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 MARCH 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM _________________ TO _______________

COMMISSION FILE NUMBER: 1-13011

COMFORT SYSTEMS USA, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	76-0526487
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

777 POST OAK BOULEVARD
SUITE 500
HOUSTON, TEXAS 77056
(Address of Principal Executive Offices) (Zip Code)

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

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

The number of shares outstanding of the issuer's common stock, as of May 14, 2002 was 37,845,302.

COMFORT SYSTEMS USA, INC.
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2002

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

	DECEMBER 31, 2001	MARCH 31, 2002 (UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,040	$ 9,855
Accounts receivable, less allowance of $9,633 and $9,381	175,754	160,701
Other receivables	5,572	15,582
Inventories	14,697	13,997
Prepaid expenses and other	13,176	12,490
Costs and estimated earnings in excess of billings	19,662	20,551
Assets related to discontinued operations	324,143	1,586
Total current assets	557,044	234,762
PROPERTY AND EQUIPMENT, net	18,964	18,944
GOODWILL	299,292	113,427
OTHER NONCURRENT ASSETS	1,325	14,238
Total assets	$ 876,625	$ 381,371
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 73	$ 31,784
Current maturities of notes to affiliates and former owners	3,324	1,153
Accounts payable	57,652	56,312
Accrued compensation and benefits	23,701	17,689
Billings in excess of costs and estimated earnings	26,773	23,108
Income taxes payable	5,606	12,758
Other current liabilities	23,496	25,514
Liabilities related to discontinued operations	139,405	333
Total current liabilities	280,030	168,651
LONG-TERM DEBT, NET OF CURRENT MATURITIES	164,012	424
NOTES TO AFFILIATES AND FORMER OWNERS, NET OF CURRENT MATURITIES	15,569	15,468
OTHER LONG-TERM LIABILITIES	3,193	270
Total liabilities	462,804	184,813
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par, 5,000,000 shares authorized, none issued and outstanding	--	--
Common stock, $.01 par, 102,969,912 shares authorized, 39,258,913 shares issued	393	393
Treasury stock, at cost, 1,749,334 and 1,535,545 shares, respectively	(10,924)	(9,516)
Additional paid-in capital	340,186	339,595
Deferred compensation	--	(826)
Retained earnings (deficit)	84,166	(133,088)
Total stockholders' equity	413,821	196,558
Total liabilities and stockholders' equity	$ 876,625	$ 381,371

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

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

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2002
REVENUES	$ 204,330	$ 190,649
COST OF SERVICES	167,791	160,089
Gross profit	36,539	30,560
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	35,471	32,595
GOODWILL AMORTIZATION	2,072	--
RESTRUCTURING CHARGES	238	1,878
Operating loss	(1,242)	(3,913)
OTHER INCOME (EXPENSE):		
Interest income	36	30
Interest expense	(2,437)	(1,899)
Other	85	310
Other income (expense)	(2,316)	(1,559)
LOSS BEFORE INCOME TAXES	(3,558)	(5,472)
INCOME TAX BENEFIT	(1,296)	(1,519)
LOSS FROM CONTINUING OPERATIONS	(2,262)	(3,953)
DISCONTINUED OPERATIONS:		
Operating income, net of applicable income tax benefit (expense) of $(2,299) and $1,781	3,362	207
Estimated loss on disposition, including income tax expense of $25,978	--	(10,987)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,100	(14,733)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAX BENEFIT OF $26,317	--	(202,521)
NET INCOME (LOSS)	$ 1,100	$ (217,254)
INCOME (LOSS) PER SHARE:		
Basic -		
Loss from continuing operations	$ (0.06)	$ (0.11)
Discontinued operations -		
Income from operations	0.09	0.01
Estimated loss on disposition	--	(0.29)
Cumulative effect of change in accounting principle	--	(5.40)
Net income (loss)	$ 0.03	$ (5.79)

(CONTINUED ON FOLLOWING PAGE)

