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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

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 [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

The number of shares outstanding of the issuer's common stock, as of November 7, 2003 was 37,991,883.

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COMFORT SYSTEMS USA, INC.

INDEX TO FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2003

COMFORT SYSTEMS USA, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2002	SEPTEMBER 30, 2003
		(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,017	$ 7,820
Accounts receivable, less allowance for doubtful accounts of $5,986 and $5,753	166,274	170,737
Other receivables	7,877	4,935
Inventories	11,952	10,279
Prepaid expenses and other	10,562	11,577
Costs and estimated earnings in excess of billings	17,811	16,520
Assets related to discontinued operations	7,221	1,405
Total current assets	227,714	223,273
PROPERTY AND EQUIPMENT, net	15,972	14,054
GOODWILL	109,471	109,471
OTHER NONCURRENT ASSETS	13,378	11,298
Total assets	$ 366,535	$ 358,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 1,780	$ 4,385
Accounts payable	56,330	57,528
Accrued compensation and benefits	21,888	22,915
Billings in excess of costs and estimated earnings	26,633	29,313
Income taxes payable	9,797	--
Other current liabilities	29,502	25,995
Liabilities related to discontinued operations	1,723	672
Total current liabilities	147,653	140,808
LONG-TERM DEBT, NET OF CURRENT MATURITIES AND DISCOUNT OF $2,850 AND $2,400	10,604	10,732
OTHER LONG-TERM LIABILITIES	3,192	3,365
Total liabilities	161,449	154,905
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, 1,341,419 and 1,296,405 shares, at cost	(8,214)	(7,845)
Additional paid-in capital	338,606	338,160
Deferred compensation	(785)	(496)
Other comprehensive income (loss)	--	(39)
Retained earnings (deficit)	(124,914)	(126,982)
Total stockholders' equity	205,086	203,191
Total liabilities and stockholders' equity	$ 366,535	$ 358,096

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

COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)			
REVENUES	$212,071	$210,198	$ 609,836	$592,029
COST OF SERVICES	172,726	174,771	502,552	494,873
Gross profit	39,345	35,427	107,284	97,156
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	31,665	28,064	93,876	87,712
RESTRUCTURING CHARGES	--	949	1,878	3,223
Operating income	7,680	6,414	11,530	6,221
OTHER INCOME (EXPENSE):				
Interest income	12	29	41	80
Interest expense	(959)	(1,107)	(3,960)	(3,575)
Other	116	42	1,232	(105)
Other income (expense)	(831)	(1,036)	(2,687)	(3,600)
INCOME BEFORE INCOME TAXES	6,849	5,378	8,843	2,621
INCOME TAX EXPENSE	3,268	2,572	4,265	1,285
INCOME FROM CONTINUING OPERATIONS	3,581	2,806	4,578	1,336
DISCONTINUED OPERATIONS:				
Operating income (loss), net of applicable income tax benefit (expense) of $(91) $(92), $1,655, and $(174)	159	142	353	281
Estimated loss on disposition, including income tax expense of $--, $43, $25,887 and $274	--	(2,773)	(11,156)	(3,685)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	3,740	175	(6,225)	(2,068)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAX BENEFIT OF $26,317	--	--	(202,521)	--
NET INCOME (LOSS)	$ 3,740	$ 175	$(208,746)	$ (2,068)
INCOME (LOSS) PER SHARE:				
Basic -- Income from continuing operations	$ 0.10	$ 0.07	$ 0.12	$ 0.04
Discontinued operations -- Income (loss) from operations	--	--	0.01	0.01
Estimated loss on disposition	--	(0.07)	(0.29)	(0.10)
Cumulative effect of change in accounting principle	--	--	(5.37)	--
Net income (loss)	$ 0.10	$ --	$ (5.53)	$ (0.05)
Diluted -- Income from continuing operations	$ 0.09	$ 0.07	$ 0.12	$ 0.04
Discontinued operations -- Income (loss) from operations	0.01	--	--	0.01
Estimated loss on disposition	--	(0.07)	(0.29)	(0.10)
Cumulative effect of change in accounting principle	--	--	(5.30)	--
Net income (loss)	$ 0.10	$ --	$ (5.47)	$ (0.05)
SHARES USED IN COMPUTING INCOME (LOSS) PER SHARE:				
Basic	37,834	37,713	37,736	37,659
Diluted	38,131	38,454	38,192	38,081

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

COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

OTHER COMPRE- TOTAL
COMMON STOCK
TREASURY STOCK
ADDITIONAL DEFERRED
HENSIVE RETAINED
STOCK- -------------
------ -------------
-------- PAID-IN
COMPEN- INCOME
EARNINGS HOLDERS'
SHARES AMOUNT SHARES
AMOUNT CAPITAL
SATION (LOSS)
(DEFICIT) EQUITY ---
------- ------ -----
----- -------- -----
----- -------- -----
-- --------- -------
-- (IN THOUSANDS,
EXCEPT SHARE
AMOUNTS) BALANCE AT
DECEMBER 31,
2001.................
39,258,913 $393
(1,749,334)
$(10,924) $340,186 $
-- $ -- $ 84,166 $
413,821 Issuance of
Treasury Stock:
Issuance of shares
for options
exercised........ --
-- 242,146 1,499
(803) -- -- -- 696
Issuance of
restricted
stock............ --
-- 275,000 1,698
(618) (1,080) -- --
-- Shares exchanged
in repayment of
notes
receivable.........
-- -- (49,051) (204)
-- -- -- -- (204)
Shares received from
sale of business...
-- -- (55,882) (263)
-- -- -- -- (263)
Shares received from
settlement with
former owner.......
-- -- (4,298) (20) -
- -- -- -- (20)
Amortization of
deferred
compensation.......
-- -- -- -- (159)
295 -- -- 136 Net
loss............ --
-- -- -- -- -- --
(209,080) (209,080)
---------- ---- ----
------ -------- ----
---- ------- ---- --
------- ---------
BALANCE AT DECEMBER
31,
2002.................
39,258,913 393
(1,341,419) (8,214)
338,606 (785) --
(124,914) 205,086
Issuance of Treasury

Stock: Issuance of
shares for options
exercised
(unaudited)...... --
-- 77,500 469 (253)
-- -- -- 216 Shares
received from sale
of assets
(unaudited)........
-- -- (32,486) (100)
-- -- -- -- (100)
Amortization of
deferred
compensation
(unaudited)........
-- -- -- -- (193)
289 -- -- 96 Mark-
to-market interest
rate swap derivative
(unaudited)........
-- -- -- -- -- --
(39) -- (39) Net
loss
(unaudited)........
-- -- -- -- -- -- --
(2,068) (2,068) ----
------ ---- --------
-- -------- --------
------- ---- -------
-- --------- BALANCE
AT SEPTEMBER 30,
2003
(unaudited)..........
39,258,913 $393
(1,296,405) $
(7,845) $338,160 $
(496) $(39)
$(126,982) $ 203,191
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The accompanying notes are an integral part of these consolidated financial statements.

COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN THOUSANDS) (UNAUDITED)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 3,740	$ 175	$(208,746)	$ (2,068)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --				
Cumulative effect of change in accounting principle	--	--	202,521	--
Estimated loss on disposition of discontinued operations	--	2,773	11,156	3,685
Restructuring charges	--	949	1,878	3,223
Depreciation expense	1,695	1,301	5,570	4,024
Bad debt expense	451	420	2,982	1,888
Deferred tax expense	1,943	1,009	3,669	2,222
Amortization of debt financing costs	332	178	1,540	1,457
Loss (gain) on sale of assets or operations	(49)	(31)	(950)	184
Mark-to-market warrant obligation	--	280	--	188
Deferred compensation expense	14	61	76	96
Amortization of debt discount	--	150	--	450
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Receivables, net	6,731	(7,401)	13,243	(5,938)
Inventories	662	184	2,039	1,617
Prepaid expenses and other current assets	(1,162)	(954)	2,070	(16)
Costs and estimated earnings in excess of billings	(22)	(559)	(3,250)	1,196
Other noncurrent assets	(40)	(30)	386	138
Increase (decrease) in --				
Accounts payable and accrued liabilities	(573)	(3,999)	(22,241)	607
Billings in excess of costs and estimated earnings	(1,358)	(943)	2,093	2,580
Taxes paid related to the sale of businesses	--	--	--	(10,371)
Other, net	(250)	--	(229)	(19)
Net cash provided by (used in) operating activities	12,114	(6,437)	13,807	5,143
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(974)	(714)	(4,044)	(2,661)
Proceeds from sales of property and equipment	196	208	1,330	319
Proceeds from businesses sold, net of cash sold and transaction costs	(66)	(4)	154,499	(2,754)
Net cash provided by (used in) investing activities	(844)	(510)	151,785	(5,096)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings (payments) on revolving line of credit	(12,900)	3,779	(163,700)	3,672
Payments on other long-term debt	(449)	(399)	(2,771)	(1,402)
Borrowings of other long-term debt	40	--	204	18
Debt financing costs	--	(158)	--	(835)
Proceeds from exercise of options	40	130	675	216
Net cash provided by (used in) financing activities	(13,269)	3,352	(165,592)	1,669

NET INCREASE (DECREASE) IN CASH AND CASH
EQUIVALENTS........ (1,999) (3,595) -- 1,716 CASH AND
CASH EQUIVALENTS, beginning of period -- continuing
operations and discontinued
operations.................... 12,624 11,415 10,625
6,104 -------- ------- --------- -------- CASH AND
CASH EQUIVALENTS, end of period -- continuing
operations and discontinued
operations.................... $ 10,625 $ 7,820 $
10,625 $ 7,820 ======== ======= ========= ========

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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003
(UNAUDITED)

1. BUSINESS AND ORGANIZATION

Comfort Systems USA, Inc., a Delaware corporation ("Comfort Systems" and collectively with its subsidiaries, the "Company"), is a national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. The Company operates primarily in the commercial, industrial and institutional HVAC markets, and performs most of its services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, the Company provides specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing. Approximately 52% of the Company's consolidated 2003 revenues to date are attributable to installation of systems in newly constructed facilities, with the remaining 48% attributable to maintenance, repair and replacement services. The Company's consolidated 2003 revenues to date relate to the following service activities: HVAC -- 76%, plumbing -- 12%, building automation control systems -- 6%, and other -- 6%. These service activities are within the mechanical services industry which is the single industry segment served by Comfort Systems.

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, 2002 (the "Form 10-K").

There were no significant changes in the accounting policies of the Company during the current period. 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 the 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 full fiscal year.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates. The most significant estimates used in the Company's financial statements include revenue and cost recognition for construction contracts, allowance for doubtful accounts and self-insurance accruals.

CASH FLOW INFORMATION

Cash paid for interest for continuing and discontinued operations for the nine months ended September 30, 2002 and 2003 was approximately $4.5 million and $1.4 million, respectively. Cash paid for income taxes for continuing operations for the nine months ended September 30, 2002 and 2003 was approximately $5.0 million and $1.7 million, respectively. Cash paid for income taxes for discontinued operations for the nine months ended September 30, 2002 and 2003 was approximately $4.2 million and $9.4 million, respectively. The cash tax payments for the nine months ended September 30, 2003 include approximately $10.4 million associated with the sale in 2002 of 19 operations to Emcor Group, Inc. ("Emcor"). These taxes are included in the caption "Taxes paid related to the sale of businesses" in the accompanying Consolidated Statement of Cash Flows.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructurings, involuntarily terminating employees, and consolidating facilities, where those activities were initiated after December 31, 2002. The implementation of SFAS No. 146 does not require the restatement of previously issued financial statements. See Note 5 for a discussion of restructuring charges recorded during 2003 in accordance with SFAS No. 146.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years ending after December 15, 2002. The footnote disclosure provisions were adopted by the Company in the fourth quarter of 2002.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period ending after December 15, 2003. The Company's preliminary assessment is that the adoption of FIN 46 will not have a significant effect on its consolidated financial condition or results of operations. However, the Company's evaluation of this impact is not yet complete, and therefore, could change.

SEGMENT DISCLOSURE

Comfort Systems' activities are within the mechanical services industry which is the single industry segment served by the Company. Under SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," each operating subsidiary represents an operating segment and these segments have been aggregated, as no individual operating unit is material and the operating units meet a majority of the aggregation criteria.

STOCK-BASED COMPENSATION

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
Net income (loss) as reported	$3,740	$ 175	$(208,746)	$(2,068)
Less: Compensation expense per SFAS No. 123, net of tax	(746)	(448)	(2,579)	(1,859)
Pro forma net income (loss)	$2,994	$ (273)	$(211,325)	$(3,927)
Net Income (Loss) Per Share -- Basic				
Net income (loss) as reported	$ 0.10	$ --	$ (5.53)	$ (0.05)
Less: Compensation expense per SFAS No. 123, net of tax	(0.02)	(0.01)	(0.07)	(0.05)
Pro forma net income (loss) per share	$ 0.08	$(0.01)	$ (5.60)	$ (0.10)
Net Income (Loss) Per Share -- Diluted				
Net income (loss) as reported	$ 0.10	$ --	$ (5.47)	$ (0.05)
Less: Compensation expense per SFAS No. 123, net of tax	(0.02)	(0.01)	(0.06)	(0.05)
Pro forma net income (loss) per share	$ 0.08	$(0.01)	$ (5.53)	$ (0.10)

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

	2002	2003
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	65.32%	62.08%
Risk-free interest rate	5.21% - 5.51%	2.94% - 3.64%
Expected life of options	10 years	7 years

RECLASSIFICATIONS

Certain reclassifications have been made in prior period financial statements to conform to current period presentation. These reclassifications have not resulted in any changes to previously reported net income for any periods.

3. DISCONTINUED OPERATIONS

During the third quarter of 2003, the Company committed to a plan to divest of an operating company. This unit's after-tax income of $0.2 million for the first nine months of both 2002 and 2003 has been reported in discontinued operations under "Operating income (loss), net of applicable income taxes" in the Company's statement of operations. As a result of the decision in the third quarter of 2003 to sell this unit, the Company recorded an estimated loss of $2.8 million, including taxes, related to this planned disposition in "Estimated loss on disposition, including income taxes" in the Company's statement of operations based upon an estimated sales price. The estimated loss results from the non-cash writeoff of nondeductible goodwill.

During the second quarter of 2003, the Company sold an operating company. This unit's after-tax income of $0.2 million and $0.1 million, for the first nine months of 2002 and the first six months of 2003, respectively, has been reported in discontinued operations under "Operating income (loss), net of applicable income taxes" in the Company's statement of operations. As a result of the decision in the first quarter of 2003 to sell this unit, the Company recorded an estimated loss in the first quarter of 2003 of $0.9 million, including taxes, related to this transaction in "Estimated loss on disposition, including income taxes" in the Company's statement of operations. The final loss as measured at the closing of this sale in the second quarter of 2003 was not materially different than the estimate recorded in the preceding quarter. The loss resulted from the non-cash writeoff of nondeductible goodwill.

On March 1, 2002, the Company sold 19 operations to Emcor. The total purchase price was $186.25 million, including the assumption by Emcor of approximately $22.1 million of subordinated notes to former owners of certain of the divested companies.

The transaction with Emcor provided for a post-closing adjustment based on a final accounting, done after the closing of the transaction, of the net assets of the operations that were sold to Emcor. That accounting indicated that the net assets transferred to Emcor were approximately $7 million greater than a target amount that had been agreed to with Emcor. In the second quarter of 2002, Emcor paid the Company that amount, and released $2.5 million that had been escrowed in connection with this element of the transaction.

Of Emcor's purchase price, $5 million was deposited into an escrow account to secure potential obligations on the Company's part to indemnify Emcor for future claims and contingencies arising from events and circumstances prior to closing, all as specified in the transaction documents. Of this escrow, $4 million has been applied in determining the Company's liability to Emcor in connection with the settlement of certain claims as described subsequently in this section. The remaining $1 million of escrow is available for book purposes to apply to any future claims and contingencies in connection with this transaction, and has not been recognized as part of the Emcor transaction purchase price.

The net cash proceeds of approximately $150 million received to date from the Emcor transaction were used to reduce the Company's debt. The Company paid $10.4 million of taxes related to this transaction in March 2003.

