCE" means that the Company is in compliance with the following financial standards and has delivered the compliance certificate in accordance with SECTION 7.1(D) evidencing such compliance for the most recent period:
>
> (1) The Company will not as of the last day of any fiscal quarter permit the ratio of its total Funded Senior Debt on such day to EBITDA for the rolling four (4) quarters then ended to be greater

than 2.50 to 1.00 at any time during the term hereof.

(2) The Company will not as of the last day of any fiscal quarter permit the ratio of (i) its Total Funded Debt on such day to (ii) EBITDA for the four consecutive fiscal quarters then ended to be greater than 3.50 to 1.00 at any time during the term hereof.

(3) The Company will not permit as of the last day of any fiscal quarter the ratio of EBITDA for the four consecutive fiscal quarters ended on such day to cash Interest Expense for such period to be less than 4.00 to 1.00. This interest coverage ratio shall be calculated on a rolling four quarter basis.

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

TOTAL FUNDED DEBT/EBITDA RATIO	EURODOLLAR RATE ADVANCE	ALTERNATE BASE RATE ADVANCE
greater than or equal to 3.50	3.000 %	1.750 %
greater than or equal to 3.00 but less than 3.50	2.750 %	1.500 %
greater than or equal to 2.50 but less than 3.00	2.250 %	1.000 %
greater than or equal to 2.00 but less than 2.50	2.000 %	0.750 %
greater than or equal to 1.50 but less than 2.00	1.750 %	0.500 %
greater than or equal to 1.00 but less than 1.50	1.500 %	0.250 %
less than 1.00	1.250 %	0.250 %

1.2 AMENDMENT TO SECTION 4.1: FEES.

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

FUNDED DEBT/EBITDA	COMMITMENT FEE RATE
greater than or equal to 3.5x	50
greater than or equal to 3.0x and less than 3.5x	50
greater than or equal to 2.5x and less than 3.0x	50
greater than or equal to 2.0x and less than 2.5x	37.5
greater than or equal to 1.5x and less than 2.0x	37.5
greater than or equal to 1.0x and less than 1.5x	37.5
less than 1.0x	25

1.3 AMENDMENT TO SECTION 8.5: INVESTMENTS.

Section 8.5(d) of the Credit Agreement is hereby amended by deleting the reference to "$15,000,000" contained therein and substituting "$5,000,000" therefor.

1.4 AMENDMENT TO SECTION 8.8: CHANGE OF CERTAIN INDEBTEDNESS.

Section 8.8 is hereby deleted in its entirety and the following substituted therefor:

"The Company will not, and will not permit any of its Subsidiaries, after the occurrence and during the continuance of any Event of Default or at any time the Company is not in Financial Compliance, to make any voluntary prepayments of principal or interest on any other of the Company's Indebtedness."

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

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

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

DATE(S)	RATIO
09/30/00	3.30x
12/31/00 - 03/31/01	3.15x
06/30/01 and thereafter	3.00x

For purposes of calculating the ratio in this Section 8.10, the calculation of Funded Senior Debt after the acquisition of assets or entities permitted under this Agreement shall

include adjustments to account for the total Funded Senior Debt of or applicable to such acquired assets or entities during the relevant period.

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

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

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

DATE(S)	RATIO
09/30/00	4.00x
12/31/00 - 03/31/01	3.90x
06/30/01 and thereafter	3.65x

For purposes of calculating the ratios in SECTIONS 8.10 and 8.11, the calculations of Total Funded Debt and Funded Senior Debt after the acquisition of assets or entities permitted under this Agreement shall include adjustments to account for such acquired entity's Total Funded Debt immediately prior to the acquisition and Funded Senior Debt for the relevant period."

1.7 AMENDMENT TO SECTION 8.14: INTEREST COVERAGE RATIO.

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

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

DATE(S)	RATIO
09/30/00	3.20x
12/31/00	3.00x
03/31/01	2.80x
06/30/01 and thereafter	2.90x

1.8 ADDITION OF SECTION 8.15: MINIMUM EBITDA.

A new Section 8.15 is hereby added to read as follows:

"Section 8.15 MINIMUM EBITDA. The Company will not, as of the last day of any fiscal quarter specified in the table below, permit its EBITDA for the three (3) months then ended to be less than the amounts set forth below:

DATE(S)	QUARTERLY EBITDA
09/30/00	$22,000,000
12/31/00	$21,500,000
03/31/01	$15,000,000
06/30/01	$18,500,000
09/30/01	$23,500,000