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

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2002
Diluted -		
Loss from continuing operations	$ (0.06)	$ (0.11)
Discontinued operations -		
Income from operations	0.09	0.01
Estimated loss on disposition	--	(0.29)
Cumulative effect of change in accounting principle	--	(5.40)
Net income (loss)	$ 0.03	$ (5.79)
SHARES USED IN COMPUTING INCOME (LOSS) PER SHARE:		
Basic	37,385	37,531
Diluted	37,386	37,531

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

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

Common Stock
Treasury Stock
Additional Retained
Total --------------
----- --------------
-------- Paid-In
Deferred Earnings
Stockholders' Shares
Amount Shares Amount
Capital Compensation
(Deficit) Equity ---
-------- ------ ----
------- ---------- -
--------- ----------
--- ---------- -----
------- BALANCE AT
DECEMBER 31, 2000 ..
39,258,913 $ 393
(2,002,629)
$(13,119) $ 341,923
$ -- $ 71,042 $
400,239 Issuance of
Treasury Stock:
Issuance of Employee
Stock Purchase Plan
shares
.... -- --
398,287 2,570
(1,737) -- -- 833
Shares received from
sale of businesses
.... -- --
(144,992) (375) -- -
- -- (375) Net
income
.... --
-- -- -- -- --
13,124 13,124 ------
---- ----- ---------
-- -------- --------
- ------ --------- -
-------- 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
(unaudited)
.... -- --
53,562 332 (178) --
-- 154 Issuance of
restricted stock
(unaudited).........
-- -- 200,000 1,239
(413) (826) -- --
Shares exchanged in
repayment of notes
receivable
(unaudited)...... --
-- (39,773) (163) --
-- -- (163) Net loss
(unaudited) ....
-- -- -- -- -- --
(217,254) (217,254)
--------- ----- ---
-------- -------- --
------ ------ ------
---- ---------
BALANCE AT MARCH 31,
2002 (unaudited)
....
39,258,913 $ 393
(1,535,545) $

(9,516) $ 339,595 $
(826) $ (133,088) $
196,558 ==========
===== ===========
======== =========
====== ==========
=========

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

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

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,100	$ (217,254)
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	--	10,987
Restructuring charges	238	1,878
Depreciation and amortization expense	5,969	2,188
Bad debt expense	1,217	2,488
Deferred tax expense (benefit)	95	(467)
Gain on sale of property and equipment	(75)	(110)
Changes in operating assets and liabilities -		
(Increase) decrease in -		
Receivables, net	14,496	22,480
Inventories	36	768
Prepaid expenses and other current assets	(1,522)	774
Costs and estimated earnings in excess of billings	117	(3,144)
Other noncurrent assets	(1,436)	486
Increase (decrease) in -		
Accounts payable and accrued liabilities	(16,036)	(30,240)
Billings in excess of costs and estimated earnings	2,634	(2,628)
Other, net	3	11
Net cash provided by (used in) operating activities	6,836	(9,262)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,589)	(2,134)
Proceeds from sales of property and equipment	309	171
Proceeds from businesses sold, net of cash sold and transaction costs	895	144,462
Net cash provided by (used in) investing activities	(385)	142,499
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(59,537)	(195,205)
Borrowings of long-term debt	58,309	61,044
Proceeds from issuance of common stock	566	--
Proceeds from exercise of options	--	154
Net cash used in financing activities	(662)	(134,007)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,789	(770)
CASH AND CASH EQUIVALENTS, beginning of period - continuing operations and discontinued operations	16,021	10,625
CASH AND CASH EQUIVALENTS, end of period	$ 21,810	$ 9,855

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

1. BUSINESS AND ORGANIZATION:

Comfort Systems USA, Inc., a Delaware corporation ("Comfort Systems" and collectively with its subsidiaries, the "Company"), is a national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. The Company operates primarily in the commercial and industrial 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 services such as electrical and plumbing. Approximately 56% of the Company's consolidated 2002 revenues were attributable to installation services, with the remaining 44% attributable to maintenance, repair and replacement services. The Company's consolidated 2002 revenues related to the following service activities: HVAC - 72%, plumbing - 12%, electrical - 2%, building automation control systems - 6%, fire protection - 1% and other - 7%. 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, 2001 (the "Form 10-K").