In the fourth quarter of 2002, the Company recognized a charge of $1.2 million, net of tax benefit of $2.7 million, in "Estimated loss on disposition, including income taxes" in the Company's statement of operations in connection with the Emcor transaction. This charge primarily relates to a settlement with Emcor for reimbursement of impaired assets and additional liabilities associated with the operations acquired from the Company. Under this settlement, the Company was released from liability on all other outstanding receivables and issues relating to the profitability of projects that were in process at the time Emcor acquired these operations. During May 2003, the Company paid $2.7 million in cash to Emcor associated with this settlement. The settlement agreement also included the use of $2.5 million of the $5 million escrow described above to fund settled claims. The Company further recognized an additional

$1.5 million of the remaining escrow applicable to elements of the settlement still to be funded, of which $0.8 million was paid from escrow during September 2003. Accordingly, for book purposes, $1.0 million of escrow remains available to apply against future claims that may arise from Emcor in connection with this transaction. The Company recorded a tax benefit of $1.4 million related to this additional charge. In addition, the $1.2 million charge recognized during the fourth quarter of 2002 is also net of a tax credit of $1.3 million as a result of lower final tax liabilities in connection with the overall Emcor transaction than were estimated when the transaction originally closed in the first quarter of 2002.

Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which took effect for the Company on January 1, 2002, the operating results of the companies sold to Emcor for all periods presented through the sale, as well as the loss on the sale of these operations, have been presented as discontinued operations in the Company's statements of operations. The Company realized an aggregate loss of $11.8 million, including related tax expense, in connection with the sale of these operations. As a result of the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," the Company also recognized a goodwill impairment charge related to these operations of $32.4 million, net of tax benefit, as of January 1, 2002. The reporting of the Company's aggregate initial goodwill impairment charge in connection with adopting SFAS No. 142 is discussed further in Note 4, "Goodwill."

In March 2002, the Company also decided to divest of an additional operating company. In the first quarter of 2002, the Company recorded an estimated loss of $0.4 million, net of tax benefit, from this planned disposition in "Estimated loss on disposition, including income taxes" in the Company's statement of operations. In the fourth quarter of 2002, the Company reversed this estimated loss because the Company decided not to sell this unit.

During the second quarter of 2002, the Company sold a division of one of its operations. The after-tax loss for this division for the first two quarters of 2002 of $0.3 million, has been reported in discontinued operations under "Operating income (loss), net of applicable income taxes" in the Company's statement of operations. The Company realized a loss of $0.2 million, net of tax benefit, on the sale of this division. This loss is included in "Estimated loss on disposition, including income taxes" during the second quarter of 2002 in the Company's statement of operations.

Assets and liabilities related to discontinued operations were as follows (in thousands):

	DECEMBER 31, 2002	SEPTEMBER 30, 2003
Accounts receivable, net	$2,118	$ 667
Other current assets	782	266
Property and equipment, net	139	77
Goodwill, net	3,956	395
Other noncurrent assets	226	--
Total assets	$7,221	$1,405
Accounts payable	$ 443	$ 122
Other current liabilities	1,280	550
Total liabilities	$1,723	$ 672

Revenues and pre-tax income (loss) related to discontinued operations were as follows (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003
Revenues	$104,641	$6,531
Pre-tax income (loss)	$ (1,302)	$ 455

Interest expense allocated to the discontinued operations in the first quarter of 2002 was $1.5 million. This amount was allocated based upon the Company's net investment in these operations. No additional interest expense was allocated to discontinued operations subsequent to the first quarter of 2002.

4. GOODWILL

In most businesses the Company has acquired, the value paid to buy the business was greater than the value of specifically identifiable net assets in the business. Under generally accepted accounting principles, this excess is termed goodwill and is recognized as an asset at the time the business is acquired. It is generally expected that future net earnings from an acquired business will exceed the goodwill asset recognized at the time the business is bought. Under previous generally accepted accounting principles, goodwill was required to be amortized, or regularly charged to the Company's operating results in its statement of operations.

SFAS No. 142, "Goodwill and Other Intangible Assets," went into effect in 2002. The Company adopted it as of January 1, 2002. SFAS No. 142 requires companies to assess goodwill asset amounts for impairment each year, and more frequently if circumstances suggest an impairment may have occurred. In addition to discontinuing the regular charge, or amortization, of goodwill against income, the new standard also introduces more rigorous criteria for determining how much goodwill should be reflected as an asset in a company's balance sheet.

To perform the transitional impairment testing required by SFAS No. 142 under its new, more rigorous impairment criteria, the Company broke its operations into "reporting units," as prescribed by the new standard, and tested each of these reporting units for impairment by comparing the unit's fair value to its carrying value. The fair value of each reporting unit was estimated using a discounted cash flow model combined with market valuation approaches. Significant estimates and assumptions were used in assessing the fair value of reporting units. These estimates and assumptions involved future cash flows, growth rates, discount rates, weighted average cost of capital and estimates of market valuations for each of the reporting units.

As provided by SFAS No. 142, the transitional impairment loss identified by applying the standard's new, more rigorous valuation methodology upon initial adoption of the standard was reflected as a cumulative effect of a change in accounting principle in the Company's statement of operations. The resulting non-cash charge was $202.5 million, net of tax benefit, and was recorded during the first quarter of 2002. Impairment charges recognized after the initial adoption, if any, generally are to be reported as a component of operating income.

The changes in the carrying amount of goodwill for the year ended December 31, 2002 and the nine months ended September 30, 2003 are as follows (in thousands):

Goodwill balance as of January 1, 2002(a)	$ 438,448
Impairment adjustment	(229,056)
Goodwill related to sale of operations	(95,965)
Goodwill balance as of December 31, 2002(a)	113,427
Goodwill related to sale of operation	(882)
Goodwill impairment related to discontinued operation	(2,679)
Goodwill balance as of September 30, 2003(a)	$ 109,866

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(a) A portion of this goodwill balance is included in "Assets Related to Discontinued Operations" in the Company's consolidated balance sheet.

5. RESTRUCTURING CHARGES

During the first three quarters of 2003, the Company recorded restructuring charges of approximately $3.2 million pre-tax. These charges included approximately $1.5 million for severance costs and stay bonuses primarily associated with the curtailment of the Company's energy efficiency activities, a reorganization of the Company's national accounts operations as well as a reduction in corporate personnel. The severance costs and stay bonuses related to the termination of 88 employees (86 of these employees had been terminated as of September 30, 2003). The restructuring charges for this period also included approximately $1.6 million for remaining lease obligations and $0.1 million of other costs recorded in connection with the actions described above.

During the first quarter of 2002, the Company recorded restructuring charges of approximately $1.9 million. These charges included approximately $0.8 million for severance costs primarily associated with the reduction in corporate office overhead in light of the Company's smaller size following the Emcor transaction described in Note 3, "Discontinued Operations." The severance costs related to the termination of 33 employees, none of whom were employed as of March 31, 2002. The restructuring charges for the quarter also included approximately $0.7 million for costs associated with decisions to merge or close three smaller divisions and realign regional operating management. The restructuring charges for the quarter were primarily cash obligations, but did include approximately $0.3 million of non-cash writedowns associated with long-lived assets.

During the second half of 2000, the Company recorded restructuring charges primarily associated with reconfiguration of certain underperforming operations and with its decision to cease e-commerce activities at Outbound Services, a subsidiary of the Company. As of December 31, 2002 and September 30, 2003, accrued lease termination costs of $0.8 million and $0.6 million, respectively, remain that were associated with these restructuring charges.

The following table shows the remaining liabilities associated with the cash portion of the restructuring charges as of December 31, 2002 and September 30, 2003 (in thousands):

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	PAYMENTS	BALANCE AT END OF PERIOD
YEAR ENDED DECEMBER 31, 2002:				
Severance..........................	$ 210	$ 846	$(1,056)	$ --
Lease termination costs and other...	1,148	704	(852)	1,000
Total..............................	$1,358	$1,550	$(1,908)	$1,000
NINE MONTHS ENDED SEPTEMBER 30, 2003:				
Severance..........................	$ --	$1,507	$(1,500)	$ 7
Lease termination costs and other...	1,000	1,716	(717)	1,999
Total..............................	$1,000	$3,223	$(2,217)	$2,006

6. LONG-TERM DEBT OBLIGATIONS

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

	DECEMBER 31, 2002	SEPTEMBER 30, 2003
Revolving credit facility.................................	$ 107	$ 3,779
Term loan...	14,625	13,300
Other...	502	438
Total debt..	15,234	17,517
Less -- current maturities................................	(1,780)	(4,385)
Total long-term portion of debt...........................	13,454	13,132
Less -- discount on Facility..............................	(2,850)	(2,400)
Long-term portion of debt, net of discount................	$10,604	$10,732

CREDIT FACILITY

The Company's primary current debt financing capacity consists of a $53 million senior credit facility (the "Facility") provided by a syndicate of three financial institutions led by General Electric Capital Corporation ("GE"). The Facility includes a $20 million sublimit for letters of credit. The Facility is secured by substantially all the assets of the Company. The Facility was entered into on October 11, 2002 and consists of two parts: a term loan and a revolving credit facility.

The term loan under the Facility (the "Term Loan") was originally $15 million, which the Company borrowed upon the closing of the Facility. The Term Loan must be repaid in quarterly installments over five years. The amount of each quarterly installment increases annually.

The Facility requires prepayments of the Term Loan in certain circumstances. Approximately half of any free cash flow (as defined in the Facility agreement -- primarily cash from operations less capital expenditures) in excess of scheduled principal payments and voluntary prepayments must be used to pay down the Term Loan. This requirement is measured annually based on full-year results. The Company did not have any prepayments of the Term Loan due as of December 31, 2002 under this requirement, primarily as a result of the significant amount of voluntary prepayments of debt made by the Company during 2002. In addition, proceeds in excess of $250,000 from any individual asset sales, or in excess of $1 million for a full year's asset sales, must be used to pay down the Term Loan. Proceeds from asset sales that are less than these individual transaction or annual aggregate levels must also be used to pay down the Term Loan unless they are reinvested in long-term assets within six months of the receipt of such proceeds.

All prepayments under the Term Loan, whether required or voluntary, are applied to scheduled principal payments in inverse order, i.e. to the last scheduled principal payment first, followed by the second-to-last, etc. All principal payments under the Term Loan permanently reduce the original $15 million capacity under this portion of the Facility. As of September 30, 2003, $13.3 million was outstanding under the Term Loan.

The Facility also includes a three-year $40 million revolving credit facility (the "Revolving Loan"). Subject to capacity limitations as described below, $20 million of the $40 million revolving facility is available for borrowings, with the other $20 million available for letters of credit. Capacity under the Revolving Loan is also limited by the leverage and fixed charge coverage covenants described below under "Restrictions and Covenants" and "Amounts Outstanding and Capacity." As noted in the latter section, under the most restrictive of these capacity provisions, the Company's current borrowing capacity, on a month-end measurement basis, is $6.4 million. Borrowing capacity can be greater than this amount on an intra-month basis. Letters of credit currently outstanding are $19.1 million.

A common practice in the Company's industry is the posting of payment and performance bonds with customers. These bonds are offered by financial institutions known as sureties, and provide assurance to the customer that in the event the Company encounters significant financial or operational difficulties, the surety will arrange for the completion of the Company's contractual obligations and the payment of the Company's vendors on the projects subject to the bonds. In cooperation with its lenders, the Company has granted its surety a secured interest in assets such as receivables, costs incurred in excess of billings, and equipment specifically identifiable to projects for which bonds are outstanding, as collateral for potential obligations under bonds. As of September 30, 2003, the amount of these assets was approximately $42.6 million. The Company has also posted a $5 million letter of credit as collateral for potential obligations under bonds.

INTEREST RATES AND FEES

The Company has a choice of two interest rate options for borrowings under the Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus 0.5% or the prime rate of at least 75% of the US's 30 largest banks, as published each business day by the Wall Street Journal. An additional margin of 2.25% is then added to the higher of these two rates for borrowings under the Revolving Loan, while an additional margin of 2.75% is added to the higher of these two rates for borrowings under the Term Loan.

Under the other interest rate option, borrowings bear interest based on designated rates that are described in various general business media sources as the London Interbank Offered Rate or "LIBOR." Revolving Loan borrowings using this interest rate option then have 3.25% added to LIBOR, while Term Loan borrowings have 3.75% added to LIBOR.

Commitment fees of 0.5% per annum are payable on the unused portion of the Revolving Loan.

The Company incurred certain financing and professional costs in connection with the arrangement and the closing of the Facility. These costs are being amortized to interest expense over the term of the Facility in the amount of approximately $0.4 million per quarter. To the extent prepayments of the Term Loan are made or the size of the Facility is reduced, the Company may have to accelerate amortization of these deferred financing and professional costs. During the first quarter of 2003, the Company charged approximately $0.8 million of deferred financing costs to interest expense that were associated with previously higher levels of capacity under the Facility.

The weighted average interest rate that the Company currently pays on borrowings under the Facility is 5.3% per annum. This reflects a combination of borrowings under both interest rate options described above, as well as the swap of floating rates to a fixed rate described below. This rate does not include amortization of debt financing and arrangement costs, or mark-to-market adjustments for derivatives.

INTEREST RATE DERIVATIVE

The rates underlying the interest rate terms of the Facility are floating interest rates determined by the broad financial markets, meaning they can and do move up and down from time to time. The Facility required that the Company convert these floating interest rate terms on at least half of the original Term Loan to fixed rates for at least a one-year term. In January 2003, the Company converted $10 million of principal value to a fixed rate of 5.62% for an eighteen-month term. This was done via a transaction known as a "swap" under which the Company agreed to pay fixed interest rate payments on $10 million for eighteen months to a bank in exchange for receiving from the bank floating LIBOR interest rate payments on $10 million for the same term.

This transaction is a derivative and has been designated a cash flow hedging instrument under applicable generally accepted accounting principles. Changes in market interest rates in any given period may increase or decrease the valuation of the Company's obligations to the bank under this swap versus the bank's obligations to the Company. So long as the instrument remains "effective" as defined under applicable generally accepted accounting principles, such changes in market valuation are reflected in stockholders' equity as other comprehensive income (loss) for that period, and not in the Company's statement of operations. If the swap is terminated earlier than its eighteen-month term, any gain or loss on settlement will be reflected in the Company's statement of operations. The swap was effective as a hedge for accounting purposes from its inception through September 30, 2003, and the Company expects it to continue to be effective throughout its term.

During the nine months ended September 30, 2003, a reduction to stockholders' equity of less than $0.1 million, net of tax, was recorded through other comprehensive income (loss) in connection with this swap and is included in other current liabilities in the Company's consolidated balance sheet.

The counterparty to the above derivative agreement is a major bank. Based on its continuing review of the financial position of this bank, the Company believes there is minimal risk that the bank will not meet its obligations to the Company under this swap.

WARRANT

In connection with the Facility, the Company granted GE a warrant to purchase 409,051 shares of Company common stock for nominal consideration. In addition, GE may "put," or require the Company to repurchase, these shares at the higher of market price, appraised price or book value per share, during the fifth and final year of the Facility -- October 11, 2006 to October 11, 2007. This put may be accelerated under certain circumstances including a change of control of the Company, full repayment of amounts owing under the Facility, or a public offering of shares by the Company. This warrant and put are discussed in greater detail in Note 8, "Stockholders' Equity."

The value of this warrant and put as of the start of the Facility of $2.9 million, less amortization to date of $0.5 million, is reflected as a discount of the Company's obligation under the Facility and is being amortized over the term of the Facility, as described above.

This warrant and put obligation are also recorded as a liability in the Company's balance sheet. The value of the warrant and put will change over time, principally in response to changes in the market price of the Company's common stock. The warrant and put qualify as a derivative for financial reporting purposes. Accordingly, such changes in the value of the warrant and put in any given period will be reflected in interest expense for that period, even though the warrant and put may not have been terminated and settled in cash during the period. Such adjustments are known as mark-to-market adjustments. The loss included in interest expense related to the warrant's mark-to-market obligation during the nine months ended September 30, 2003 was $0.2 million.

The table below provides an indication of the potential effect on the valuation of this derivative that might result from changes in the market price for the Company's stock. In this table, the value of the warrant has been calculated based upon the stock price being $1 lower and $1 higher than the Company's closing stock price at September 30, 2003 (value of warrant and put obligation in thousands).

STOCK PRICE	VALUE OF WARRANT AND PUT OBLIGATION
$2.81	$3,122
$3.81(a)	$3,365
$4.81	$3,636

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(a) This was the Company's closing stock price on September 30, 2003.

RESTRICTIONS, COVENANTS, AND POTENTIAL REFINANCING

Borrowings under the Facility are specifically limited by the Company's ratio of total debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA") also known as the leverage covenant, and by the Company's ratio of EBITDA less taxes and capital expenditures to interest expense and scheduled principal payments, also known as the fixed charge coverage ratio. The Facility's definition of debt for purposes of the ratio of total debt to EBITDA includes aggregate letters of credit outstanding less $10 million and excludes cash balances in certain of the Company's bank accounts.