1.9 AMENDMENTS TO SECTION 10.1: EVENTS OF DEFAULT.

Section 10.1(d) of the Credit Agreement is hereby amended by adding the following language at the end of Section 10.1(d):

", provided that, the failure of the Company to make the Restricted Subordinated Debt Payments proscribed by SECTION 10.1(J) shall not constitute an Event of Default"

A new Section 10.1(j) is hereby added to read as follows:

"(j) During any period in which the Company is not in Financial Compliance, the Company shall make any Restricted Subordinated Debt Payments which (but for the operation of this SECTION 10.1(J), would be permitted by SECTION 8.6(C), PROVIDED, the Company's $1,600,000 payment of scheduled third fiscal quarter of 2000 Subordinated Debt made on July __, 2000 shall not be an Event of Default hereunder."

1.10 WAIVER OF EVENTS OF DEFAULT

The provisions of Section 8.6(ii)(c) are hereby waived by the Banks, retroactively to the extent required to avoid an Event of Default under the Credit Agreement caused solely by the Borrowers making payments on Subordinated Debt during the continuation of an Event of Default during the second fiscal quarter of 2000. The provisions of Section 8.10 are hereby waived by the Banks, retroactively to the extent required to avoid an Event of Default under the Credit Agreement caused solely by the Borrowers exceeding the maximum Funded Senior Debt to EBITDA Ratio during the second fiscal quarter of 2000. This limited waiver shall not constitute a waiver of any other Default or Event of Default except as expressly set forth herein.

SECTION 2. CONDITIONS TO EFFECTIVENESS

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

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

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

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

3. Payment to each of the Banks approving this Amendment, subject to Majority Bank approval, of an amendment fee equal to fifteen one hundredths of one percent (0.15%) of such Bank's Commitment if approved by such Bank prior to 5:00 P.M. (CST) August 9, 2000. Payment to each of the Banks approving this Amendment, subject to Majority Bank approval, of an amendment fee equal to twelve and one-half one hundredths of one percent (0.125%) of such Bank's Commitment if approved by such Bank prior to 5:00 P.M. (CST) August 11, 2000.

B. On or before the Amendment Effective Date, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incidental thereto not previously found acceptable by the Agents, acting on behalf of the Banks, and

their counsel shall be satisfactory in form and substance to the Agents and such counsel, and the Agents and such counsel shall have received all such counterpart originals or certified copies of such documents as the Agents may reasonably request.

SECTION 3. REPRESENTATIONS AND WARRANTIES

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

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

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

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

D. GOVERNMENTAL CONSENTS. The execution and delivery by the Company and each Guarantor party hereto of this Amendment and the performance by the Company and each Guarantor of this Amendment and the performance by the Company and each Guarantor of the Amended Credit

Agreement do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other governmental authority or regulatory body.

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

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

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

SECTION 4. ACKNOWLEDGMENT AND CONSENT

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

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement, the Collateral Documents and the Guaranty and this Amendment and consents to the further amendment of the Credit Agreement effected pursuant to this Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, to the fullest extent possible the payment and performance

of all "Obligations," "Guarantied Obligations" and "Secured Obligations," as the case may be (in each case as such terms are defined in the applicable Credit Support Document), including without limitation the payment and performance of all such "Obligations," "Guarantied Obligations" or "Secured Obligations," as the case may be, in respect of the Obligations of the Company now or hereafter existing under or in respect of the Amended Credit Agreement and the Notes.

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

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

SECTION 5. MISCELLANEOUS

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

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

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

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

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

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

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

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

[Remainder of page intentionally left blank]

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

COMPANY:

COMFORT SYSTEMS USA, INC.

By: _____
J. Gordon Beittenmiller
Senior Vice President and
Chief Financial Officer

CREDIT SUPPORT PARTIES AND GUARANTORS:

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

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

By: _____
J. Gordon Beittenmiller
Vice President

AMOUNT OF COMMITMENT:

$45,000,000.00

ADMINISTRATIVE AGENT/BANK:

BANK ONE, TEXAS, N.A.,
AS ADMINISTRATIVE AGENT AND INDIVIDUALLY
AS A BANK

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$35,000,000.00

SYNDICATION AGENT/BANK:

BANKERS TRUST COMPANY,
AS SYNDICATION AGENT AND INDIVIDUALLY AS A BANK

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$42,500,000.00

DOCUMENTATION AGENT/BANK:

BANK OF AMERICA, N.A. (FORMERLY KNOWN AS
NATIONSBANK, N.A.), AS DOCUMENTATION AGENT
AND INDIVIDUALLY, AS A BANK

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$25,000,000.00

CO-AGENT/BANK:

CREDIT LYONNAIS, NEW YORK BRANCH,
AS CO-AGENT AND INDIVIDUALLY, AS A BANK

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$25,000,000.00

CO-AGENT/BANK:

NATIONAL CITY BANK,
AS CO-AGENT AND INDIVIDUALLY, AS A BANK

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$25,000,000.00

CO-AGENT/BANK:

THE BANK OF NOVA SCOTIA, AS CO-AGENT AND
INDIVIDUALLY, AS A BANK

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$20,000,000.00

BANK:

UNION BANK OF CALIFORNIA, N.A.

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$15,000,000.00

BANK:

COMERICA BANK

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$5,000,000.00

BANK:

BANK POLSKA, KASA OPIEKI S.A., PEKOA S.A. GROUP, NEW YORK BRANCH

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$30,000,000.00

BANK:

FIRSTAR BANK, NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$20,000,000.00

BANK:

LASALLE BANK NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

AMOUNT OF COMMITMENT:

$12,500,000.00

BANK:

GENERAL ELECTRIC CAPITAL
CORPORATION

By: _____
Name: _____
Title: _____

EXHIBIT 10.6

AMENDMENT
TO THE
COMFORT SYSTEMS USA, INC.
1998 EMPLOYEE STOCK PURCHASE PLAN

This Amendment to the Comfort Systems USA, Inc. (the "Company") 1998 Employee Stock Purchase Plan (the "Amendment") is executed pursuant to Section 8.1 of the Company's 1998 Employee Stock Purchase Plan (the "Plan"). All capitalized and undefined terms used herein shall have the meanings ascribed to such terms in the Plan.

WHEREAS, the Company's Board of Directors (the "Board") is authorized by Section 8.1 of the Plan to amend the Plan from time to time, subject to any required stockholder approval of any such amendments; and

WHEREAS, at a meeting of the Board on March 3, 2000 the Board authorized an increase in the number of shares authorized for issuance under the Purchase Plan by 600,000; and

WHEREAS, at the annual meeting of stockholders held on May 18, 2000, the Company's stockholders approved the Amendment.

NOW, THEREFORE, in order to amend Section 4.1 of the Purchase Plan as authorized by the Board and approved by the stockholders:

1. The first sentence of Section 4.1 of the Purchase Plan is hereby revised in its entirety to read as follows:

> "Subjects to the adjustments in Sections 4.2 and 4.3, an aggregate of Nine Hundred Thousand (900,000) shares of Common Stock shall be available for purchase by Participants pursuant to the provisions of the Plan."

2. Except as amended hereby, the terms and provisions of the Plan shall remain in full force and effect, and the Plan and this Amendment shall be read, taken and construed as one and the same instrument.

IN WITNESS WHEREOF, and as conclusive evidence of the adoption of the foregoing Amendment to the Plan by the directors of the Company and approval and adoption thereof by the stockholders of the Company, the Company has caused this Amendment to be duly executed in its name and behalf by its proper officers thereunto duly authorized as of the 20th day of May, 2000.

COMFORT SYSTEMS USA, INC.

By:/s/ William George
WILLIAM GEORGE
SENIOR VICE PRESIDENT

COMFORT SYSTEMS USA, INC.
2000 INCENTIVE PLAN

1. PURPOSE

The purpose of this Incentive Plan (the "Plan") is to advance the interests of Comfort Systems USA, Inc. (the "Company") and its subsidiaries by enhancing their ability to attract and retain employees and other persons or entities who are in a position to make significant contributions to the success of the Company and its subsidiaries through ownership of shares of the common stock, no par value per share (the "Stock"), of the Company and cash incentives.

The Plan is intended to accomplish these goals by enabling the Company to grant awards in the form of Options, Restricted Stock Awards, or Performance Awards (each as defined below), or combinations thereof (each, an "Award"), as more fully described below.