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" which is discussed in Note 4 and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is discussed in Note 3 during the first quarter of 2002. There were no other significant changes in the accounting policies of the Company during the 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 information or footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Form 10-K. The Company believes all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results for the fiscal year.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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 the three months ended March 31, 2001 and 2002 was approximately $5.5 million and $2.5 million, respectively. Cash paid for income taxes for the three months ended March 31, 2001 and 2002 was approximately $0.7 million and $6.5 million, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 establishes new accounting and reporting requirements for goodwill and other intangibles. The Company adopted this new standard effective January 1, 2002. See Note 4 for further discussion.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Company adopted SFAS No. 144 effective January 1, 2002. Under SFAS No. 144, the operating results of companies sold or held for sale meeting certain criteria as well as any gain or loss on the sale of these operations are presented as discontinued operations in the Company's statements of operations. See Note 3 for a discussion of the Company's discontinued operations. The operating results for companies which were sold or shut down during 2001 are presented as continuing operations through the date of disposition. The adoption of SFAS No. 144 did affect the presentation of discontinued operations in the consolidated financial statements; however, it did not have a material financial impact on the Company's results of operations, financial position or cash flows.

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.

RECLASSIFICATIONS

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

3. DISCONTINUED OPERATIONS:

On February 11, 2002, the Company entered into an agreement with Emcor Group, Inc. ("Emcor") to sell 19 operations. This transaction closed on March 1, 2002. Under the terms of the agreement, the total purchase price was approximately $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. Of the purchase price, $7.5 million was deposited into an escrow account to secure contractual indemnification obligations and the settlement of a post-closing balance sheet adjustment. The net cash proceeds of approximately $155 million through March 31, 2002 were used to reduce the amount outstanding on the Company's credit facility. An estimated tax liability of $16 million related to this transaction was recorded at March 31, 2002 and will be paid within the next twelve months.

Based on continuing discussions with Emcor, the Company recorded a receivable as of March 31, 2002 of $9.5 million from Emcor comprised of $7.0 million in connection with a post-closing balance sheet adjustment, and $2.5 million for the expected release of a related escrow. These amounts have been included in the loss on the sale of operations to Emcor reflected under discontinued operations in the Company's statement of operations. The remaining escrow funds of $5.0 million represent a contingent asset of the Company and due to the uncertainty of the collection of these monies, the Company has not recognized a receivable associated with these escrow amounts. If the Company receives any funds related to these escrows, a corresponding gain will be recorded as a component of discontinued operations in future reporting periods.

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 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 a loss of $10.6 million including related tax expense related to 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 taxes, as of January 1, 2002. The reporting of the Company's aggregate goodwill impairment charge in connection with adopting SFAS No. 142 is discussed further in Note 4.

In March 2002, the Company also decided to divest of an additional operating company. This unit's operating results in the first quarter of $(0.1) million, net of taxes, have been reported in discontinued operations under "Operating income, net of applicable income taxes" in the Company's statement of operations. In addition, an estimate of the loss the Company will realize upon divestiture of this operation of $0.6 million has been included in "Estimated loss on disposition, including income tax expense" in the Company's statement of operations.