The definition of EBITDA under the Facility excludes certain items, generally non-cash amounts and transactions reported in Other Income and Expense, that are otherwise included in the determination of earnings under generally accepted accounting principles in the Company's financial statements. As such, EBITDA as determined under the Facility's definition could be less than EBITDA as derived from the Company's financial statements in the future.

The Facility prohibits payment of dividends, repurchase of shares and acquisitions by the Company. It also limits annual lease expense and non-Facility debt, and restricts outlays of cash by the Company relating to certain investments and subordinate debt.

The financial covenants under the Facility are summarized below. Covenant compliance is measured on a monthly basis. EBITDA amounts are in thousands:

	FINANCIAL COVENANTS			
AS OF	MINIMUM TRAILING 12 MONTHS' EBITDA	MINIMUM FIXED CHARGE COVERAGE RATIO	MINIMUM INTEREST COVERAGE	MAXIMUM DEBT TO EBITDA
ACTUAL				
September 30, 2003..........................	$14,943	1.74	2.64	7.62
COVENANT				
October 31, 2003............................	$14,146	2.30	2.25	3.00
November 30, 2003...........................	$14,892	2.20	2.25	3.00
December 31, 2003...........................	$16,775	2.00	2.25	3.00
January 31, 2004............................	$17,609	1.80	2.25	3.00
February 29, 2004...........................	$18,355	1.80	2.25	3.00
March 31, 2004..............................	$19,811	1.80	2.25	3.00
April 30, 2004..............................	$20,127	1.80	2.25	3.00
May 31, 2004................................	$20,631	1.80	2.25	3.00
June 30, 2004...............................	$19,821	1.80	2.25	3.00
July 31, 2004...............................	$18,451	1.80	2.25	3.00
August 31, 2004.............................	$17,644	1.80	2.25	3.00
September 30, 2004..........................	$20,210	1.80	2.25	3.00
October 31, 2004............................	$20,210	1.80	2.25	3.00
November 30, 2004...........................	$20,210	1.50	2.25	3.00
December 31, 2004...........................	$21,232	1.50	2.25	3.00
All months thereafter.......................	$31,000	1.50	2.25	3.00

The Company's trailing twelve months' EBITDA as of December 31, 2002 as determined under the Facility did not comply with the covenant then in effect. The Company's lenders waived this violation and agreed to modify most of the Company's minimum EBITDA, leverage and fixed charge covenants for 2003. The Company's trailing twelve months' EBITDA as of September 30, 2003 as determined under the Facility did not comply with the covenant then in effect. The Company's lenders waived this violation and agreed to modify most of the Company's minimum EBITDA, leverage and fixed charge covenants for the remainder of 2003 and 2004. While the Company believes it will comply with these modified covenants as provided above, these covenants leave only moderate room for variance based on the Company's recent performance.

The Company is in the process of refinancing its current credit facility with a new senior lending facility of at least $45 million. As of November 12, 2003, the Company has received lending commitments in excess of this amount toward a facility with more flexible terms and more available credit capacity than the Company's current facility. Such commitments are subject to customary closing conditions which the Company believes it will be able to meet. The Company expects to complete this refinancing during the fourth quarter, although there can be no guarantee that it will be successful in doing so.

If the Company does not complete the refinancing on which it is currently working, and it again violates a covenant under its current facility, the Company may have to negotiate new borrowing terms under its current facility or obtain new financing. While the Company believes that its levels of debt in comparison to its EBITDA and its cash flows would enable the Company to negotiate new borrowing terms under its current facility or to obtain new financing from other sources if necessary, there can be no assurance that the Company would be successful in doing so.

If the Company completes the refinancing on which it is currently working, the remaining deferred financing costs and discount associated with its current facility will be written off in the Company's statement of operations in the period in which the refinancing is completed. The current amount of such deferred financing costs and discount is $4.7 million, which would be written off as a non-cash charge in the fourth quarter of this year if the Company completes its refinancing during that period as expected.

As discussed above, if the Facility is repaid in full, GE has the right to put to the Company, or require the Company to repurchase, the warrant it received in connection with establishing the Facility. The repurchase price per warrant share would be the higher of market value, appraised value, or book value per share. If the Company completes the refinancing on which it is currently working, and if, as a result, GE exercises its put, the Company estimates it would pay approximately $2.2 million to GE. This amount would be charged against the warrant and put obligation in Other Long-Term Liabilities on the Company's balance sheet, and thus would not be charged to the Company's statement of operations in the period in which the put is paid. If $2.2 million is paid to discharge the put, the remaining amount of $1.2 million in the warrant and put accrual would be credited to the statement of operations as a non-cash item in the same period that the put payment is made.

AMOUNTS OUTSTANDING AND CAPACITY

Apart from the Term Loan, the Company's available credit capacity under the Facility is governed by the nominal limits of the Facility, and by calculated limits based on the leverage and fixed charge coverage covenants described above. Available credit capacity is limited to the most restrictive of these measures. The nominal limits are in effect at all times. The leverage provision limits borrowings that can be outstanding at month end. The fixed charge provision limits amounts that can be outstanding at month end, or at any other time that GE requests that this covenant be measured. Even though available credit capacity under the leverage provision is only measured at month end, it is presented below because it is the most restrictive of these limitations as of recent month ends. Available capacity under the Revolving Loan can be greater than the amount below on an intra-month basis. The following recaps the Company's debt amounts outstanding and capacity (in thousands):

	AS OF SEPTEMBER 30, 2003	AS OF NOVEMBER 7, 2003	UNUSED CAPACITY AS OF NOVEMBER 7, 2003
Revolving loan	$ 3,779	$ 4,657	$6,380
Term loan	13,300	13,300	n/a
Other debt	438	433	n/a
Total debt	17,517	18,390	6,380
Less: discount on Facility	(2,400)	(2,350)	n/a
Total debt, net of discount	$15,117	$16,040	$6,380
Letters of credit	$19,655	$19,137	$ 863

OTHER LONG-TERM OBLIGATIONS DISCLOSURES

The Company has generated positive cash flow in most recent periods, and it currently has a moderate level of debt. The Company anticipates that cash flow from operations and credit capacity under the Facility will provide the Company with sufficient liquidity to fund its operations for the foreseeable future. However, the Company does not have a significant amount of excess credit capacity under the Facility in comparison to expected working capital requirements over the next year. In addition, as described above, the financial covenants under the Company's credit facility leave only moderate room for variance based on the Company's recent performance. Also as described above, the Company is in the process of refinancing its current facility with a new facility with more flexible terms and more available credit capacity than the Company's current facility. The Company expects to complete this refinancing during the fourth quarter, although there can be no guarantee that it will be successful in doing so.

If the Company does not complete the refinancing on which it is currently working, and it again violates a covenant or it encounters borrowing limitations under its current facility, the Company may have to negotiate new borrowing terms under its current facility or obtain new financing. The Company believes that its levels of debt in comparison to its EBITDA and its cash flows would enable it to obtain new financing if necessary, but there can be no assurance that it would be successful in doing so.

Certain of the Company's vendors require letters of credit to ensure reimbursement for amounts they are disbursing on the Company's behalf, such as to beneficiaries under its self-funded insurance programs. Some customers also require the Company to post letters of credit to guarantee performance under its contracts and to ensure payment to its subcontractors and vendors under those contracts. Such letters of credit are generally issued by a bank or similar financial institution. The letter of credit commits the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that the Company has failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit. Depending on the circumstances of such a reimbursement, the Company may also have to record a charge to earnings for the reimbursement. To date the Company has not had a claim made against a letter of credit that resulted in payments by the issuer of the letter of credit or by the Company. The Company believes that it is unlikely that it will have to fund claims under a letter of credit in the foreseeable future.

The Company currently has $19.1 million in letters of credit outstanding, against a limit of $20 million under the Facility. The Company self-insures a significant portion of its worker's compensation, auto liability and general liability risks. The Company uses third parties to manage this self-insurance and to retain some of these risks. As is customary under such arrangements, these third parties require letters of credit as security for amounts they fund or risks they might potentially absorb on the Company's behalf. Under its current self-insurance arrangements, the Company has posted $13.2 million in letters of credit. In connection with the Company's renewal of its self-insurance program as of November 1, 2003, the Company must post an additional $4.1 million in letters of credit as follows: $0.5 million in November, 2003, $0.5 million in February, 2004, $1.0 million in May, 2004, and $2.1 million in August, 2004. If the Company is unable to retire any of its other outstanding letters of credit, or if it receives other letter of credit requests in the ordinary course of business, then the Company's letter of credit needs will exceed the letter of credit capacity limit under the Facility not later than February, 2004. The new senior credit facility on which the Company is working, as described above, would provide sufficient letter of credit capacity to meet the Company's expected letter of credit needs. If the Company does not complete this new facility, then it may have to seek additional letter of credit capacity or post different forms of security such as bonds or cash in lieu of letters of credit. The Company believes that its levels of debt in comparison to its EBITDA and its cash flows would enable it to obtain additional letter of credit capacity or to otherwise meet financial security requirements of third parties if necessary, but there can be no assurance that the Company would be successful in doing so.

7. COMMITMENTS AND CONTINGENCIES

CLAIMS AND LAWSUITS

The Company is party to litigation in the ordinary course of business. The Company has estimated and provided accruals for probable losses and related legal fees associated with certain of these actions in the accompanying consolidated financial statements. 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.

SURETY

Many customers, particularly in connection with new construction, require the Company to post performance and payment bonds issued by a financial institution known as a surety. These bonds provide a guarantee to the customer that the Company will perform under the terms of a contract and that the Company will pay subcontractors and vendors who provided goods and services under a contract. If the Company fails to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. The Company must reimburse the surety for any expenses or outlays it incurs. To date, the Company is not aware of any losses to its surety in connection with bonds the surety has posted on the Company's behalf, and does not expect such losses to be incurred in the foreseeable future.

Surety market conditions are currently difficult as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. Further, under standard terms in the surety market, sureties issue bonds on a project-by-project basis, and can decline to issue bonds at any time. Historically, approximately 25% of the Company's business has required bonds. While the company has enjoyed a longstanding relationship with its surety, current market conditions as well as changes in the surety's assessment of the Company's operating and financial risk could cause the surety to decline to issue bonds for the Company's work. If that were to occur, the alternatives include doing more business that does not require bonds, posting other forms of collateral for project performance such as letters of credit or cash, and seeking bonding capacity from other sureties. The Company would likely also encounter concerns from customers, suppliers and other market participants as to its creditworthiness. While the Company believes its general operating and financial performance would enable it to ultimately respond effectively to an interruption in the availability of bonding capacity, such an interruption would likely cause the Company's revenues and profits to decline in the near term.

SELF-INSURANCE

The Company is substantially self-insured for worker's compensation, employer's liability, auto liability, general liability and employee group health claims in view of the relatively high deductibles under the Company's insurance arrangements for these risks. Losses up to deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages. A third-party actuary reviews these estimates annually.

A wholly-owned insurance company subsidiary reinsures a portion of the risk associated with surety bonds that were issued on the Company's behalf from 1998 through 2000 by a third-party insurance company. No significant claims have been made against these bonds and management does not expect any material claims will be made in connection with these bonds in the foreseeable future.

8. STOCKHOLDERS' EQUITY

RESTRICTED STOCK GRANTS

The Company awarded 200,000 shares of restricted stock to its Chief Executive Officer on March 22, 2002 under its 2000 Equity Incentive Plan. The shares were subject to forfeiture if the Company had not achieved certain performance levels for the twelve-month period ending March 31, 2003. These performance levels were met by the Company. The shares are subject to forfeiture if the executive leaves voluntarily or is terminated for cause. Such forfeiture provisions lapse pro rata over a four-year period that started on the date of grant.

The Company awarded 75,000 shares of restricted stock to its President on November 1, 2002 under its 2000 Equity Incentive Plan. The shares are subject to forfeiture if the Company does not meet certain performance levels for the twelve-month period ending December 31, 2003 or if the executive leaves voluntarily or is terminated for cause. Such forfeiture provisions lapse upon achievement of the performance levels, and pro rata over a four-year period that started on the date of grant.

Compensation expense relating to the grants will be charged to earnings over the respective four-year periods during which their forfeiture provisions lapse. The initial value of each award was established based on the market price on the date of grant, and was reflected as a reduction of stockholders' equity for unearned compensation at that time. This value, and the related compensation expense, will be adjusted up or down based on the market price of the Company's stock during the first year following each respective grant while the performance conditions are in effect. If the performance conditions are met, the value of the award will then be fixed based on the market price of the Company's stock at that time, and charged to earnings over the remaining three-year period during which remaining forfeiture provisions lapse.

WARRANT

In connection with the arrangement of the Company's current debt facility as described above in Note 6, "Long-Term Debt Obligations," the Company granted GE, its lender, a warrant to purchase 409,051 shares of Company common stock for nominal consideration. The warrant agreement also provides for the following:

- In most situations where the Company issues shares, options or warrants, GE may acquire additional shares or warrants on equivalent terms to maintain the proportionate interest its warrant shares represent in comparison to the Company's total shares outstanding.

- GE may require the Company to register its warrant shares.

- GE may include its warrant shares in any public offering of stock by the Company.

- GE may "put," or require the Company to repurchase, some or all of its warrant shares at the higher of market price, appraised price or book value per share, during the fifth and final year of the debt facility -- October 11, 2006 to October 11, 2007. This put may be accelerated under certain circumstances including a change of control of the Company, full repayment of amounts owing under the Facility, or a public offering of shares by the Company.

The initial value of this warrant and put of $2.9 million is reflected as a discount of the Company's obligations under its debt facility with GE, less amortization to date of $0.5 million, and as an obligation in long-term liabilities. The value of this warrant and put will change over time, principally in response to changes in the market price of the Company's common stock. The warrant and the put qualify as a derivative for financial reporting purposes. Accordingly, such changes in the value of the warrant and put in any given period will be reflected in interest expense for that period and in the Company's long-term warrant obligation, even though the warrant and put may not have been terminated and settled in cash during the period. Such adjustments are known as mark-to-market adjustments. The loss included in interest expense related to the warrant's mark-to-market obligation for the nine months ended September 30, 2003 was $0.2 million.

The table below provides an indication of the potential effect on the valuation of this derivative that might result from changes in the market price for the Company's stock. In this table, the value of the warrant has been calculated based upon the stock price being $1 lower and $1 higher than the Company's closing stock price at September 30, 2003 (value of warrant and put obligation in thousands).

STOCK PRICE	VALUE OF WARRANT AND PUT OBLIGATION
$2.81	$3,122
$3.81(a)	$3,365
$4.81	$3,636

(a) This was the Company's closing stock price on September 30, 2003.

RESTRICTED COMMON STOCK

In March 1997, Notre Capital Ventures II, L.L.C. ("Notre") 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 to 0.55 of one vote for each share on all other matters on which they are entitled to vote. Holders of Restricted Voting Common Stock are not entitled to vote on the election of any other directors.

Each share of Restricted Voting Common Stock will automatically convert to Common Stock on a share-for-share basis (i) in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a distribution which is a distribution by a holder to its partners or beneficial owners, or a transfer to a related party of such holders (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)), (ii) in the event any person acquires beneficial ownership of 15% or more of the total number of outstanding shares of Common Stock of the Company, or (iii) in the event any person offers to acquire 15% or more of the total number of outstanding shares of Common Stock of the Company. After July 1, 1998, the Board of Directors may elect to convert any remaining shares of Restricted Voting Common Stock into shares of Common Stock in the event 80% or more of the originally outstanding shares of Restricted Voting Common Stock have been previously converted into shares of Common Stock. As of September 30, 2003, there were 1,127,612 shares of Restricted Voting Common Stock remaining.

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, convertible subordinated notes, warrants and contingently issuable restricted stock.

The exercise prices for options to purchase 3.0 million shares of the Company's Common Stock ("Common Stock") at prices ranging from $3.63 to $21.44 per share and options to purchase 3.1 million shares of Common Stock at prices ranging from $3.39 to $21.44 per share were greater than the average market price of the Common Stock for the three months and nine months ended September 30, 2003, respectively. Under the calculations normally required by generally accepted accounting principles for determining EPS, including the effect of these options would increase diluted EPS, or have an "anti-dilutive" effect. When this situation occurs, generally accepted accounting principles require that such options or other common stock equivalents be excluded from the determination of diluted EPS. Accordingly, they have been excluded. Options to purchase 3.3 million shares of Common Stock at prices ranging from $3.86 to $21.44 per share and options to purchase 2.7 million shares of Common Stock at prices ranging from $4.24 to $21.44 per share were outstanding for the three months and nine months ended September 30, 2002, respectively, but were not included in the computation of diluted EPS for the same reason.