2. ADMINISTRATION

The Plan will be administered by the Board of Directors of the Company (the "Board"). The Board will have authority, not inconsistent with the express provisions of the Plan and in addition to other authority granted under the Plan, to (a) grant Awards at such time or times as it may choose; (b) determine the size of each Award, including the number of shares of Stock, if any, subject to the Award; (c) determine the type or types of each Award; (d) determine the terms and conditions of each Award; (e) waive compliance by a holder of an Award with any obligations to be performed by such holder under an Award and waive any terms or conditions of an Award; (f) amend or cancel an existing Award in whole or in part (and if an Award is canceled, grant another Award in its place on such terms and conditions as the Board shall specify), except that the Board may not, without the consent of the holder of an Award, take any action under this clause with respect to such Award if such action would adversely affect the rights of such holder; (g) prescribe the form or forms of instruments that are required or deemed appropriate under the Plan, including any written notices and elections required of Participants (as defined below), and change such forms from time to time; (h) adopt, amend and rescind rules and regulations for the administration of the Plan; and (i) interpret the Plan and decide any questions and settle all controversies and disputes that may arise in connection with the Plan. Such determinations and actions of the Board, and all other determinations and actions of the Board made or taken under authority granted by any provision of the Plan, will be conclusive and will bind all parties. Nothing in this paragraph shall be construed as limiting the power of the Board to make adjustments under Section 7.2 or Section 8.6.

The Board may, in its discretion, delegate some or all of its powers with respect to the Plan to a committee (the "Committee"), in which event all references (as appropriate) to the Board hereunder shall be deemed to refer to the Committee. The Committee, if one is appointed, shall consist of at least two directors. A majority of the members of the Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. On and after registration of the Stock under the Securities Exchange Act of 1934 (the "1934 Act"), the Board shall delegate the power to select directors and officers to receive awards under the Plan and the timing, pricing, and amount of such awards to a committee, all members of which shall be disinterested persons within the meaning of Rule 16b-3 under the 1934 Act and "outside directors" within the meaning of section 162(m)(4)(c)(i) of the Internal Revenue Code of 1986, as amended (the "Code").

3. EFFECTIVE DATE AND TERM OF PLAN

The Plan will become effective on the date on which it is approved by the stockholders of the Company. Awards may be made prior to such stockholder approval (but after Board adoption of the Plan) if made subject thereto. No Award may be granted under the Plan after April 16, 2010, but Awards previously granted may extend beyond that date.

4. SHARES SUBJECT TO THE PLAN

Subject to adjustment as provided in Section 8.6, the aggregate number of shares of Stock that may be delivered pursuant to Awards granted under the Plan shall not exceed 3,500,000. If any Award is forfeited or otherwise terminated without the delivery of Stock, shares of Stock are surrendered or withheld from any Award to satisfy any income tax withholding obligations, or if any Award payable in Stock or cash is satisfied in cash rather than Stock, then the number of shares of Stock covered by such terminated or forfeited Award or which are equal to the number of shares surrendered, withheld or terminated or for which cash was substituted will be available for future grants under this Plan.

Subject to Section 8.6(a), the maximum number of shares of Stock as to which Options may be granted to any Participant in any one calendar year is 1,000,000, which limitation shall be construed and applied consistently with the rules under Section 162(m) of the Code.

Stock delivered under the Plan may be either authorized but unissued Stock or previously issued Stock acquired by the Company and held in treasury. No fractional shares of Stock will be delivered under the Plan.

5. ELIGIBILITY AND PARTICIPATION

Each key employee of the Company or any of its subsidiaries (an "Employee") and each other person or entity (including without limitation non-Employee directors of the Company or a subsidiary of the Company) who, in the opinion of the Board, is in a position to make a significant contribution to the success of the Company or its subsidiaries, will be eligible to receive Awards under the Plan (each such Employee, person or entity receiving an Award, "a Participant"). A "subsidiary" for purposes of the Plan shall mean a corporation in which the Company owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock.

6. TYPES OF AWARDS

6.1. OPTIONS

(A) NATURE OF OPTIONS. The Board may grant Awards giving the recipient the right on exercise thereof to purchase Stock (each, an "Option").

Both "incentive stock options," as defined in Section 422(b) of the Code (any Option intended to qualify as an incentive stock option under the Code being hereinafter referred to as an "ISO"), and Options that are not ISOs, may be granted under the Plan. ISOs shall be awarded only to Employees. An Option awarded under the Plan shall be a non-ISO unless it is expressly designated as an ISO at time of grant.

(B) EXERCISE PRICE. The exercise price of an Option will be determined by the Board subject to the following:

(i) The exercise price of an ISO or an Option intended to qualify as performance based compensation under Section 162(m) of the Code shall not be less than 100% (110% in the case of an ISO granted to a ten-percent stockholder) of the fair market value of the Stock subject to the Option, determined as of the time the Option is granted. For this purpose, "fair market value" in the case of ISOs shall have the same meaning as it does in the provisions of the Code and the regulations thereunder applicable to ISOs; and "ten-percent stockholder" shall mean any participant who at the time of grant owns directly, or by reason of the attribution rules set forth in Section 424(d) of the Code is deemed to own, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its parent or subsidiary corporations.