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

	DECEMBER 31, 2001	MARCH 31, 2002
Accounts receivable, net	$ 140,042	$ 814
Other current assets	29,937	637
Property and equipment, net	13,816	135
Goodwill, net	139,156	--
Other noncurrent assets	1,192	--
Total assets	$ 324,143	$ 1,586
Current maturities of debt and notes	$ 312	$ --
Accounts payable	43,914	302
Other current liabilities	68,448	31
Long-term debt and notes	21,842	--
Other long-term liabilities	4,889	--
Total liabilities	$ 139,405	$ 333

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

	THREE MONTHS ENDED FEBRUARY 28, 2001	TWO MONTHS ENDED MARCH 31, 2002
Revenues	$ 163,798	$ 95,194
Pre-tax income (loss)	$ 5,661	$ (1,574)

4. GOODWILL:

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." 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 financial position.

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 taxes. 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 three months ended March 31, 2002 are as follows (in thousands):

Goodwill balance as of January 1, 2002 (a)..........	$ 438,448
Impairment adjustment..............................	(228,838)
Goodwill related to sale of operations.............	(96,183)
Goodwill balance as of March 31, 2002..............	$ 113,427

(a) A portion of this goodwill balance is included in net assets related to discontinued operations in the Company's consolidated balance sheet.

The unaudited results of operations presented below for the three months ended March 31, 2001 and 2002 reflect the adoption of the non-amortization provisions of SFAS No. 142 effective January 1, 2001 and exclude the impact of the cumulative effect of change in accounting principle recorded in the first quarter of 2002. Therefore, the component of the cumulative effect of change in accounting principle related to the operations sold to Emcor is included in the estimated loss on disposition for purposes of this table.

THREE MONTHS ENDED MARCH 31,	2001	2002
	(in thousands)	
Loss from continuing operations	$ (2,262)	$ (3,953)
Add: Goodwill amortization, net of tax	1,906	--
Adjusted loss from continuing operations	(356)	(3,953)
Discontinued operations - Operating income, net of tax	3,362	207
Add: Goodwill amortization, including tax	743	--
Adjusted operating income, net of tax	4,105	207
Estimated loss on disposition, including tax	--	(43,359)
Adjusted net income (loss)	$ 3,749	$ (47,105)
Adjusted income (loss) per share:		
Basic - Loss from continuing operations	$ (0.01)	$ (0.11)
Discontinued operations - Income from operations	0.11	0.01
Estimated loss on disposition	--	(1.16)
Net income (loss)	$ 0.10	$ (1.26)
Diluted - Loss from continuing operations	$ (0.01)	$ (0.11)
Discontinued operations - Income from operations	0.11	0.01
Estimated loss on disposition	--	(1.16)
Net income (loss)	$ 0.10	$ (1.26)

5. RESTRUCTURING CHARGES:

During the first quarter of 2002, the Company recorded restructuring charges of approximately $1.9 million primarily due to severance costs associated with the reduction in corporate overhead in light of the Company's smaller size following the Emcor transaction. In addition, the Company incurred costs associated with decisions to merge or close three smaller divisions of certain of the Company's operating locations. These restructuring charges are primarily cash obligations but did include approximately $0.3 million of non-cash writedowns associated with long-lived assets. Severance costs of $0.8 million are included in restructuring charges and relate to the termination of 33 employees all of whom were terminated as of March 31, 2002.

During the first quarter of 2001, the Company recorded restructuring charges of approximately $0.2 million, primarily related to contractual severance obligations of two operating presidents in connection with the Company's significant restructuring program in the second half of 2000. These restructuring charges are net of a gain of approximately $0.1 million related to management's decision to sell a small operation during the first quarter of 2001.

During the second half of 2000, the Company recorded restructuring charges of approximately $25.3 million primarily associated with restructuring efforts at certain underperforming operations. Management performed an extensive review of its operations during the second half of 2000 and as part of this review management decided to cease operating at three locations, sell four operations (including two smaller satellite operations), and merge two companies into other operations. The restructuring charges were primarily non-cash and included goodwill impairments of approximately $11.5 million and the writedown of other long-lived assets of approximately $8.5 million. The remaining restructuring items primarily include severance and lease termination costs.