As noted above, the Company granted GE, its primary lender, a warrant to purchase 409,051 shares of Company common stock for nominal consideration. The dilutive impact of these warrants is computed assuming the issuance of shares required to fulfill the warrant obligation at the end of the reporting period and excluding the effect on the income statement for the period of any mark-to-market adjustments made in connection with valuing the warrants. When this is done for the three months and nine months ended September 30, 2003, the warrants have an anti-dilutive effect on diluted EPS and accordingly they are not included in the determination of diluted EPS. Had the warrants not been anti-dilutive, the Company would have included 883,271 shares in the diluted EPS calculation for the three months and nine months ended September 30, 2003 and the after-tax loss related to the warrant's mark-to-market adjustment of $0.2 million and $0.1 million for the three months and nine months ended September 30, 2003, respectively, would have been added to net income for purposes of calculating diluted EPS. The amount of shares that would have been included in the diluted EPS calculation for the warrant exceeds the amount of shares under the related warrant by such a large amount because the calculations required under generally accepted accounting principles for such instruments require the assumption that new shares would be sold at current prices to fund the put obligation associated with the warrant.

The shares associated with the contingently issuable restricted stock granted on November 1, 2002, as described above, are included in the diluted EPS calculation for the three months and nine months ended September 30, 2003 because it is probable that the performance requirements for the issuance of these shares will be met.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
Common shares outstanding, end of period(a)	37,835	37,738	37,835	37,738
Effect of using weighted average common shares outstanding	(1)	(25)	(99)	(79)
Shares used in computing earnings per share -- basic	37,834	37,713	37,736	37,659
Effect of shares issuable under stock option plans based on the treasury stock method	297	516	456	197
Effect of shares issuable related to warrants	--	--	--	--
Effect of contingently issuable restricted shares	--	225	--	225
Shares used in computing earnings per share -- diluted	38,131	38,454	38,192	38,081

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(a) Excludes 225,000 shares of unvested contingently issuable restricted stock outstanding as of September 30, 2003 (see "Restricted Stock Grant" paragraphs above).

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

INTRODUCTION

The following discussion should be read in conjunction with our historical Consolidated Financial Statements 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, 2002 (the "Form 10-K"). This discussion contains "forward-looking statements" regarding our business and industry within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on our current plans and expectations and involve risks and uncertainties that could cause our 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 our Form 10-K.

We are a national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. We operate primarily in the commercial, industrial and institutional HVAC markets and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing. The segment of the HVAC industry we serve can be broadly divided into two service functions: installation in newly constructed facilities, which has provided approximately 52% of our 2003 revenues to date, and maintenance, repair and replacement, which has provided the remaining 48% of our 2003 revenues to date. Our consolidated 2003 revenues to date are derived from the following service activities, all of which are in the mechanical services industry, the single industry segment we serve:

SERVICE ACTIVITY	PERCENTAGE OF REVENUE
HVAC	76
Plumbing	12
Building Automation Control Systems	6
Other	6
Total	100

In response to the Securities and Exchange Commission's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", we identified our critical accounting policies based upon the significance of the accounting policy to our overall financial statement presentation, as well as the complexity of the accounting policy and our use of estimates and subjective assessments. We have concluded that our most critical accounting policy is our revenue recognition policy. As discussed elsewhere in this report, our business has two service functions: (i) installation, which we account for under the percentage of completion method, and (ii) maintenance, repair and replacement, which we account for as the services are performed, or in the case of replacement, under the percentage of completion method. In addition, we identified other critical accounting policies related to our allowance for doubtful accounts receivable, the recording of our self-insurance liabilities and the assessment of goodwill impairment. These accounting policies, as well as others, are described in Note 2 to the Consolidated Financial Statements included in our Form 10-K.

PERCENTAGE OF COMPLETION METHOD OF ACCOUNTING

Under the percentage of completion method of accounting as provided by American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," contract revenue recognizable at any time during the life of a contract is determined by multiplying expected total contract revenue by the percentage of contract costs incurred at any time to total estimated contract costs. More specifically, as part of the negotiation and bidding process in which we engage in connection with obtaining installation contracts, we estimate our contract costs, which include all direct materials (net of estimated rebates), labor and subcontract costs and indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Then, as we perform under those contracts, we measure such costs incurred, compare them to total estimated costs to complete the contract, and recognize a corresponding proportion of contract revenue. As a result, contract revenues recognized in the statement of operations can and usually do differ from amounts that can be billed or invoiced to the customer at any point during the contract.

The percentage of completion method of accounting is also affected by changes in job performance, job conditions, and final contract settlements. These factors may result in revisions to estimated costs and, therefore, revenues. Such revisions are frequently based on further estimates and subjective assessments, and we recognize these revisions in the period in which they are determined. If such revisions lead us to conclude that we will recognize a loss on a contract, the full amount of the estimated ultimate loss is recognized in the period we reach that conclusion, regardless of the percentage of completion of the contract. Depending on the size of a project, variations from estimated project costs could have a significant impact on our operating results.

ACCOUNTING FOR ALLOWANCE FOR DOUBTFUL ACCOUNTS

We are required to estimate the collectibility of accounts receivable. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, the creditworthiness of the customer, our prior collection history with the customer, the ongoing relationships with our customers, the aging of past due balances, our lien rights, if any, in the property where we performed the work, and the availability, if any, of payment bonds applicable to our contract. These estimates are re-evaluated and adjusted as additional information is received.

ACCOUNTING FOR SELF-INSURANCE LIABILITIES

We are substantially self-insured for worker's compensation, employer's liability, auto liability, general liability and employee group health claims in view of the relatively high deductibles under our insurance arrangements for these risks. Losses up to deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages. A third-party actuary reviews these estimates annually. We believe such accruals to be adequate. However, insurance liabilities are difficult to estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, timely reporting of occurrences and the effectiveness of safety and risk management programs. Therefore, if actual experience differs from the assumptions and estimates used for recording the liabilities, adjustments may be required and would be recorded in the period that the experience becomes known.

ACCOUNTING FOR GOODWILL AND OTHER INTANGIBLE ASSETS

In most businesses we have acquired, the value we paid to buy the business was greater than the value of specifically identifiable net assets in the business. Under generally accepted accounting principles, this excess is termed goodwill and is recognized as an asset at the time the business is acquired. It is generally expected that future net earnings from an acquired business will exceed the goodwill asset recognized at the time the business is bought. Under previous generally accepted accounting principles, goodwill was required to be amortized, or regularly charged to our operating results in our statement of operations.

Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," went into effect in 2002. We adopted it as of January 1, 2002. This new standard has two effects. First, we are no longer required to amortize goodwill against our operating results. Second, we are required to regularly test the goodwill on our books to determine whether its value has been impaired, and if it has, to immediately write off, as a component of operating income, the amount of the goodwill that is impaired.

More specifically, we are required to assess our goodwill asset amounts for impairment each year, and more frequently if circumstances suggest an impairment may have occurred. The new requirements for assessing whether goodwill assets have been impaired involve market-based information. This information, and its use in assessing goodwill, entails some degree of subjective assessment.

As part of the adoption of SFAS No. 142, we were required to make a one-time determination of any transitional impairment loss by applying the standard's new, more rigorous valuation methodology. The result of this transitional analysis was a $202.5 million charge, net of tax benefit, reflected as a cumulative effect of a change in accounting principle in our statement of operations in the first quarter of 2002.

RESULTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	2002		2003		2002		2003	
	(IN THOUSANDS)							
Revenues	$212,071	100.0%	$210,198	100.0%	$ 609,836	100.0%	$592,029	100.0%
Cost of services	172,726	81.4%	174,771	83.1%	502,552	82.4%	494,873	83.6%
Gross profit	39,345	18.6%	35,427	16.9%	107,284	17.6%	97,156	16.4%
Selling, general and administrative expenses	31,665	14.9%	28,064	13.4%	93,876	15.4%	87,712	14.8%
Restructuring charges	--	--	949	0.5%	1,878	0.3%	3,223	0.5%
Operating income	7,680	3.6%	6,414	3.1%	11,530	1.9%	6,221	1.1%
Interest expense, net	(947)	(0.4)%	(1,078)	(0.5)%	(3,919)	(0.6)%	(3,495)	(0.6)%
Other income (expense)	116	0.1%	42	--	1,232	0.2%	(105)	--
Income before income taxes	6,849	3.2%	5,378	2.6%	8,843	1.5%	2,621	0.4%
Income tax expense	3,268		2,572		4,265		1,285	
Income from continuing operations	3,581	1.7%	2,806	1.3%	4,578	0.8%	1,336	0.2%
Discontinued operations -								

- Operating results, net
of tax................
159 142 353 281 Estimated
loss on disposition,
including
tax.................. --
(2,773) (11,156) (3,685)
Cumulative effect of
change in accounting
principle, net of tax...
-- -- (202,521) -- ------
-- -------- --------- ---
----- Net income
(loss)......... $ 3,740 $
175 $(208,746) $ (2,068)
======== ========
========= ========

Revenues -- Revenues decreased $1.9 million, or 0.9%, to $210.2 million for the third quarter of 2003 and decreased $17.8 million, or 2.9%, to $592.0 million for the first nine months of 2003 compared to the same periods in 2002. The 0.9% decline in revenue for the quarter was comprised of a 1.3% increase in revenue at ongoing operations and a 2.2% decline in revenue related to operations that were sold during 2003. The 2.9% decline in revenue for the first nine months of 2003 was comprised of a 1.0% decline in revenue at ongoing operations and a 1.9% decline in revenue related to operations that were sold during 2003.

The increase in revenues at ongoing operations during the third quarter as compared to the prior year was driven primarily by strong activity levels at our operations in Washington, D.C., Phoenix, Jackson, TN, and San Diego, offset to a lesser degree by declines in entities whose operations we are scaling back, by what we believe is a temporary decrease in revenue in our National Accounts operations, and by a decline in our Salt Lake City operations.

The year-to-date decline in revenues at ongoing operations in 2003 resulted primarily from continued economic weakness in several markets. In addition, the general economic slowdown in the U.S. which began in 2001 led to deferrals in both new and replacement project activity, and has also resulted in a more competitive pricing environment. This slowdown worsened in late 2002 and early 2003 based on renewed uncertainty about the economy and international events. We and other industry participants believe that there has been a general deferral of maintenance and replacement activity in the installed base of commercial/industrial HVAC equipment in response to the more difficult economy. We and other industry participants believe this trend will not continue indefinitely due to the fundamental operating needs of the equipment, but it is not clear when maintenance and replacement activity might increase. In addition, while we have seen some signs that activity levels in our industry may increase over the next year as compared to current levels, there can be no assurance that this will occur. In view of the challenging economic environment and price competition affecting our industry, we may continue to experience only modest revenue growth or revenue declines in upcoming periods. In addition, if general economic activity in the U.S. slows significantly from current levels, we may realize further decreases in revenue and lower operating margins.

Backlog primarily contains installation and replacement project work, and maintenance agreements. These projects generally last less than a year. Service work and short duration projects are generally billed as performed and therefore do not flow through backlog. Accordingly, backlog represents only a portion of our revenues for any given future period, and it represents revenues that are likely to be reflected in our operating results over the next six to twelve months. As a result, we believe the predictive value of backlog information is limited to indications of general revenue direction over the near term, and should not be interpreted as indicative of ongoing revenue performance over several quarters.

Backlog associated with continuing operations as of September 30, 2003 was $442.1 million, a 1.8% increase from December 31, 2002 backlog of $434.4 million and a decrease of $22.2 million, or 4.8%, from September 30, 2002 backlog of $464.3 million. During the fourth quarter of 2002, we removed $16.0 million from backlog that related to a project that we now believe will not proceed. This project was first reflected in backlog in the third quarter of 2001. If this project is excluded from September 30, 2002 backlog, our backlog reflected a decrease of 1.4% from an adjusted September 30, 2002 backlog of $448.3 million. The decrease is within normal quarter-to-quarter and seasonal ranges of variation.

Gross Profit -- Gross profit decreased $3.9 million, or 10.0%, to $35.4 million for the third quarter of 2003 and decreased $10.1 million, or 9.4%, to $97.2 million for the first nine months of 2003 compared to the same periods in 2002. As a percentage of revenues, gross profit decreased from 18.6% for the three months ended September 30, 2002 to 16.9% for the three months ended September 30, 2003 and decreased from 17.6% for the nine months ended September 30, 2002 to 16.4% for the nine months ended September 30, 2003.

The decline in gross profit in the third quarter of 2003 as compared to the third quarter of 2002 is primarily due to lower industry activity levels, increased price competition, and moderate execution shortfalls in three of our operations, offset to a lesser degree by improved efficiency at two of our operations. One of the operations with shortfalls this quarter is being combined with another unit. The other two are stronger operations at which such shortfalls are expected to be temporary. Lower industry activity levels and increased price competition also contributed to the decline in gross profit for the first nine months of 2003 as compared to the same period in 2002, along with adverse cost developments on certain projects in two of our operations during the first quarter of 2003.

Selling, General and Administrative Expenses ("SG&A") -- SG&A decreased $3.6 million, or 11.4%, to $28.1 million for the third quarter of 2003 and decreased $6.2 million, or 6.6%, to $87.7 million for the first nine months of 2003 compared to the same periods in 2002. As a percentage of revenues, SG&A decreased from 14.9% for the three months ended September 30, 2002 to 13.4% for the three months ended September 30, 2003 and decreased from 15.4% for the nine months ended September 30, 2002 to

14.8% for the nine months ended September 30, 2003. During the second quarter of 2002, we reversed $0.8 million of the bad debt reserves that were established in the fourth quarter of 2001 related to our receivables with Kmart as a result of a settlement with Kmart. Accordingly, the decrease in normal SG&A from 2002 to 2003 was greater by this amount. The decreases in SG&A primarily result from a concerted effort to reduce SG&A throughout our company. This effort included a reduction in corporate overhead at the end of the first quarter of 2002 in response to our smaller size following the sale of 19 units to Emcor as discussed further below under "Discontinued Operations." We also initiated further steps in the second quarter of 2003 to reduce overhead both in our corporate office and in our field operations based on continuing weakness in industry activity levels and pricing.

Restructuring Charges -- During the first three quarters of 2003, we recorded restructuring charges of approximately $3.2 million pre-tax. These charges included approximately $1.5 million for severance costs and stay bonuses primarily associated with the curtailment of our energy efficiency activities, a reorganization of our national accounts operations as well as a reduction in corporate personnel. The severance costs and stay bonuses related to the termination of 88 employees (86 of these employees had been terminated as of September 30, 2003). The restructuring charges for this period also included approximately $1.6 million for remaining lease obligations and $0.1 million of other costs recorded in connection with the actions described above.

During the first quarter of 2002, we recorded restructuring charges of approximately $1.9 million. These charges included approximately $0.8 million for severance costs primarily associated with the reduction in corporate office overhead in light of our smaller size following the Emcor transaction described below under "Discontinued Operations." The severance costs related to the termination of 33 employees, none of whom were employed as of March 31, 2002. The restructuring charges for the quarter also included approximately $0.7 million for costs associated with decisions to merge or close three smaller divisions and realign regional operating management. The restructuring charges for the quarter were primarily cash obligations but did include approximately $0.3 million of non-cash writedowns associated with long-lived assets.

Interest Expense, Net -- Interest expense, net, increased $0.1 million to $1.1 million for the third quarter of 2003 and decreased $0.4 million to $3.5 million for the first nine months of 2003 compared to the same periods in 2002. Interest expense for the first quarter of 2003 includes a non-cash charge of $0.8 million for deferred financing costs that were associated with previously higher levels of capacity under our credit facility. A portion of our actual interest expense in the first quarter of 2002 was allocated to the discontinued operations caption based upon our net investment in these operations. Therefore, interest expense relating to continuing operations does not reflect the pro forma reduction of interest expense from applying the proceeds from the sale of these operations to reduce debt in any earlier period. Interest expense allocated to the discontinued operations for the three months ended March 31, 2002 was $1.5 million. In addition, first quarter 2002 interest expense in continuing operations includes a non-cash writedown of $0.6 million, before taxes, of loan arrangement costs in connection with the reduction in our borrowing capacity following the Emcor transaction.