(ii) In no case may the exercise price paid for Stock which is part of an original issue of authorized Stock be less than the par value per share of the Stock.

(C) DURATION OF OPTIONS. The latest date on which an Option may be exercised will be the tenth anniversary (the fifth anniversary in the case of an ISO granted to a ten-percent stockholder

as defined in 6.1(b) above) of the day immediately preceding the date the Option was granted, or such earlier date as may have been specified by the Board at the time the Option was granted.

(D) EXERCISE OF OPTIONS. An Option will become exercisable at such time or times, and on such conditions, as the Board may specify. The Board may at any time and from time to time accelerate the time at which all or any part of an Option may be exercised. Any exercise of an Option must be in writing, signed by the proper person and delivered or mailed to the Company, accompanied by (1) any documents required by the Board and (2) payment in full in accordance with paragraph (e) below for the number of shares for which the Option is exercised.

(E) PAYMENT FOR STOCK. Stock purchased on exercise of an Option must be paid for as follows: (1) in cash or by check (acceptable to the Company in accordance with guidelines established for this purpose), bank draft or money order payable to the order of the Company or (2) if so permitted by the Board at or after the grant of the Option or by the instrument evidencing the Option, (i) through the delivery of shares of Stock which have been held for at least six months (unless the Board approves a shorter period) and which have a fair market value equal to the exercise price, (ii) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price, or (iii) by any combination of the foregoing permissible forms of payment.

(F) DISCRETIONARY PAYMENTS. If (i) the fair market value as reasonably determined by the Board of shares of Stock subject to an Option exceeds the exercise price of the Option at the time of its exercise and (ii) the person exercising the Option so requests the Board in writing, the Board may in its sole discretion cancel the Option and cause the Company to pay in cash or in shares of Common Stock (at a price per share equal to the fair market value per share) to the person exercising the Option an amount equal to the difference between the fair market value of the Stock which would have been purchased pursuant to the exercise (determined on the date the Option is canceled) and the aggregate exercise price which would have been paid.

6.2. RESTRICTED STOCK.

(A) RESTRICTED STOCK. Subject to the terms and provisions of the Plan, the Board may grant shares of Stock or allow the purchase shares of Stock in such amounts and upon such terms and conditions as the Board shall determine subject to the restrictions, if any, described below ("Restricted Stock").

(B) RESTRICTED STOCK AGREEMENT. The Board may require, as a condition to an Award of Restricted Stock (a "Restricted Stock Award"), that a recipient of a Restricted Stock Award enter into a restricted stock award agreement, setting forth the terms and conditions of the Award or that the recipient execute other instruments including, but not limited to, any stockholders agreement of the Company (any instrument governing the Restricted Stock being a "Restricted Stock Award Agreement"). In lieu of a Restricted Stock Award Agreement, the Board may provide the terms and conditions of an Award in a notice to the Participant of the Award, on the stock certificate

representing the Restricted Stock, in the resolution approving the Award, or in such other manner as it deems appropriate.

(C) TRANSFERABILITY AND OTHER RESTRICTIONS. Except as otherwise provided in this Section 6.2, the shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable period or periods, if any, established by the Board and the satisfaction of any other conditions or restrictions, if any, established by the Board (such period during which a share of Restricted Stock is subject to such restrictions and conditions is referred to as the "Restricted Period"). Except as the Board may otherwise determine under Section 7.1 or Section 7.2 or except as set forth in the Restricted Stock Award Agreement, if a Participant dies or suffers a Status Change (as defined at Section 7.2(a)) for any reason during the Restricted Period, the Company may purchase the shares of Restricted Stock subject to such restrictions and conditions for the amount of cash paid by the Participant for such shares; PROVIDED, that any shares of Restricted Stock for which no cash was paid by the Participant shall be automatically forfeited to the Company.

During the Restricted Period, if any, with respect to any shares of Restricted Stock, the Company shall have the right to retain in the Company's possession the certificate or certificates representing such shares.