Aggregated financial information for 2001 related to the operations addressed by the 2000 and 2001 restructuring charges is as follows (in thousands):

	THREE MONTHS ENDED MARCH 31, 2001
Revenues	$ 2,821
Operating loss	$ (1,372)

The following table shows the remaining liabilities associated with the cash portion of the restructuring charges as of March 31, 2002 (in thousands):

	BALANCE AT JANUARY 1, 2002	ADDITIONS	PAYMENTS	BALANCE AT MARCH 31, 2002
Severance	$ 210	$ 846	$ (348)	$ 708
Lease termination costs and other	1,148	704	(520)	1,332
Total	$ 1,358	$ 1,550	$ (868)	$ 2,040

6. LONG-TERM DEBT OBLIGATIONS:

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

	DECEMBER 31, 2001	MARCH 31, 2002
		(UNAUDITED)
Revolving credit facility	$ 163,700	$ 31,700
Notes to affiliates and former owners	18,893	16,621
Other	385	508
Total debt	182,978	48,829
Less: current maturities	3,397	32,937
	$ 179,581	$ 15,892

REVOLVING CREDIT FACILITY

The Company's principal debt financing is a revolving credit facility (the "Credit Facility" or the "Facility") provided by Bank One, Texas, N.A. ("Bank One") and other banks (including Bank One, the "Bank Group"). In connection with the Company's sale of operations to Emcor as discussed in Note 3, the Company agreed in February 2002 to pay down debt under the Facility by at least $130 million, and to reduce the size of the Facility to the lesser of $100 million or 80% of accounts receivable, net of reserves ("Net Receivables"). Borrowings under the Facility are secured by accounts receivable, inventory, fixed assets other than real estate, and the shares of capital stock of the Company's subsidiaries. The Credit Facility expires on January 1, 2003, at which time all amounts outstanding are due.

The Company has a choice of two interest rate options under the Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus 0.5% or Bank One's prime rate. An additional margin of 1% to 2% is then added to the higher of these two rates. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate London Interbank Offered Rates or "LIBOR") plus 2.5% to 3.5%. The additional margin for both options depends on the ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined. Commitment fees of 0.375% to 0.5% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the Facility.

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

In the fourth quarter of 2001, the Company estimated and recorded an allowance of $3.5 million against its receivables with the Kmart Corporation based on Kmart's bankruptcy filing in January 2002. Including this reserve, the Company's fourth quarter 2001 EBITDA did not meet the Facility's minimum EBITDA covenant. The Bank Group agreed to exclude the Kmart reserve from covenant calculations. In addition, the Company's first quarter 2002 EBITDA did not meet the Facility's minimum EBITDA covenant. The Bank Group waived that covenant violation. As a result, the Company has no unresolved covenant violations under the Facility.

As a result of its substantial reduction in debt following the Emcor transaction, the Company currently complies with the Facility's debt to EBITDA and EBITDA to interest expense covenants by comfortable margins. The Bank Group agreed to adjust the Facility's minimum EBITDA covenants to reflect the Company's reduced size following the Emcor transaction. While the Bank Group waived the Company's first quarter 2002 minimum EBITDA covenant violation, and while the Company expects to be in compliance with the Facility's EBITDA requirements for future periods, the minimum EBITDA covenant allows less room for variance than the Facility's other financial covenants. If the Company violates this or any other covenant in the future, it may have to negotiate new borrowing terms under the Facility. While the Company believes that its improved creditworthiness following the Emcor transaction would result in a successful negotiation of new terms if necessary, there can be no assurance that it could obtain terms acceptable to the Company. In view of these restrictions, the Facility's January 2003 maturity, and the Company's improved creditworthiness, the Company is continuing to evaluate its potential for more flexible borrowing arrangements.