Other Income (Expense) -- Other income was $0.1 million for the third quarter of 2002 and less than $0.1 million for the third quarter of 2003. Other income was $1.2 million for the first nine months of 2002 and other expense was $0.1 million for the first nine months of 2003. First quarter 2003 includes a loss of $0.3 million on the disposition of a division of one of our operations. Other income for the second quarter of 2002 includes a gain of $0.6 million on the sale of the residential portion of one of our operations.

Income Tax Expense (Benefit) -- Our effective tax rates associated with results from continuing operations for the nine months ended September 30, 2002 and 2003 were 48.2% and 49.0%, respectively. These effective rates are higher than statutory rates because of the effect of certain expenses that we incur that are not deductible for tax purposes, and due to reserves that we have established in connection with the possibility that we will not be able to ultimately realize the tax benefit for certain losses we have incurred, primarily at the state income tax level. In addition, since our current pre-tax profit margins are relatively low on a historical and an absolute basis, the impact of non-deductible expenses on our effective rate is increased.

Discontinued Operations -- During the third quarter of 2003, we committed to a plan to divest of an operating company. This unit's after-tax income of $0.2 million for the first nine months of both 2002 and 2003 has been reported in discontinued operations under "Operating results, net of tax" in our results of operations. As a result of the decision in the third quarter of 2003 to sell this unit, we recorded an estimated loss of $2.8 million, including taxes, related to this planned disposition in "Estimated loss on disposition, including tax" in our results of operations based upon an estimated sales price. The estimated loss results from the non-cash writeoff of nondeductible goodwill.

During the second quarter of 2003, we sold an operating company. This unit's after-tax income of $0.2 million and $0.1 million for the first nine months of 2002 and the first six months of 2003, respectively, has been reported in discontinued operations under "Operating results, net of tax" in our results of operations. As a result of the decision in the first quarter of 2003 to sell this unit, we recorded an estimated loss in the first quarter of 2003 of $0.9 million, including taxes, related to this transaction in "Estimated loss on disposition, including tax" in our results of operations. The final loss as measured at the closing of this sale in the second quarter of 2003 was not materially different than the estimate recorded in the preceding quarter. The loss resulted from the non-cash writeoff of nondeductible goodwill.

On March 1, 2002, we sold 19 operations to Emcor Group. The total purchase price was $186.25 million, including the assumption by Emcor of approximately $22.1 million of subordinated notes to former owners of certain of the divested companies.

The transaction with Emcor provided for a post-closing adjustment based on a final accounting, done after the closing of the transaction, of the net assets of the operations that were sold to Emcor. That accounting indicated that the net assets transferred to Emcor were approximately $7 million greater than a target amount that had been agreed to with Emcor. In the second quarter of 2002, Emcor paid us that amount, and released $2.5 million that had been escrowed in connection with this element of the transaction.

Of Emcor's purchase price, $5 million was deposited into an escrow account to secure potential obligations on our part to indemnify Emcor for future claims and contingencies arising from events and circumstances prior to closing, all as specified in the transaction documents. Of this escrow, $4 million has been applied in determining the Company's liability to Emcor in connection with the settlement of certain claims as described subsequently in this section. The remaining $1 million of escrow is available for book purposes to apply to any future claims and contingencies in connection with this transaction, and has not been recognized as part of the Emcor transaction purchase price.

The net cash proceeds of approximately $150 million received to date from the Emcor transaction were used to reduce our debt. We paid $10.4 million of taxes related to this transaction in March 2003.

In the fourth quarter of 2002, we recognized a charge of $1.2 million, net of tax benefit of $2.7 million, in "Estimated loss on disposition, including tax" in our results of operations in connection with the Emcor transaction. This charge primarily relates to a settlement with Emcor for reimbursement of impaired assets and additional liabilities associated with the operations acquired from us. Under this settlement, we were released from liability on all other outstanding receivables and issues relating to the profitability of projects that were in process at the time Emcor acquired these operations from us. During May 2003, we paid $2.7 million in cash to Emcor associated with this settlement. The settlement agreement also included the use of $2.5 million of the $5 million escrow described above to fund settled claims. We further recognized an additional $1.5 million of the remaining escrow applicable to elements of the settlement still to be funded, of which $0.8 million was paid from escrow in September 2003. Accordingly, for book purposes, $1.0 million of escrow remains available to apply against future claims that may arise from Emcor in connection with this transaction. We recorded a tax benefit of $1.4 million related to this additional charge. In addition, the $1.2 million charge recognized during the fourth quarter of 2002 is also net of a tax credit of $1.3 million as a result of lower final tax liabilities in connection with the overall Emcor transaction than we estimated when the transaction originally closed in the first quarter of 2002.

Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which took effect for us on January 1, 2002, the operating results of the companies sold to Emcor for all periods presented through the sale, as well as the loss on the sale of these operations, have been presented as discontinued operations in our results of operations. We realized an aggregate loss of $11.8 million, including related tax expense, in connection with the sale of these operations. As a result of the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets," we also recognized a goodwill impairment charge related to these operations of $32.4 million, net of tax benefit, as of January 1, 2002. The reporting of our aggregate initial goodwill impairment charge in connection with adopting SFAS No. 142 is discussed further below under "Cumulative Effect of Change in Accounting Principle."

In March 2002, we also decided to divest of an additional operating company. In the first quarter of 2002, we recorded an estimated loss of $0.4 million, net of tax benefit, from this planned disposition in "Estimated loss on disposition, including tax" in our results of operations. In the fourth quarter of 2002, we reversed this estimated loss because we decided not to sell this unit.

During the second quarter of 2002, we sold a division of one of our operations. The after-tax loss for this division for the first two quarters of 2002 of $0.3 million has been reported in discontinued operations under "Operating results, net of tax" in our results of operations. We realized a loss of $0.2 million, net of tax benefit, on the sale of this division. This loss is included in "Estimated loss on disposition, including tax" during the second quarter of 2002 in our results of operations.

Cumulative Effect of Change in Accounting Principle -- SFAS No. 142, "Goodwill and Other Intangible Assets," which required a transitional assessment of our goodwill assets went into effect in 2002. We adopted it as of January 1, 2002.

To perform the transitional impairment testing required by SFAS No. 142 under its new, more rigorous impairment criteria, we broke our operations into "reporting units", as prescribed by the new standard, and tested each of these reporting units for impairment by comparing the unit's fair value to its carrying value. The fair value of each reporting unit was estimated using a discounted cash flow model combined with market valuation approaches. Significant estimates and assumptions were used in assessing the fair value of reporting units. These estimates and assumptions involved future cash flows, growth rates, discount rates, weighted average cost of capital and estimates of market valuations for each of the reporting units.

As provided by SFAS No. 142, the transitional impairment loss identified by applying the standard's new, more rigorous valuation methodology upon initial adoption of the standard was reflected as a cumulative effect of a change in accounting principle in our results of operations. The resulting non-cash charge was $202.5 million, net of tax benefit, and was recorded during the first quarter of 2002.

Outlook -- As noted above, we have reported lower earnings in 2003 than in 2002. We have experienced reduced activity levels and increased price competition stemming from the general economic slowdown which began in 2001 and which worsened in late 2002 and early 2003 based on renewed uncertainty about the economy and international events. In addition, we had adverse cost developments in certain projects in two of our operations early in the current year.

We and other industry participants believe that there has been a general deferral of maintenance and replacement activity in the installed base of commercial, industrial, and institutional HVAC equipment in response to the more difficult economy. We and other industry participants believe this trend will not continue indefinitely due to the fundamental operating needs of the equipment, but it is not clear when maintenance and replacement activity might increase. In addition, while we have seen some signs that activity levels in our industry may increase over the next year as compared to current levels, there can be no assurance that this will occur. Based on these indications as well as significant cost reductions we have initiated, we expect to be profitable in 2003 as a whole and believe our full-year 2003 net income from continuing operations, excluding restructuring, will be comparable to the same measure for 2002. Based on generally improving macroeconomic and construction industry indicators, industry specific factors such as expectation of increased demand to meet deferred maintenance and replacement needs, and based on our continuing internal emphasis on improving operations and controlling costs, we believe that our 2004 results will be significantly better than our 2003 results.

LIQUIDITY AND CAPITAL RESOURCES

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN THOUSANDS)			
Cash provided by (used in):				
Operating activities	$ 12,114	$(6,437)	$ 13,807	$ 5,143
Investing activities	$ (844)	$ (510)	$ 151,785	$(5,096)
Financing activities	$(13,269)	$ 3,352	$(165,592)	$ 1,669
Free cash flow:				
Cash provided by (used in) operating activities	$ 12,114	$(6,437)	$ 13,807	$ 5,143
Taxes paid related to the sale of businesses	--	--	--	10,371
Purchases of property and equipment	(974)	(714)	(4,044)	(2,661)
Proceeds from sales of property and equipment	196	208	1,330	319
Free cash flow	$ 11,336	$(6,943)	$ 11,093	$13,172

Cash Flow -- We define free cash flow as cash provided by operating activities excluding items related to nonrecurring transactions such as sales of businesses, less customary capital expenditures, plus the proceeds from asset sales. Positive free cash flow represents funds available to invest in significant operating initiatives, to acquire other companies or to reduce a company's outstanding debt or equity. If free cash flow is negative, additional debt or equity is generally required to fund the outflow of cash. Free cash flow may be defined differently by other companies. Free cash flow is presented because it is a financial measure that is frequently requested by capital market participants and utilized by management in evaluating our company. However, free cash flow is not considered under generally accepted accounting principles to be a primary measure of an entity's financial results, and accordingly free cash flow should not be considered an alternative to operating income, net income, or cash flows as determined under generally accepted accounting principles and as reported by us.

For the three months ended September 30, 2003, we had negative free cash flow of $6.9 million as compared to positive free cash flow of $11.3 million for the same period in 2002. The negative third quarter 2003 cash flow resulted primarily from use of working capital during our busiest time of the year, following the first two quarters of the year in which we posted relatively strong working capital performance. We have generated positive free cash flow in eleven of the last fourteen quarters. For the nine months ended September 30, 2003, we had positive free cash flow of $13.2 million as compared to $11.1 million for the same period in 2002.

During the first quarter of 2003, free cash flow as well as borrowings from the credit facility discussed below, were used to pay final tax payments of $10.4 million associated with the sale of the operations to Emcor. The net proceeds received at the closing of the Emcor transaction in the first quarter of 2002 were all used to reduce our debt.

Credit Facility -- Our primary current debt financing capacity consists of a $53 million senior credit facility, or the Facility, provided by a syndicate of three financial institutions led by General Electric Capital Corporation, or GE. The Facility includes a $20 million sublimit for letters of credit. The Facility is secured by substantially all of our assets. The Facility was entered into on October 11, 2002 and consists of two parts: a term loan and a revolving credit facility.

The term loan under the Facility, or the Term Loan, was originally $15 million, which we borrowed upon the closing of the Facility. The Term Loan must be repaid in quarterly installments over five years. The amount of each quarterly installment increases annually. These scheduled payments are recapped below under Amounts Outstanding, Capacity and Maturities.

The Facility requires prepayments of the Term Loan in certain circumstances. Approximately half of any free cash flow (as defined in the Facility agreement -- primarily cash from operations less capital expenditures) in excess of scheduled principal payments and voluntary prepayments must be used to pay down the Term Loan. This requirement is measured annually based on full-year results. We did not have any prepayments of the Term Loan due as of December 31, 2002 under this requirement, primarily as a result of our significant amount of voluntary prepayments of debt during 2002. In addition, proceeds in excess of $250,000 from any individual asset sales, or in excess of $1 million for a full year's asset sales, must be used to pay down the Term Loan. Proceeds from asset sales that are less than these individual transaction or annual aggregate levels must also be used to pay down the Term Loan unless they are reinvested in long-term assets within six months of the receipt of such proceeds.

All prepayments under the Term Loan, whether required or voluntary, are applied to scheduled principal payments in inverse order, i.e. to the last scheduled principal payment first, followed by the second-to-last, etc. All principal payments under the Term Loan permanently reduce the original $15 million capacity under this portion of the Facility. As of September 30, 2003, $13.3 million was outstanding under the Term Loan.

The Facility also includes a three-year $40 million revolving credit facility, the Revolving Loan. Subject to capacity limitations as described below, $20 million of the $40 million revolving facility is available for borrowings, with the other $20 million available for letters of credit. Capacity under the Revolving Loan is also limited by the leverage and fixed charge coverage covenants described below under Restrictions and Covenants and Amounts Outstanding, Capacity, and Maturities. As noted in the latter section, under the most restrictive of these capacity provisions, our current borrowing capacity, on a month-end measurement basis, is $6.4 million. Borrowing capacity can be greater than this amount on an intra-month basis. Letters of credit currently outstanding are $19.1 million.

Interest Rates and Fees -- We have a choice of two interest rate options for borrowings under the Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus 0.5% or the prime rate of at least 75% of the U.S.'s 30 largest banks, as published each business day by the Wall Street Journal. An additional margin of 2.25% is then added to the higher of these two rates for borrowings under the Revolving Loan, while an additional margin of 2.75% is added to the higher of these two rates for borrowings under the Term Loan.

Under the other interest rate option, borrowings bear interest based on designated rates that are described in various general business media sources as the London Interbank Offered Rate or "LIBOR." Revolving Loan borrowings using this interest rate option then have 3.25% added to LIBOR, while Term Loan borrowings have 3.75% added to LIBOR.

Commitment fees of 0.5% per annum are payable on the unused portion of the Revolving Loan.

We incurred certain financing and professional costs in connection with the arrangement and the closing of the Facility. These costs are being amortized to interest expense over the term of the Facility in the amount of approximately $0.4 million per quarter. To the extent prepayments of the Term Loan are made or the size of the Facility is reduced, we may have to accelerate amortization of these deferred financing and professional costs. During the first quarter of 2003, we charged approximately $0.8 million of deferred financing costs to interest expense that were associated with previously higher levels of capacity under the Facility.

The weighted average interest rate that we currently pay on borrowings under the Facility is 5.3% per annum. This reflects a combination of borrowings under both interest rate options described above, as well as the swap of floating rates to a fixed rate described below. This rate does not include amortization of debt financing and arrangement costs, or mark-to-market adjustments for derivatives.

Interest Rate Derivative -- The rates underlying the interest rate terms of the Facility are floating interest rates determined by the broad financial markets, meaning they can and do move up and down from time to time. The Facility required that we convert these floating interest rate terms on at least half of the original Term Loan to fixed rates for at least a one-year term. In January 2003, we converted $10 million of principal value to a fixed rate of 5.62% for an eighteen-month term. This was done via a transaction known as a "swap" under which we agreed to pay fixed interest rate payments on $10 million for eighteen months to a bank in exchange for receiving from the bank floating LIBOR interest rate payments on $10 million for the same term.

This transaction is a derivative and has been designated a cash flow hedging instrument under applicable generally accepted accounting principles. Changes in market interest rates in any given period may increase or decrease the valuation of our obligations to the bank under this swap versus the bank's obligations to us. So long as the instrument remains "effective" as defined under applicable generally accepted accounting principles, such changes in market valuation are reflected in stockholders' equity as other comprehensive income (loss) for that period, and not in our results of operations. If the swap is terminated earlier than its eighteen-month term, any gain or loss on settlement will be reflected in our statement of operations. The swap was effective as a hedge for accounting purposes from its inception through September 30, 2003, and we expect it to continue to be effective throughout its term.

During the nine months ended September 30, 2003, a reduction to stockholders' equity of less than $0.1 million, net of tax, was recorded through other comprehensive income (loss) in connection with this swap and is included in other current liabilities in our consolidated balance sheet.

The counterparty to the above derivative agreement is a major bank. Based on our continuing review of the financial position of this bank, we believe there is minimal risk that it will not meet its obligations to us under this swap.

Warrant -- In connection with the Facility, we granted GE a warrant to purchase 409,051 shares of our common stock for nominal consideration. In addition, GE may "put," or require us to repurchase, these shares at the higher of market price, appraised price or book value per share, during the fifth and final year of the Facility -- October 11, 2006 to October 11, 2007. This put may be accelerated under certain circumstances including a change of control of our company, full repayments of amounts owing under the Facility, or a public offering of shares by us. This warrant and put are discussed in greater detail in Note 8, "Stockholders' Equity," to the Consolidated Financial Statements.

The value of this warrant and put as of the start of the Facility of $2.9 million, less amortization to date of $0.5 million, is reflected as a discount of our obligation under the Facility and is being amortized over the term of the Facility, as described above.

This warrant and put obligation are also recorded as a liability in the Company's balance sheet. The value of the warrant and put will change over time, principally in response to changes in the market price of our common stock.