(D) REMOVAL OF RESTRICTIONS. Except as otherwise provided in this Section 6.2 and subject to any other restrictions on transfer of the Restricted Stock, including, but not limited to, those restrictions contained in any stockholders agreement of the Company, a share of Restricted Stock covered by a Restricted Stock Award shall become freely transferable by the Participant upon completion of the Restricted Period, if any, including the passage of any applicable period of time and satisfaction of any conditions to vesting. The Board, in its sole discretion, shall have the right at any time immediately to waive all or any part of the restrictions and conditions with regard to all or any part of the shares held by any Participant.

(E) VOTING RIGHTS, DIVIDENDS AND OTHER DISTRIBUTIONS. During the Restricted Period, if any, Participants holding shares of Restricted Stock granted hereunder may exercise full voting rights and shall receive all regular cash dividends paid with respect to such shares. Except as the Board shall otherwise determine, any other cash dividends and other distributions paid to Participants with respect to shares of Restricted Stock, including any dividends and distributions paid in shares, shall be subject to the same restrictions and conditions as the shares of Restricted Stock with respect to which they were paid.

(F) OTHER AWARDS SETTLED WITH RESTRICTED STOCK. The Board may, at the time any Award described in this Section 6 is granted, provide that any or all of the Stock delivered pursuant to the Award will be Restricted Stock.

(G) NOTICE OF SECTION 83(B) ELECTION. Any Participant making an election under Section 83(b) of the Code with respect to Restricted Stock must provide a copy thereof to the Company within 10 days of filing such election with the Internal Revenue Service.

6.3. PERFORMANCE AWARDS; PERFORMANCE GOALS.

(A) NATURE OF PERFORMANCE AWARDS. A performance award entitles the recipient to receive, without payment, an amount in cash or Stock or a combination thereof (such form to be determined by the Board) following the attainment of Performance Goals (as hereinafter defined) (a "Performance Award"). Performance Goals may be related to personal performance, corporate performance, departmental performance or any other category or combination of categories of performance established by the Board. The Board will determine the Performance Goals, the period or periods during which performance is to be measured and all other terms and conditions applicable to the Award.

(B) OTHER AWARDS SUBJECT TO PERFORMANCE CONDITION. The Board may, at the time any Award described in this Section 6.3 is granted, impose the condition (in addition to any conditions specified or authorized in this Section 6 or any other provision of the Plan) that Performance Goals be met prior to the Participant's realization of any payment or benefit under the Award. Any such Award made subject to the achievement of Performance Goals (other than an Option) shall be treated as a Performance Award for purposes of Section 6.3(c) below.

(C) LIMITATIONS AND SPECIAL RULES. In the case of any Performance Award intended to qualify for the performance-based remuneration exception described in Section 162(m)(4)(C) of the Code and the regulations thereunder (an "Exempt Award"), the Board shall in writing preestablish specific Performance Goals. A Performance Goal must be established prior to passage of 25% of the period of time over which attainment of such goal is to be measured. "Performance Goal" means criteria based upon any one or more of the following (on a consolidated, divisional, subsidiary, line of business or geographical basis or any combinations thereof): (i) sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; inventory level or turns; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; or any combination of the foregoing; or (ii) acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; recapitalizations, restructurings, financings (issuance of debt or equity) and refinancings; or (iii) any combination of the foregoing. A Performance Goal and targets with respect thereto determined by the Board need not be based upon an increase, a positive or improved result or avoidance of loss. The maximum Exempt Award payable to any Participant in respect of any such Performance Goal for any year shall not exceed $2,500,000.

7. EVENTS AFFECTING OUTSTANDING AWARDS

7.1. TERMINATION OF SERVICE

If a Participant who is an Employee ceases to be an Employee for any reason, or if there is a termination (other than by reason of death) of the consulting, service or similar relationship in respect of which a non-Employee Participant was granted an Award hereunder (such termination of the employment or other relationship being hereinafter referred to as a "Status Change"), the following will apply:

(a) Except as otherwise determined by the Board, all Options held by the Participant that were not exercisable immediately prior to the Status Change shall terminate at the time of the Status Change. Any Options that were exercisable immediately prior to the Status Change will continue to be exercisable within the three month period following the Status Change (or such longer period as the Board may determine), and shall thereupon terminate, unless the Award provides by its terms for immediate termination in the event of a Status Change (unless otherwise determined by the Board) or unless the Status Change results from a discharge for cause (as determined by the Board) below) in which case all Options shall terminate immediately. In no event, however, shall an Option remain exercisable beyond the latest date on which it could have been exercised without regard to this Section 7. For purposes of this paragraph, in the case of a Participant who is an Employee, a Status Change shall not be deemed to have resulted by reason of (i) a sick leave or other bona fide leave of absence approved for purposes of the Plan by the Board, so long as the Employee's right to reemployment is guaranteed either by statute or by contract, or (ii) a transfer of employment between the Company and a subsidiary or between subsidiaries, or to the employment of a corporation (or a parent or subsidiary corporation of such corporation) issuing or assuming an option in a transaction to which Section 424(a) of the Code applies.