As of March 31, 2002, the Company had $31.7 million in borrowings and $1.7 million in letters of credit outstanding under the Credit Facility. The Company's unused borrowing capacity under the Facility, as measured by the most restrictive covenant in the Facility, was $35.4 million as of March 31, 2002. The Facility's interest rate terms as summarized above currently result in an all-in floating interest rate under the Facility of approximately 8.0%. As of May 14, 2002, $31.5 million in borrowings and $1.7 million in letters of credit were outstanding under the Facility, and $35.6 million in unused capacity was available as measured by the Facility's most restrictive covenant.

NOTES TO AFFILIATES AND FORMER OWNERS

Subordinated notes were issued to former owners of certain purchased companies as part of the consideration used to acquire their companies. These notes had an outstanding balance of $16.6 million as of March 31,2002, and bear interest, payable quarterly, at a weighted average interest rate of 9.73%. As of May 14, 2002, there had been no change in the outstanding balance of these notes. Remaining maturities on this debt are $1.1 million in 2002 and $15.5 million in 2003. Substantially all of this debt's 2003 maturities fall in April 2003.

OTHER LONG-TERM OBLIGATION DISCLOSURES

As of March 31, 2002, the Company had total debt outstanding of $48.8 million. As of May 14, 2002, the Company had total debt outstanding of approximately $48.6 million. Following disposition in the second quarter of Emcor-transaction-related items including post-closing adjustments, transaction costs and taxes, the Company expects total debt outstanding at the end of the second quarter to be between $50 million and $60 million. Most of this expected debt balance will be due in January 2003, with substantially the remainder due in April 2003. While the Company expects to generate positive free cash flow and reduce these debt balances over upcoming quarters, it is expected that a significant portion of these expected debt balances will need to be refinanced during the current year. The Company believes that its significantly improved financial position following the Emcor transaction will enable it to refinance this debt, but there can be no assurance that the Company will be able to secure new financing when needed or on terms the Company deems acceptable.

As noted above, the Company has agreed to relatively tight restrictions under the Credit Facility. If the Company violates any of these restrictions, it will be required to negotiate new terms with its banks. There can be no assurance that in that event, the Company will receive satisfactory new terms from its banks, or that if the Company needs additional financing, that such financing can be secured when needed or on terms the Company deems acceptable.

7. COMMITMENTS AND CONTINGENCIES:

CLAIMS AND LAWSUITS

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

SELF-INSURANCE

The Company retains the risk for worker's compensation, employer's liability, auto liability, general liability and employee group health claims resulting from uninsured deductibles per accident or occurrence. Losses up to the deductible amounts are estimated and accrued based upon the Company's known claims incurred and an estimate of claims incurred but not reported. The accruals are based upon known facts and historical trends, and management believes such accruals to be adequate. A wholly owned insurance company subsidiary reinsures a portion of the risk associated with surety bonds issued by a third party insurance company. Because no claims have been made against these financial instruments in the past, management does not expect that these instruments will have a material effect on the Company's consolidated financial statements.

8. STOCKHOLDERS' EQUITY:

TREASURY STOCK

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 are subject to forfeiture if the Company does not meet certain performance measures for the twelve month period ending March 31, 2003 or if the executive leaves voluntarily or is terminated for cause. Such forfeiture provisions lapse upon achievement of the performance measure and pro rata over a four year period. Compensation under the plan will be charged to earnings over the four year period. The initial value of the award was established based on the market price on the date of grant. The employee is responsible for the income tax liability related to the award. The unearned compensation is shown as a reduction of stockholders' equity in the accompanying consolidated balance sheet and is being amortized based upon the market value of the stock until the performance measures are achieved, and is expected to be determined and amortized ratably over the remainder of the restricted period.