The warrant and put qualify as a derivative for financial reporting purposes. Accordingly, such changes in the value of the warrant and put in any given period will be reflected in interest expense for that period, even though the warrant and put may not have been terminated and settled in cash during the period. Such adjustments are known as mark-to-market adjustments. The loss included in interest expense related to the warrant's mark-to-market obligation during the nine months ended September 30, 2003 was $0.2 million.

The table below provides an indication of the potential effect on the valuation of this derivative that might result from changes in the market price of our stock. In this table, the value of the warrant has been calculated based upon the stock price being $1 lower and $1 higher than our closing stock price at September 30, 2003 (value of warrant and put obligation in thousands).

VALUE OF WARRANT AND STOCK PRICE	PUT OBLIGATION
$2.81	$3,122
$3.81(a)	$3,365
$4.81	$3,636

- ---------------

(a) This was our closing stock price on September 30, 2003.

Restrictions, Covenants and Potential Refinancing -- Borrowings under the Facility are specifically limited by our ratio of total debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA") also known as the leverage covenant, and by our ratio of EBITDA less taxes and capital expenditures to interest expense and scheduled principal payments, also known as the fixed charge coverage ratio. The Facility's definition of debt for purposes of the ratio of total debt to EBITDA includes aggregate letters of credit outstanding less $10 million and excludes cash balances in certain of our bank accounts.

The definition of EBITDA under the Facility excludes certain items, generally non-cash amounts and transactions reported in Other Income and Expense, that are otherwise included in the determination of earnings under generally accepted accounting principles in our financial statements. As such, EBITDA as determined under the Facility's definition could be less than EBITDA as derived from our financial statements in the future.

The Facility prohibits us from paying dividends, repurchasing shares, and making acquisitions. It also limits annual lease expense and non-Facility debt, and restricts outlays of cash by us relating to certain investments and subordinate debt.

The financial covenants under the Facility are summarized below. Covenant compliance is measured on a monthly basis. EBITDA amounts are in thousands:

	FINANCIAL COVENANTS			
AS OF	MINIMUM TRAILING 12 MONTHS' EBITDA	MAXIMUM DEBT TO EBITDA	MINIMUM FIXED CHARGE COVERAGE RATIO	MINIMUM INTEREST COVERAGE
ACTUAL				
September 30, 2003	$14,943	1.74	2.64	7.62
COVENANT				
October 31, 2003	$14,146	2.30	2.25	3.00
November 30, 2003	$14,892	2.20	2.25	3.00
December 31, 2003	$16,775	2.00	2.25	3.00
January 31, 2004	$17,609	1.80	2.25	3.00
February 29, 2004	$18,355	1.80	2.25	3.00
March 31, 2004	$19,811	1.80	2.25	3.00
April 30, 2004	$20,127	1.80	2.25	3.00
May 31, 2004	$20,631	1.80	2.25	3.00
June 30, 2004	$19,821	1.80	2.25	3.00
July 31, 2004	$18,451	1.80	2.25	3.00
August 31, 2004	$17,644	1.80	2.25	3.00
September 30, 2004	$20,210	1.80	2.25	3.00
October 31, 2004	$20,210	1.80	2.25	3.00
November 30, 2004	$20,210	1.50	2.25	3.00
December 31, 2004	$21,232	1.50	2.25	3.00
All months thereafter	$31,000	1.50	2.25	3.00

Our trailing twelve months' EBITDA as of December 31, 2002 as determined under the Facility did not comply with the covenant then in effect. Our lenders waived this violation and agreed to modify most of our minimum EBITDA, leverage and fixed charge covenants for 2003. Our trailing twelve months' EBITDA as of September 30, 2003 as determined under the Facility did not comply with the covenant then in effect. Our lenders waived this violation and agreed to modify most of our minimum EBITDA, leverage and fixed charge covenants for the remainder of 2003 and 2004. While we believe we will comply with these modified covenants as provided above, these covenants leave only moderate room for variance based on our recent performance.

We are in the process of refinancing our current credit facility with a new senior lending facility of at least $45 million. As of November 12, 2003, we have received lending commitments in excess of this amount toward a facility with more flexible terms and more available credit capacity than our current facility. Such commitments are subject to customary closing conditions which the Company believes it will be able to meet. We expect to complete this refinancing during the fourth quarter, although there can be no guarantee that we will be successful in doing so.

If we do not complete the refinancing on which we are currently working, and we again violate a covenant under our current facility, we may have to negotiate new borrowing terms under our current facility or obtain new financing. While we believe that our levels of debt in comparison to our EBITDA and our cash flows would enable us to negotiate new borrowing terms under our current facility or to obtain new financing from other sources if necessary, there can be no assurance that we would be successful in doing so.

If we complete the refinancing on which we are currently working, the remaining deferred financing costs and discount associated with our current facility will be written off in our results of operations in the period in which the refinancing is completed. The current amount of such deferred financing costs and discount is $4.7 million, which would be written off as a non-cash charge in the fourth quarter of this year if we complete our refinancing during that period as expected.

As discussed above, if the Facility is repaid in full, GE has the right to put to us, or require us to repurchase, the warrant it received in connection with establishing the Facility. The repurchase price per warrant share would be the higher of market value, appraised value, or book value per share. If we complete the refinancing on which we are currently working, and if, as a result, GE exercises its put, we estimate we would pay approximately $2.2 million to GE. This amount would be charged against the warrant and put obligation in Other Long-Term Liabilities on our balance sheet, and thus would not be charged to our results of operations in the period in which the put is paid. If $2.2 million is paid to discharge the put, the remaining amount of $1.2 million in the warrant and put accrual would be credited to the statement of operations as a non-cash item in the same period that the put payment is made.

Other Commitments -- As is common in our industry, we have entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in our balance sheets. Our most significant off-balance sheet transactions include liabilities associated with noncancelable operating leases. We also have other off-balance sheet obligations involving letters of credit and surety guarantees.

We enter into noncancelable operating leases for many of our facility, vehicle and equipment needs. These leases allow us to conserve cash by paying a monthly lease rental fee for use of facilities, vehicles and equipment rather than purchasing them. At the end of the lease, we have no further obligation to the lessor. We may decide to cancel or terminate a lease before the end of its term. Typically we are liable to the lessor for the remaining lease payments under the term of the lease.

Certain of our vendors require letters of credit to ensure reimbursement for amounts they are disbursing on our behalf, such as to beneficiaries under our self-funded insurance programs. Some customers also require us to post letters of credit to guarantee performance under our contracts and to ensure payment to our subcontractors and vendors under those contracts. Such letters of credit are generally issued by a bank or similar financial institution. The letter of credit commits the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that we have failed to perform specified actions. If this were to occur, we would be required to reimburse the issuer of the letter of credit. Depending on the circumstances of such a reimbursement, we may also have to record a charge to earnings for the reimbursement. To date we have not had a claim made against a letter of credit that resulted in payments by the issuer of the letter of credit or by us. We believe that it is unlikely that we will have to fund claims under a letter of credit in the foreseeable future.

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a financial institution known as a surety. These bonds provide a guarantee to the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors who provided goods and services under a contract. If we fail to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the surety for any expenses or outlays it incurs. To date, we are not aware of any losses to our surety in connection with bonds the surety has posted on our behalf, and we do not expect such losses to be incurred in the foreseeable future.

In cooperation with our lenders, we have granted our surety a secured interest in assets such as receivables, costs incurred in excess of billings, and equipment specifically identifiable to projects for which bonds are outstanding as collateral for potential obligations under bonds. As of September 30, 2003, the amount of these assets was approximately $42.6 million. We have also posted a $5 million letter of credit as collateral for potential obligations under bonds.

Surety market conditions are currently difficult as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. Further, under standard terms in the surety market, sureties issue bonds on a project-by-project basis, and can decline to issue bonds at any time. Historically, approximately 25% of our business has required bonds. While we have enjoyed a longstanding relationship with our surety, current market conditions as well as changes in our surety's assessment of our operating and financial risk could cause our surety to decline to issue bonds for our work. If that were to occur, our alternatives include doing more business that does not require bonds, posting other forms of collateral for project performance such as letters of credit or cash, and seeking bonding capacity from other sureties. We would likely also encounter concerns from customers, suppliers and other market participants as to our creditworthiness. While we believe our general operating and financial performance would enable us to ultimately respond effectively to an interruption in the availability of bonding capacity, such an interruption would likely cause our revenues and profits to decline in the near term.

Amounts Outstanding, Capacity and Maturities -- Apart from the Term Loan, our available credit capacity under the Facility is governed by the nominal limits of the Facility, and by calculated limits based on the leverage and fixed charge coverage covenants described above. Available credit capacity is limited to the most restrictive of these measures. The nominal limits are in effect at all times. The leverage provision limits borrowings that can be outstanding at month end. The fixed charge provision limits amounts that can be outstanding at month end, or at any other time that GE requests that this covenant be measured. Even though available credit capacity under the leverage provision is only measured at month end, it is presented below because it is the most restrictive of these limitations as of recent month ends. Available capacity under the Revolving Loan can be greater than the amount below on an intra-month basis.

The following recaps the Company's debt amounts outstanding and capacity (in thousands):

	AS OF SEPTEMBER 30, 2003	AS OF NOVEMBER 7, 2003	UNUSED CAPACITY AS OF NOVEMBER 7, 2003
Revolving loan	$ 3,779	$ 4,657	$6,380
Term loan	13,300	13,300	n/a
Other debt	438	433	n/a
Total debt	17,517	18,390	6,380
Less: discount on Facility	(2,400)	(2,350)	n/a
Total debt, net of discount	$15,117	$16,040	$6,380
Letters of credit	$19,655	$19,137	$ 863

The following recaps the future maturities of this debt along with other contractual obligations. Debt maturities in this recap are based on amounts outstanding as of November 7, 2003 while operating lease maturities are based on amounts outstanding as of September 30, 2003 (in thousands).

	TWELVE MONTHS ENDED SEPTEMBER 30,						
	2004	2005	2006	2007	2008	THEREAFTER	TOTAL
Revolving loan.........	$ --	$ --	$4,657	$ --	$ --	$ --	$ 4,657
Term loan..............	4,280	3,000	3,750	2,270	--	--	13,300
Other debt.............	102	78	57	58	62	76	433
Total debt........	$4,382	$3,078	$8,464	$2,328	$ 62	$ 76	18,390
Less: discount on Facility........							(2,350)
Total debt, net of discount........							$16,040
Operating lease obligations..........	$9,080	$6,921	$5,870	$5,067	$3,895	$12,736	$43,569

As of September 30, 2003, we also have $19.7 million of letter of credit commitments, of which $19.2 million expire in 2003 and the remaining $0.5 million expire in 2004.

Outlook -- As noted above, we have generated positive free cash flow in most recent periods, and we currently have a moderate level of debt. We anticipate that free cash flow from operations and credit capacity under the Facility will provide us with sufficient liquidity to fund our operations for the foreseeable future. However, we do not have a significant amount of excess credit capacity under our current credit facility in comparison to expected working capital requirements over the next year. In addition, as described above, the financial covenants under our current facility leave only moderate room for variance based on our recent performance. Also as described above, we are in the process of refinancing our current facility with a new facility with more flexible terms and more available credit capacity than our current facility. We expect to complete this refinancing during the fourth quarter, although there can be no guarantee that we will be successful in doing so.

If we do not complete the refinancing on which we are currently working, and we again violate a covenant or we encounter borrowing limitations under our current facility, we may have to negotiate new borrowing terms under our current facility or obtain new financing. We believe that our levels of debt in comparison to our EBITDA and our cash flows would enable us to obtain new financing if necessary, but there can be no assurance that we would be successful in doing so.

We currently have $19.1 million in letters of credit outstanding, against a limit of $20 million under the Facility. We self-insure a significant portion of our worker's compensation, auto liability and general liability risks. We use third parties to manage this self-insurance and to retain some of these risks. As is customary under such arrangements, these third parties require letters of credit as security for amounts they fund or risks they might potentially absorb on our behalf. Under our current self-insurance arrangements, we have posted $13.2 million in letters of credit. In connection with our renewal of our self-insurance program as of November 1, 2003, we must post an additional $4.1

million in letters of credit as follows: $0.5 million in November, 2003, $0.5 million in February, 2004, $1.0 million in May, 2004, and $2.1 million in August, 2004. If we are unable to retire any of our other outstanding letters of credit, or if we receive other letter of credit requests in the ordinary course of business, then our letter of credit needs will exceed the letter of credit capacity limit under the Facility not later than February, 2004. The new senior credit facility on which we are working, as described above, would provide sufficient letter of credit capacity to meet our expected letter of credit needs. If we do not complete this new facility, then we may have to seek additional letter of credit capacity or post different forms of security such as bonds or cash in lieu of letters of credit. We believe that our levels of debt in comparison to our EBITDA and our cash flows would enable us to obtain additional letter of credit capacity or to otherwise meet financial security requirements of third parties if necessary, but there can be no assurance that we would be successful in doing so.

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 (the first quarter of the year) 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, we expect our 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, our volume of business may be adversely affected by declines in new installation projects in various geographic regions of the United States.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructurings, involuntarily terminating employees, and consolidating facilities, where those activities were initiated after December 31, 2002. The implementation of SFAS No. 146 does not require the restatement of previously issued financial statements. See Note 5 of the Consolidated Financial Statements for a discussion of restructuring charges recorded during 2003 in accordance with SFAS No. 146.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years ending after December 15, 2002. We adopted the footnote disclosure provisions in the fourth quarter of 2002.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period ending after December 15, 2003. Our preliminary assessment is that the adoption of FIN 46 will not have a significant effect on our consolidated financial condition or results of operations. However, our evaluation of this impact is not yet complete, and therefore, could change.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are 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. In January 2003, we converted $10 million of our Term Loan to a fixed rate of 5.62% for an eighteen-month term. This was done via a transaction known as a "swap" under which we agree to pay fixed LIBOR-based interest rate payments on $10 million for eighteen months to a bank in exchange for receiving from the bank floating LIBOR-based interest rate payments on $10 million for the same term. This transaction is a derivative and qualifies for hedge accounting treatment. We are not exposed to any other significant financial market risks including commodity price risk, foreign currency exchange risk or interest rate risks from the use of derivative financial instruments. Management does not use derivative financial instruments for trading or to speculate on changes in interest rates or commodity prices.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days before the date of this report on Form 10-Q, under the supervision and with the participation of our management, including our Chairman of the Board and Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), we evaluated the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-14(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, our Chairman of the Board and Chief Executive Officer and our Chief Financial Officer believe that our disclosure controls and procedures are effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act fairly represents, in all material respects, our financial condition, results of operations and cash flows.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

COMFORT SYSTEMS USA, INC.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1	Employment Agreement dated as of June 14, 2002 by and among Comfort Systems USA (Texas), L.P. and Thomas N. Tanner. (Filed herewith).
10.2	Form of Amendment No. 5, Limited Waiver and Limited Consent, dated as of November 12, 2003 by and among the Company, the other credit parties, and General Electric Capital Corporation, as Agent for the Lenders. (Filed herewith).
31.1	Certification of William F. Murdy pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
31.2	Certification of J. Gordon Beittenmiller pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
32.1	Certification of William F. Murdy, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
32.2	Certification of J. Gordon Beittenmiller, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).

(b) Reports on Form 8-K

(i) The Company filed a report on Form 8-K with the Securities and Exchange Commission on August 6, 2003. Under Item 7 of that report the Company announced that on August 5, 2003, the Company issued a press release, reporting Comfort's financial results for the second quarter of 2003.

SIGNATURES

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.

/s/ WILLIAM F. MURDY

William F. Murdy
Chairman of the Board and
Chief Executive Officer

November 12, 2003

/s/ J. GORDON BEITTENMILLER

J. Gordon Beittenmiller
Executive Vice President,
Chief Financial Officer and Director

November 12, 2003

INDEX TO EXHIBITS

10.1	Employment Agreement dated as of June 14, 2002 by and among Comfort Systems USA (Texas), L.P. and Thomas N. Tanner. (Filed herewith).
10.2	Form of Amendment No. 5, Limited Waiver and Limited Consent, dated as of November 12, 2003 by and among the Company, the other credit parties, and General Electric Capital Corporation, as Agent for the Lenders. (Filed herewith).
31.1	Certification of William F. Murdy pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
31.2	Certification of J. Gordon Beittenmiller pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
32.1	Certification of William F. Murdy, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
32.2	Certification of J. Gordon Beittenmiller, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") between Comfort Systems USA (Texas), L.P., a Texas Limited Partnership (the "Company"), and Thomas N. Tanner ("Executive") is entered into and effective as of the 14th day of June 2002. This Agreement supersedes any other employment agreements or understandings, written or oral, between the Company and Executive.