(b) Except as otherwise determined by the Board and provided in a Restricted Stock Award Agreement, all Restricted Stock held by the Participant at the time of the Status Change which remains subject to restrictions, if any, pursuant to the Restricted Stock Award or Restricted Stock Award Agreement must be transferred to the Company (and, in the event the certificates representing such Restricted Stock are held by the Company, such Restricted Stock will be so transferred without any further action by the Participant) in accordance with Section 6.2(c) above.

(c) Any payment or benefit under a Performance Award to which the Participant was not irrevocably entitled prior to the Status Change will be forfeited and the Award cancelled as of the date of such Status Change unless otherwise determined either by the Board or the terms of the Performance Award established at the time of grant.

7.2. CERTAIN CORPORATE TRANSACTIONS.

Except as otherwise provided by the Committee at the time of grant, in the event of a consolidation or merger in which the Company is not the surviving corporation or which results in

the acquisition of substantially all the Company's outstanding Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of substantially all the Company's assets or a dissolution or liquidation of the Company (a "Covered Transaction"), the following rules shall apply:

(a) Subject to paragraph (b) below, all outstanding Awards requiring exercise will cease to be exercisable, and all other Awards to the extent not fully vested (including Awards subject to conditions not yet satisfied or determined) will be forfeited, as of the effective time of the Covered Transaction, provided that the Committee may in its sole discretion, on or prior to the effective date of the covered transaction, (1) make any outstanding Option exercisable in full, (2) remove the restrictions from any Restricted Stock, (3) cause the Company to make any payment and provide any benefit under any Performance Award and (4) remove any performance or other conditions or restrictions on any Award; or

(b) With respect to an outstanding Award held by a participant who, following the Covered Transaction, will be employed by or otherwise providing services to an entity which is a surviving or acquiring entity in the covered transaction or an affiliate of such an entity, the Committee may at or prior to the effective time of the covered transaction, in its sole discretion and in lieu of the action described in paragraph (a) above, arrange to have such surviving or acquiring entity or affiliate assume any Award held by such participant outstanding hereunder or grant a replacement award which, in the judgment of the Committee, is substantially equivalent to any Award being replaced.

8. GENERAL PROVISIONS

8.1. DOCUMENTATION OF AWARDS.

Awards will be evidenced by such written instruments, if any, as may be prescribed by the Board from time to time. Such instruments may be in the form of agreements to be executed by both the Participant and the Company, or certificates, letters or similar instruments, which need not be executed by the Participant but acceptance of which will evidence agreement to the terms thereof.

8.2. RIGHTS AS A STOCKHOLDER, DIVIDEND EQUIVALENTS.

Except as specifically provided by the Plan, the receipt of an Award will not give a Participant rights as a stockholder; the Participant will obtain such rights, subject to any limitations imposed by the Plan or the instrument evidencing the Award, only upon the issuance of Stock. However, the Board may, on such conditions as it deems appropriate, provide that a Participant will receive a benefit in lieu of cash dividends that would have been payable on any or all Stock subject to the Participant's Award had such Stock been outstanding. Without limitation, the Board may provide for payment to the Participant of amounts representing such dividends, either currently or in the future, or for the investment of such amounts on behalf of the Participant.

8.3. CONDITIONS ON DELIVERY OF STOCK.

The Company will not be obligated to deliver any shares of Stock pursuant to the Plan or to remove any restriction from shares previously delivered under the Plan (a) until all conditions of the Award have been satisfied or removed, (b) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (c) if the outstanding Stock is at the time listed on any stock exchange or The Nasdaq Stock Market, until the shares to be delivered have been listed or authorized to be listed on such exchange or market upon official notice of notice of issuance, and (d) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer.

If an Award is exercised by the Participant's legal representative, the Company will be under no obligation to deliver Stock pursuant to such exercise until the Company is satisfied as to the authority of such representative.

8.4. TAX WITHHOLDING.

The Company will withhold from any cash payment made pursuant to an Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding requirements").