RECITALS

The following statements are true and correct:

As of the date of this Agreement, the Company, and its affiliates (collectively, the "Comfort Group") are engaged in the business of mechanical contracting services, including heating, ventilation and air conditioning, plumbing, fire protection, piping and electrical and related services ("Services").

Executive is to be employed by the Company in a confidential relationship wherein Executive, in the course of Executive's employment with the Company, will become familiar with and aware of information as to the Comfort Group's customers, specific manner of doing business, including the processes, techniques and trade secrets utilized by the Comfort Group, employees and future plans with respect thereto, all of which has been and will be established and maintained at great expense the Comfort Group. This information is a trade secret and constitutes the valuable goodwill of the Company and the Comfort Group.

Each of Company and Executive desire to establish Executive's employment by the Company pursuant to this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, terms, covenants and conditions set forth herein, the Company and Executive hereby agree as follows:

AGREEMENTS

1. Employment and Duties.

(a) The Company hereby employs Executive in an executive position and Executive hereby accepts this employment upon the terms and conditions herein contained. Executive agrees to devote substantially all of Executive's business time, attention and efforts to promote and further the business of the Company.

(b) Executive shall faithfully adhere to, execute and fulfill all lawful policies established by the Company and the Comfort Group, including the Comfort Systems USA ("Comfort") Corporate Compliance Policy.

(c) Executive shall not, during the term of Executive's employment hereunder, be engaged in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes in any material respect with Executive's duties and responsibilities hereunder. The foregoing limitations shall not be construed as prohibiting Executive from making personal investments in such form or manner as will neither require Executive's services in the operation or affairs of the companies or enterprises in which such investments are made nor violate the terms of Section 4.

2. Compensation. For all services rendered by Executive, the Company shall compensate Executive as follows:

(a) Base Salary. Effective the date hereof, the base salary payable to Executive shall be $175,000 per year, payable on a regular basis in accordance with the Company's standard payroll procedures, but not less often than monthly. On at least an annual basis, the Company will review Executive's performance and may make adjustments to such base salary if, in its discretion, any such adjustment is warranted.

(b) Executive Perquisites, Benefits and Other Compensation. Executive shall be entitled to receive additional benefits and compensation from the Company in such form and to the extent specified below:

(i) Coverage, subject to contributions required of employees generally, for Executive and Executive's dependent family members under health, hospitalization, disability, dental, life and other insurance plans that the Company may have in effect from time to time for the benefit of its employees.

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

(iii) Participation in the Company's incentive compensation plan for top-ranking regional executives.

3. Confidentiality.

(a) Confidential Information. As used herein, the term "Confidential Information" means any information, technical data or know-how of the Company and the other members of the Comfort Group, including, but not limited to, that which relates to customers, business affairs, business plans, financial matters, financial plans and projections, pending and proposed acquisitions, operational and hiring matters, contracts and agreements, marketing, sales and pricing, prospects of the Comfort Group, and any information, technical data or know-how that contain or reflect any of the foregoing, whether prepared by the Company, any other member of the Comfort Group, Executive or any other person or entity; provided, however, that the term "Confidential Information" shall not include information, technical data or know-how that Executive can demonstrate is generally available to the public not as a result of any breach of this Agreement by Executive.

(b) No Disclosure. Except in the performance of Executive's duties as an executive of the Company, Executive will not, during or after the term of Executive's engagement with the Company, disclose to any person or entity or use, for any reason whatsoever, any Confidential Information.

4. Non-Competition Agreement.

(a) Competition. Executive will not, during the period of Executive's employment by or with the Company, and for a period of one year immediately following the termination of Executive's employment, for any reason whatsoever, directly or indirectly, on behalf of Executive or on behalf of or in conjunction with any other person, 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, or make or guarantee loans or invest, in or for any business engaged in Services in competition with the Company Group or any other member of the Comfort Group within seventy-five (75) miles of where any Comfort Group operation or subsidiary conducts business if Executive has had responsibility for, or material input or participation in, the management or operation of such other operation or subsidiary (the "Territory");

(ii) call upon any person who is, at that time, an employee of the Company or any other member of the Comfort Group in a technical, managerial or sales capacity for the purpose or with the intent of enticing such employee away from or out of the employ of the Company or such other member of the Comfort Group;

(iii) call upon any person or entity which is at that time, or which has been within two (2) years prior to that time, a customer of the Company or any other member of the Comfort Group for the purpose of soliciting or selling Services;

(iv) call upon any prospective acquisition candidate, on Executive's own behalf or on behalf of any competitor, which acquisition candidate either was called upon by the Executive on behalf of the Company or any other member of the Comfort Group or was the subject of an acquisition analysis made by Executive on behalf of the Company or any other member of the Comfort Group for the purpose of acquiring such acquisition candidate.

Notwithstanding the above, the foregoing covenants shall not be deemed to prohibit Executive from acquiring as an investment not more than one percent (1%) of the capital stock of a competing business whose stock is traded on a national securities exchange or on an over-the-counter or similar market.

(b) No Violation. It is specifically agreed that the period during which the agreements and covenants of Executive made in this Section 4 shall be effective shall be computed by excluding from such computation any time during which Executive is in violation of any provision of this Section 4.

(c) Extension. Notwithstanding the foregoing provisions of this paragraph 4, if this Agreement is terminated pursuant to paragraph 5, then, upon written notice to Executive not later than 60 days following the date of such termination, the Company may at its option extend by up to twelve additional months the agreements and covenants contained in this paragraph 4 by paying to Executive a number of months of base salary equal to the length of the extension specified in such notice, any such amounts to be payable during such extension period in a manner consistent with the Company's standard pay practices.

5. Term; Termination; Rights on Termination. The term of this Agreement shall begin on the date hereof and continue for a term of two (2) years, unless renewed or terminated under this Paragraph 5. At the end of the initial term described in the preceding sentence, this Agreement shall automatically renew for succeeding terms of one (1) year each (subject to termination under this Paragraph), unless either party shall, at least 10 days prior to the expiration of any term, give written notice of an intention not to renew this Agreement. This Agreement and Executive's employment may be terminated in any one of the following ways:

(a) Death. The death of Executive shall immediately terminate this Agreement with no severance compensation due to Executive's estate.

(b) Disability. If, as a result of incapacity due to physical or mental illness or injury, Executive shall have been absent from Executive's 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), the Company may terminate Executive's employment hereunder, provided Executive is unable to resume Executive's full-time duties at the conclusion of such notice period. In the event this Agreement is terminated as a result of Executive's disability, Executive shall receive from the Company Executive's base salary at the rate then in effect for the lesser of the time period remaining under the Term or six (6) months, and such amount shall be payable during such period in a manner consistent with Company's standard pay practices. The amount payable hereunder shall be decreased by the amount of benefits otherwise actually paid by the Company to Executive or on Executive's behalf or under any insurance procured by the Company.

(c) Good Cause. The Company may terminate this Agreement ten (10) days after written notice to Executive for good cause, which shall include any of the following: (i) Executive's willful or material breach of this Agreement; (ii) Executive's failure to perform any of his material duties following notice by the Company to Executive of such improper performance and Executive's failure to correct the improper performance to the satisfaction of the Company within a reasonable time; (iii) Executive's gross negligence in the performance or intentional nonperformance of any of Executive's material duties and responsibilities hereunder; (iv) Executive's willful dishonesty, fraud or misconduct with respect to the business or affairs of the Company or any other member of the Comfort Group; (v) Executive's conviction of a felony crime; (vi) Executive's confirmed positive illegal drug test result; (vii) sexual harassment by Executive; or (viii) willful or material failure by Executive to comply with Comfort's Corporate Compliance Policy or other Company policies. In the event of a termination for good cause, as enumerated above, Executive shall have no right to any severance compensation.

(d) Without Cause. At any time after the commencement of Executive's employment, Executive or the Company may, without cause, terminate this Agreement and Executive's employment, effective fifteen (15) days after receipt of written notice. Should Executive be terminated by the Company without cause, Executive shall receive from the Company Executive's base salary at the rate then in effect for six (6) months, and such amount shall be payable during such period in a manner consistent with the Company's standard pay practices. If Executive resigns or otherwise terminates Executive's employment, Executive shall receive no severance compensation.

6. Return of Company Property. All records, plans, manuals, "field guides", memoranda, lists, documents, statements and other property delivered to Executive by or on behalf of the Company or any other member of the Comfort Group, by any customer of the Company or any other member of the Comfort Group (including, but not limited to, any such customers obtained by Executive), by any acquisition candidate of the Company or any other member of the Comfort Group, and all records compiled by Executive which pertain to the business or activities of the Company or any other member of the Comfort Group shall be and remain the property of the Company and shall be subject at all times to its discretion and control. Likewise, all correspondence with customers, representatives or acquisition candidates, reports, records, charts, advertising materials, and any data collected by Executive or by or on behalf of the Company or any other member of the Comfort Group or any representative of any of them shall be delivered promptly to the Company without request by it upon termination of Executive's employment with the Company.

7. Inventions. Executive 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 Executive, solely or jointly with another, during the period of Executive's employment with the Company or within one (1) year thereafter, and which are directly related to the business or activities of the Company or which Executive conceives as a result of Executive's employment by the Company. Executive hereby assigns and agrees to assign all Executive's interests therein to the Company or its nominee. Whenever requested to do so by the Company, Executive 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. Executive agrees that Executive will not, during or after the Term, disclose the specific terms of the Company's or any other member of the Comfort Group's relationships or agreements with significant vendors or customers or any other significant and material trade secret of the Company or any other member of the Comfort Group, whether in existence or proposed, to any person, firm, partnership, corporation or business for any reason or purpose whatsoever.

9. Prior Agreements. This Agreement supercedes any prior documents or understandings with respect to Executive's employment with the Company. Executive hereby represents and warrants to the Company that the execution of this Agreement by Executive and Executive's employment by the Company and the performance of Executive's duties hereunder will

not violate or be a breach of any agreement with a former employer, client or any other person or entity. Further, Executive agrees to indemnify 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 the Company based upon or arising out of any non-competition agreement, invention or secrecy agreement between Executive and such third party which was in existence as of the date of this Agreement.

10. Assignment; Binding Effect. Executive understands that Executive has been selected for employment by the Company on the basis of Executive's personal qualifications, experience and skills. Executive agrees, therefore, that Executive cannot assign all or any portion of Executive's performance under this Agreement. Executive, Executive's spouse and the estate of each shall not have any right to encumber or dispose of any right to receive payments hereunder, it being understood that such payments and the right thereto are nonassignable and nontransferable; provided, however, that in the event of the death of Executive, any payments that Executive is entitled to receive may be assigned to the beneficiaries of Executive's estate. Subject to the preceding three (3) sentences and the express provisions of Section 11, 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.

11. Complete Agreement. Executive has no oral representations, understandings or agreements with the Company 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 the Company and Executive 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.

12. Amendment; Waiver. This Agreement may not be modified except in a writing signed by the parties, and no term of this Agreement may be waived except by a writing signed by the party waiving the benefit of such term. No waiver by the parties hereto of any default or breach of any term, condition or covenant of this Agreement shall be deemed to be a waiver of any subsequent default or breach of the same or any other term, condition or covenant contained herein.

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

To the Company:	Comfort Systems USA, Inc. 777 Post Oak, Suite 500 Houston, TX 77056 Attention: General Counsel
To Executive:	Thomas N. Tanner 6862 Claret Circle Fayetteville, NY 13066

Notice shall be deemed given and effective on the earlier of five (5) 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. Either party may change the address for notice by notifying the other party of such change in accordance with this Section 13.

14. Severability; Enforceability. 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. Moreover, in the event any court of competent jurisdiction shall determine that the scope, time or territorial restrictions set forth in any covenant contained 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. Each of the covenants contained in this Agreement 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 Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants.

15. Survival. The provisions and covenants of Sections 3, 4, 6, 7 and 8 shall survive termination of this Agreement.

16. Specific Performance Because of the difficulty of measuring economic losses to the Company as a result of a breach of the covenants contained in Sections 3, 4, 6, 7 and 8 and because of the immediate and irreparable damage that could be caused to the Company for which it would have no other adequate remedy, Executive agrees that the Company shall be entitled to specific performance and that such covenants may be enforced by the Company in the event of any breach or threatened breach by Executive, by injunctions, restraining orders and other appropriate equitable relief. Executive further agrees to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Texas.

18. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

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

EXECUTIVE:	COMPANY:
	COMFORT SYSTEMS USA (TEXAS), L.P.
/s/ Thomas N. Tanner	/s/ Dave Lanphar
Thomas N. Tanner	Name: Dave Lanphar
	Title: Senior Vice President

EXHIBIT 10.2

AMENDMENT NO. 5, LIMITED WAIVER AND LIMITED CONSENT

This Amendment No. 5, Limited Waiver and Limited Consent, dated as of November 12, 2003 (this "Amendment"), is entered into by and among Comfort Systems USA, Inc., a Delaware corporation ("Borrower"), the other Credit Parties, General Electric Capital Corporation ("GE Capital"), as Agent ("Agent") for the Lenders (as defined in the Credit Agreement referred to below) and as a Lender, and the other Lenders party to the Credit Agreement.

RECITALS

WHEREAS, Borrower, the other Credit Parties, Agent and Lenders are parties to that certain Credit Agreement, dated as of October 11, 2002, as amended by Amendment No. 1 to Credit Agreement, dated as of December 10, 2002, Amendment No. 2 to Credit Agreement, dated as of December 20, 2002, Amendment No. 3 to Credit Agreement, dated as of March 31, 2003 and Amendment No. 4 to Credit Agreement, dated as of October 20, 2003 (as so amended to date and as the same may be further amended, restated, supplemented or otherwise modified from time to time hereafter, the "Credit Agreement"). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement and Annex A thereof;

WHEREAS, the Borrower is in breach of Credit Agreement's Minimum EBITDA covenant for the period ended September 30, 2003;

WHEREAS, the Borrower is desirous of resetting its financial covenants under the Credit Agreement on a monthly basis through and including December, 2004;

WHEREAS, Agent and Lenders are willing to grant a waiver of the Event of Default arising solely from the Borrower's breach of the Credit Agreement's Minimum EBITDA covenant for the period ended September 30, 2003, subject to the terms and conditions set forth herein and to reset the financial covenants set forth in, and required to be set by Borrower under, the Credit Agreement on a monthly basis through December 2004, all as and to the extent set forth herein and subject to the terms and conditions set forth herein;

WHEREAS, Borrower has notified Agent and Lenders that the Borrower desires to consummate the sale of all of the capital Stock of Standard Heating and Air Conditioning, Inc. ("Standard Heating") held by Borrower to Tom Kime or a Person owned, beneficially and of record, and controlled by Tom Kime (the "Standard Heating Stock Sale");

WHEREAS, Borrower has requested that Agent and Lenders consent to the Standard Heating Stock Sale, and Agent and Lenders are willing to do so pursuant, and subject, to the terms and conditions set forth in this Amendment; and

WHEREAS, these Recitals shall be construed as part of this Amendment;

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties, Borrower, Credit Parties, Agent and Lenders hereby agree as follows:

1. Definitions. Except to the extent otherwise specified herein, capitalized terms used in this Amendment shall have the same meanings ascribed to them in the Credit Agreement and Annex A thereto.

2. Limited Waiver.

2.1. Notwithstanding the provisions of Section 4.2 of the Credit Agreement, Agent and Lenders hereby waive the requirement that Borrower and its Subsidiaries on a consolidated basis shall have had, at the end of the period ending September 30, 2003, EBITDA for the 12-month period then ended of not less than $17,840,000, as well as any Event of Default that may arise solely based upon the failure to be in compliance with such minimum EBITDA covenant at the end of the period ending September 30, 2003.

2.2. The execution, delivery and effect of the foregoing waiver shall be limited precisely as written and shall not be deemed (except for the specific limited waiver contained in Section 2.1) to (a) be a waiver of any term or condition of the Credit Agreement or any other Loan Document or (b) prejudice any right, power or remedy which Agent or any Lender now has or may have in the future under or in connection with the Credit Agreement or any other Loan Document.

3. Consent to Standard Heating Stock Sale. Agent and Lenders hereby consent to the Standard Heating Stock Sale, notwithstanding the provisions of Section 3.7 of the Credit Agreement which prohibit the sale or transfer by any Credit Party of any of its properties or other assets, including Stock of any of its Subsidiaries other than sales or dispositions that satisfy certain conditions set forth in the Credit Agreement; provided, however, that the aggregate purchase price paid to the Borrower in the Standard Heating Stock Sale shall be at least $730,000, with at least $450,000 of the purchase price to be paid in cash on the closing date of the Standard Heating Stock Sale; provided, further, that Borrower shall apply such $450,000 received by Borrower in cash in payment of the Term Loan in the inverse order of maturity of the Scheduled Installments; and, provided, further, that all agreements and other documents necessary or desirable to complete the Standard Heating Stock Sale shall have been provided to the Agent for its review and all such agreements and other documents shall be in form and substance reasonably satisfactory to Agent. In addition, the terms and conditions of any Instrument constituting part of the consideration paid to Borrower in the Standard Heating Stock Sale (each, a "Standard Heating Stock Sale Note") shall be acceptable to Agent, in its discretion, and each such Standard Heating Stock Sale Note shall be pledged to Agent as additional Collateral for the benefit of itself and Lenders, shall be delivered to Agent, on behalf of itself and Lenders, and shall be duly endorsed and accompanied by duly executed instruments of transfer in form and substance satisfactory to Agent. In furtherance of the foregoing, Agent shall receive the original of each and every Standard Heating Stock Sale Note, duly endorsed and accompanied by duly executed instruments of transfer and all other instruments and documents necessary or desirable to evidence the pledge of the Standard Heating Stock Sale Note to the Agent, for its benefit and the benefit of Lenders. The Agent and the Lenders agree to release the

security interests in the Standard Heating Stock upon the closing of the Standard Heating Stock Sale in compliance with the provisions of this Section 3.

4. Amendment. The Credit Agreement is amended as follows:

4.1. Section 4.2 of the Credit Agreement is amended by deleting the chart and replacing it with the following:

"Period	EBITDA
December 31, 2002	$23,639,000
January 31, 2003	$21,983,000
February 28, 2003	$22,745,000
March 31, 2003	$19,190,000
April 30, 2003	$18,010,000
May 31, 2003	$16,985,000
June 30, 2003	$16,420,000
July 31, 2003	$16,420,000
August 30, 2003	$16,420,000
September 30, 2003	$17,840,000
October 31, 2003	$14,146,000
November 30, 2003	$14,892,000
December 31, 2003	$16,775,000
January 31, 2004	$17,609,000
February 29, 2004	$18,355,000
March 31, 2004	$19,811,000
April 30, 2004	$20,127,000
May 31, 2004	$20,631,000
June 30, 2004	$19,821,000
July 31, 2004	$18,451,000
August 30, 2004	$17,644,000
September	

30, 2004	$20,210,000
October 31, 2004	$20,210,000
November 30, 2004	$20,210,000
December 31, 2004	$21,232,000
March 31, 2005 and each Fiscal Quarter thereafter	$31,000,000"

4.2. Section 4.3 of the Credit Agreement is amended by deleting it in its entirety and replacing it with the following:

"Minimum Fixed Charge Coverage Ratio.

Borrower and its Subsidiaries shall have on a consolidated basis at the end of each period set forth below, a Fixed Charge Coverage Ratio for the 12-month period then ended of not less than the following:

2.30 to 1.0 for the Fiscal Quarter ending September 30, 2002;

2.30 to 1.0 for the Fiscal Quarter ending December 31, 2002;

2.30 to 1.0 for the month ending January 31, 2003;

2.30 to 1.0 for the month ending February 28, 2003;

2.50 to 1.0 for the month ending March 31, 2003;

2.50 to 1.0 for the month ending April 30, 2003;

2.50 to 1.0 for the month ending May 31, 2003;

2.50 to 1.0 for the month ending June 30, 2003;

2.50 to 1.0 for the month ending July 31, 2003;

2.50 to 1.0 for the month ending August 31, 2003;

2.60 to 1.0 for the month ending September 30, 2003;

2.25 to 1.0 for the month ending October 31, 2003;

2.25 to 1.0 for the month ending November 30, 2003;

2.25 to 1.0 for the month ending December 31, 2003

2.25 to 1.0 for the month ending January 31, 2004;

2.25 to 1.0 for the month ending February 29, 2004;

2.25 to 1.0 for the month ending March 31, 2004;

2.25 to 1.0 for the month ending April 30, 2004;

2.25 to 1.0 for the month ending May 31, 2004;

2.25 to 1.0 for the month ending June 30, 2004;

2.25 to 1.0 for the month ending July 31, 2004;

2.25 to 1.0 for the month ending August 31, 2004;

2.25 to 1.0 for the month ending September 30, 2004;

2.25 to 1.0 for the month ending October 31, 2004;

2.25 to 1.0 for the month ending November 30, 2004;

2.25 to 1.0 for the month ending December 31, 2004; and

2.25 to 1.0 for March 31, 2005 and each Fiscal Quarter ending thereafter."

4.3. Section 4.4 of the Credit Agreement is amended by deleting it in its entirety and replacing it with the following:

"Minimum Interest Coverage Ratio.

Borrower and its Subsidiaries on a consolidated basis shall have at the end of each period set forth below, an Interest Coverage Ratio for the 12-month period then ended of not less than 3.0 to 1.0:

month ending September 30, 2002;

month ending October 31, 2002;

month ending November 30, 2002;

month ending December 31, 2002;

month ending January 31, 2003;

month ending February 28, 2003;

month ending March 31, 2003;

month ending April 30, 2003;

month ending May 31, 2003;

month ending June 30, 2003;

month ending July 31, 2003;

month ending August 31, 2003;

month ending September 30, 2003;

month ending October 31, 2003;

month ending November 30, 2003;

month ending December 31, 2003

month ending January 31, 2004;

month ending February 29, 2004;

month ending March 31, 2004;

month ending April 30, 2004;

month ending May 31, 2004;

month ending June 30, 2004;

month ending July 31, 2004;

month ending August 31, 2004;

month ending September 30, 2004;

month ending October 31, 2004;

month ending November 30, 2004;

month ending December 31, 2004; and

March 31, 2005 and each Fiscal Quarter ending thereafter."

4.4. Section 4.5 of the Credit Agreement is amended by deleting it in its entirety and replacing it with the following:

"Maximum Leverage Ratio.

Borrower and its Subsidiaries on a consolidated basis shall have, at the end of each period set forth below, a Leverage Ratio as of the last day of such period and for the 12-month period then ended of not more than the following:

1.75 to 1.0 for the month ending December 31, 2002;

1.75 to 1.0 for the month ending January 31, 2003;

1.75 to 1.0 for the month ending February 28, 2003;

1.75 to 1.0 for the month ending March 31, 2003;

2.20 to 1.0 for the month ending April 30, 2003;

2.20 to 1.0 for the month ending May 31, 2003;

2.20 to 1.0 for the month ending June 30, 2003;

2.20 to 1.0 for the month ending July 31, 2003;

2.20 to 1.0 for the month ending August 31, 2003;

2.10 to 1.0 for the month ending September 30, 2003;

2.30 to 1.0 for the month ending October 31, 2003;

2.20 to 1.0 for the month ending November 30, 2003;

2.00 to 1.0 for the month ending December 31, 2003

1.80 to 1.0 for the month ending January 31, 2004;

1.80 to 1.0 for the month ending February 29, 2004;

1.80 to 1.0 for the month ending March 31, 2004;

1.80 to 1.0 for the month ending April 30, 2004;

1.80 to 1.0 for the month ending May 31, 2004;

1.80 to 1.0 for the month ending June 30, 2004;

1.80 to 1.0 for the month ending July 31, 2004;

1.80 to 1.0 for the month ending August 31, 2004;

1.80 to 1.0 for the month ending September 30, 2004;

1.80 to 1.0 for the month ending October 31, 2004;

1.50 to 1.0 for the month ending November 30, 2004;

1.50 to 1.0 for the month ending December 31, 2004; and

1.50 to 1.0 for March 31, 2005 and each Fiscal Quarter ending thereafter."

5. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the satisfaction of each of the following conditions precedent in a manner acceptable to Agent:

5.1. Agent's receipt of counterparts of this Amendment, duly executed by the Borrower, each of the other Credit Parties, Agent and Lenders.

5.2. No Default or Event of Default shall have occurred and be continuing, other than the Event of Default waived in Section 2.1 of this Amendment.

5.3. After giving effect to this Amendment, each of the representations and warranties set forth in the Credit Agreement and the other Loan Documents is true and correct in all material respects.

5.4. Agent shall have received any and all such other certificates, instruments and documents as Agent or any Lender may request.

6. Reference to and Effect Upon the Credit Agreement and other Loan Agreements.

6.1. Except for the specific limited waiver provided for in Section 2.1, the specific consent provided for in Section 3 above and the specific amendments set forth in Section 4 above, the Credit Agreement, the Notes and each other Loan Document shall remain in full force and effect and each is hereby ratified and confirmed.

6.2. The execution, delivery and effect of this Amendment shall be limited precisely as written and shall not be deemed to (i) be a consent to any waiver of any term or condition (except for the specific consent in Section 3 above and the limited waiver in Section 2 above), or to any amendment or modification of any term or condition (except as specifically consented to, waived by or amended in Sections 3, 2 and 4, respectively, above), of the Credit Agreement or any other Loan Document or (ii) prejudice any right, power or remedy which the Agent or any Lender now has or may have in the future under or in connection with the Credit Agreement, the Notes or any other Loan Document.

6.3. Each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or any other word or words of similar import shall mean and be a reference to the Credit Agreement as modified hereby, and each reference in any other Loan Document to the Credit Agreement or any word or words of similar import shall be and mean a reference to the Credit Agreement as modified hereby.

6.4. Nothing contained herein nor in any other communication between or among Agent, any Lender, Borrower or any other Credit Party shall be deemed to constitute or be construed as (i) a waiver or release of any of Agent's or any Lender's rights or remedies against Borrower, any other Credit Party or any other party to the Loan Documents or pursuant to applicable law, (ii) a course of dealing obligating Agent or any Lender to provide any accommodations, financial or otherwise, to Borrower or any other Credit Party either now or at any future time or (iii) a commitment or any agreement to make a commitment with respect to any possible waiver or other modification of the terms provided in the Credit Agreement or any other Loan Document.

7. General Release. In consideration of, among other things, the accommodations set forth in this Amendment, the Borrower and each of the other Credit Parties hereby waives, releases, remises and forever discharges Agent, each Lender and each other Indemnitee from any and all actions, causes of action, suits or other claims of any kind or character, known or unknown, which any Credit Party ever had, now has or might hereafter have against Agent, any Lender or any other Indemnitee which relate, directly or indirectly, to any acts or omissions of Agent, any Lender or any other Indemnitee on or prior to the date hereof.

8. Acknowledgment and Consent of Credit Parties. Each Credit Party hereby consents to this Amendment and hereby confirms and agrees that (a) each of the Guaranties and each other Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, and (b) the Collateral Documents to which such Credit Party is a party and all of the Collateral described therein do, and shall continue to, secure the payment of all of the Obligations.

9. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be as effective as delivery of a manually executed counterpart signature page to this Amendment.

10. Costs and Expenses. As provided in the Credit Agreement, Borrower shall pay the fees, costs and expenses of Agent in connection with the preparation, execution and delivery of this Amendment (including, without limitation, attorneys' fees).

11. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO CONFLICTS OF LAW PROVISIONS) OF THE STATE OF NEW YORK.

12. Headings. Section 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.

[Signature Pages Follow]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the date first written above.

BORROWER:

COMFORT SYSTEMS USA, INC.

By:

Name:

Title:

LIMITED WAIVER: ISG CREDIT AGREEMENT

CREDIT PARTIES:

ACI MECHANICAL, INC.

ACI MECHANICAL USA, INC.

ARC COMFORT SYSTEMS USA, INC.

ACCURATE AIR SYSTEMS, L.P., by
Atlas-Accurate Holdings, L.L.C.,
as General Partner

ACCU-TEMP GP, INC.

ACCU-TEMP LP, INC.

ACCU-TEMP LLC,
by Accu-Temp GP, Inc., as acting member

AIR SOLUTIONS USA, INC.

AIR TEMP, INC.

ATLAS-ACCURATE HOLDINGS, L.L.C.,
by CS53 Acquisition Corp.,
as acting member

ATLAS AIR CONDITIONING
COMPANY, L.P., by Atlas-Accurate
Holdings, L.L.C., as general partner

BATCHELOR'S MECHANICAL CONTRACTORS, INC.

BCM CONTROLS CORPORATION

CALIFORNIA COMFORT SYSTEMS USA, INC.

CEL, INC.

CENTRAL MECHANICAL, INC.

CLIMATE CONTROL, INC.

LIMITED WAIVER: ISG CREDIT AGREEMENT

COMFORT SYSTEMS USA (ARKANSAS), INC.

COMFORT SYSTEMS USA (BALTIMORE), INC.

COMFORT SYSTEMS USA (BOWLING GREEN), INC.

COMFORT SYSTEMS USA (BRISTOL), INC.

COMFORT SYSTEMS USA (CLEVELAND), INC.

COMFORT SYSTEMS USA (FLORIDA), INC.

COMFORT SYSTEMS USA G.P., INC.

COMFORT SYSTEMS US (HARTFORD), INC.

COMFORT SYSTEMS USA (INTERMOUNTAIN), INC.

COMFORT SYSTEMS USA (SYRACUSE), INC.

COMFORT SYSTEMS USA (TEXAS), L.P.,
by Comfort Systems USA G.P., Inc.,
as general partner

COMFORT SYSTEMS USA (TWIN CITIES), INC.

COMFORT SYSTEMS USA (WESTERN MICHIGAN), INC.

CS44 ACQUISITION CORP.

CS53 ACQUISITION CORP.

DESIGN MECHANICAL INCORPORATED

EASTERN HEATING & COOLING, INC.

ESS ENGINEERING, INC.

GULFSIDE MECHANICAL, INC.

H & M MECHANICAL, INC.

HELM CORPORATION

HESS MECHANICAL CORPORATION

INDUSTRIAL COOLING INC.

J & J MECHANICAL, INC.

JAMES AIR CONDITIONING ENTERPRISE INC.

MARTIN HEATING, INC.

MECHANICAL SERVICE GROUP, INC.

MECHANICAL TECHNICAL
SERVICES, L.P., by Atlas-Accurate
Holdings, L.L.C., as general partner

MJ MECHANICAL SERVICES, INC.

NEEL MECHANICAL CONTRACTORS, INC.

NORTH AMERICAN MECHANICAL, INC.

QUALITY AIR HEATING & COOLING, INC.

S&K AIR CONDITIONING CO., INC.

S. I. GOLDMAN COMPANY, INC.

S.M. LAWRENCE COMPANY, INC.

SA ASSOCIATES, INC.

SEASONAIR, INC.

SHEREN PLUMBING & HEATING, INC.

STANDARD HEATING & AIR CONDITIONING COMPANY

TARGET CONSTRUCTION, INC.

TEMP-RIGHT SERVICE, INC.

THE CAPITAL REFRIGERATION COMPANY

TRI-CITY MECHANICAL, INC.

UNITED ENVIRONMENTAL
SERVICES, L.P., by Atlas-Accurate Holdings, L.L.C.,
as general partner

WESTERN BUILDING SERVICES, INC.

By: --

Name: --

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

LIMITED WAIVER: ISG CREDIT AGREEMENT

GENERAL ELECTRIC CAPITAL CORPORATION,
as Agent and a Lender

By:

Its Duly Authorized Signatory

LIMITED WAIVER: ISG CREDIT AGREEMENT

BANK OF TEXAS, NA, as a Lender

By:

Name:

Title:

LIMITED WAIVER: ISG CREDIT AGREEMENT

EXHIBIT 31.1

CERTIFICATION

I, William F. Murdy, Chairman of the Board and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comfort Systems USA, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report; and

c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ William F. Murdy

William F. Murdy
Chairman of the Board and
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, J. Gordon Beittenmiller, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comfort Systems USA, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report; and

c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ J. Gordon Beittenmiller

J. Gordon Beittenmiller
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ending September 30, 2003 of Comfort Systems USA, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William F. Murdy, Chairman of the Board and Chief Executive Officer of the Company, certify that, to my knowledge, (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William F. Murdy

William F. Murdy
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

November 12, 2003

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ending September 30, 2003 of Comfort Systems USA, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Gordon Beittenmiller, Vice President and Chief Financial Officer of the Company, certify that, to my knowledge, (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ J. Gordon Beittenmiller

J. Gordon Beittenmiller
Vice President and
Chief Financial Officer
(Principal Financial Officer)

November 12, 2003