In the case of an Award pursuant to which Stock may be delivered, the Board will have the right to require that the Participant or other appropriate person remit to the Company an amount sufficient to satisfy the withholding requirements, or make other arrangements satisfactory to the Board with regard to such requirements, prior to the delivery of any Stock or removal of restrictions thereon. If and to the extent that such withholding is required, the Board may permit the Participant or such other person to elect at such time and in such manner as the Board provides to have the Company hold back from the shares to be delivered, or to deliver to the Company, Stock having a

value calculated to satisfy the withholding requirement. The Board may make such share withholding mandatory with respect to any Award at the time such Award is made to a Participant.

If at the time an ISO is exercised the Board determines that the Company could be liable for withholding requirements with respect to the exercise or with respect to a disposition of the Stock received upon exercise, the Board may require as a condition of exercise that the person exercising the ISO agree (a) to provide for withholding under the preceding paragraph of this Section 8.4, if the Board determines that a withholding responsibility may arise in connection with tax exercise, (b) to inform the Company promptly of any disposition (within the meaning of Section 424(c) of the Code) of Stock received upon exercise, and (c) to give such security as the Board deems adequate to meet the potential liability of the Company for the withholding requirements and to augment such security from time to time in any amount reasonably deemed necessary by the Board to preserve the adequacy of such security.

8.5. TRANSFERABILITY OF AWARDS.

Unless otherwise permitted by the Board, no Award may be transferred other than by will or by the laws of descent and distribution.

8.6. ADJUSTMENTS IN THE EVENT OF CERTAIN TRANSACTIONS.

(a) In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capitalization, or other distribution to holders of Stock other than normal cash dividends, after the effective date of the Plan, the Board will make any appropriate adjustments to the maximum number of shares that may be delivered under the Plan under the first paragraph of Section 4 above and to the limits described in the second paragraph of Section 4 and in Section 6.3(c).

(b) In any event referred to in paragraph (a), the Board will also make any appropriate adjustments to the number and kind of shares of Stock or securities subject to Awards then outstanding or subsequently granted, any exercise prices relating to Awards and any other provision of Awards affected by such change. The Board may also make such adjustments to take into account material changes in law or in accounting practices or principles, mergers, consolidations, acquisitions, dispositions or similar corporate transactions, or any other event, if it is determined by the Board that adjustments are appropriate to avoid distortion in the operation of the Plan; PROVIDED, that adjustments pursuant to this sentence shall not be made to the extent it would cause any Award intended to be exempt under Section 162(m)(4)(c) of the Code to fail to be so exempt.

(c) In the case of ISOs, the adjustments described in (a) and (b) above will be made only to the extent consistent with continued qualification of the Option under Section 422 of the Code (in the case of an ISO) or Section 162(m) of the Code.

8.7. EMPLOYMENT RIGHTS, ETC.

Neither the adoption of the Plan nor the grant of Awards will confer upon any person any right to continued retention by the Company or any subsidiary as an Employee or otherwise, or affect in any way the right of the Company or subsidiary to terminate an employment, service or similar relationship at any time. Except as specifically provided by the Board in any particular case, the loss of existing or potential profit in Awards granted under the Plan will not constitute an element of damages in the event of termination of an employment, service or similar relationship even if the termination is in violation of an obligation of the Company to the Participant.

8.8. DEFERRAL OF PAYMENTS.

The Board may agree at any time, upon request of the Participant, to defer the date on which any payment under an Award will be made.

8.9. PAST SERVICES AS CONSIDERATION.

Where a Participant purchases Stock under an Award for a price equal to the par value of the Stock, the Board may determine that such price has been satisfied by past services rendered by the Participant.

9. EFFECT, AMENDMENT AND TERMINATION

Neither adoption of the Plan nor the grant of Awards to a Participant will affect the Company's right to grant to such Participant awards that are not subject to the Plan, to issue to such Participant Stock as a bonus or otherwise, or to adopt other plans or arrangements under which Stock may be issued to Employees.

The Board may at any time or times amend the Plan or any outstanding Award for any purpose which may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards, provided that no such amendment shall materially impair any rights or materially increase any obligations of the Participant under any Award theretofore made under the Plan without the consent of the Participant, and provided further that (except to the extent expressly required or permitted by the Plan) no such amendment will, without the approval of the stockholders of the Company, effectuate a change for which stockholder approval is required in order for the Plan to continue to qualify for the award of ISOs under Section 422 of the Code or for the award of performance-based compensation under Section 162(m) of the Code.

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

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6-MOS
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JUN-30-2000
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354,922
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