RESTRICTED COMMON STOCK

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

Each share of Restricted Voting Common Stock will automatically convert to Common Stock on a share-for-share basis (i) in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a distribution which is a distribution by a holder to its partners or beneficial owners, or a transfer to a related party of such holders (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)), (ii) in the event any person acquires beneficial ownership of 15% or more of the total number of outstanding shares of Common Stock of the Company, or (iii) in the event any person offers to acquire 15% or more of the total number of outstanding shares of Common Stock of the Company. After July 1, 1998, the Board of Directors may elect to convert any remaining shares of Restricted Voting Common Stock into shares of Common Stock in the event 80% or more of the originally outstanding shares of Restricted Voting Common Stock have been previously converted into shares of Common Stock. As of March 31, 2002, there are 1,196,112 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 and convertible subordinated notes. Options to purchase 6.3 million shares of Common Stock at prices ranging from $2.14 to $21.44 per share were outstanding for the three months ended March 31, 2002, but were not included in the computation of diluted EPS because the options had an anti-dilutive effect since the Company reported a net loss during the period. Options to purchase 7.3 million shares of Common Stock at prices ranging from $2.43 to $21.44 per share were outstanding for the three months ended March 31, 2001, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the stock. Diluted EPS is also computed by adjusting both net earnings and shares outstanding as if the conversion of the convertible subordinated notes occurred on the first day of the year. The convertible subordinated notes had an anti-dilutive effect during the three months ended March 31, 2001 and 2002, and therefore, are not included in the diluted EPS calculations.

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 MARCH 31,	
	2001	2002
Common shares outstanding, end of period	37,381	37,723
Effect of using weighted average common shares outstanding	4	(192)
Shares used in computing earnings per share - basic	37,385	37,531
Effect of shares issuable under stock option plans based on the treasury stock method	1	-
Shares used in computing earnings per share - diluted	37,386	37,531

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

INTRODUCTION

The following discussion should be read in conjunction with the historical Consolidated Financial Statements of Comfort Systems USA, Inc. ("Comfort Systems" and collectively with its subsidiaries, the "Company") and related notes thereto included elsewhere in this Form 10-Q and the Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2001 (the "Form 10-K"). This discussion contains forward-looking statements regarding the business and industry of Comfort Systems within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current plans and expectations of the Company and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual results to differ include risks set forth in "Factors Which May Affect Future Results," included in the Form 10-K.

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 and industrial 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 services such as electrical and plumbing. Approximately 56% of the Company's consolidated 2002 revenues were attributable to installation services, with the remaining 44% attributable to maintenance, repair and replacement services. The Company's consolidated 2002 revenues related to the following service activities: HVAC - 72%, plumbing - 12%, electrical - 2%, building automation control systems - 6%, fire protection - 1% and other - 7%. These service activities are within the mechanical services industry which is the single industry segment served by Comfort Systems.

In response to the Securities and Exchange Commission's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Company identified its critical accounting policies based upon the significance of the accounting policy to the Company's overall financial statement presentation, as well as the complexity of the accounting policy and its use of estimates and subjective assessments. The Company concluded that its critical accounting policy is its revenue recognition policy. This accounting policy, as well as others, are described in Note 2 to the Consolidated Financial Statements included in the Form 10-K.

The Company enters into construction contracts with general contractors or end-use customers based upon negotiated contracts and competitive bids. As part of the negotiation and bidding processes, the Company estimates its 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. Revenues from construction contracts are recognized on the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Under this method, the amount of total contract revenue recognizable at any given time during a contract is determined by multiplying total contract revenue by the percentage of contract costs incurred at any given time to total estimated contract costs. Accordingly, contract revenues recognized in the statements of operations can and usually do differ from amounts that can be billed or invoiced to the customer at any given point during the contract.

Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to estimated costs and, therefore, revenues. Such revisions are frequently based on estimates and subjective assessments. The effects of these revisions are recognized in the period in which the revisions are determined. When such revisions lead to a conclusion that a loss will be recognized on a contract, the full amount of the estimated ultimate loss is recognized in the period such a conclusion is reached, regardless of what stage of completion the contract has reached. Depending on the size of a particular project, variations from estimated project costs could have a significant impact on the Company's operating results.

Revenues associated with maintenance, repair and monitoring services and related contracts are recognized as services are performed.

Approximately 56% of the Company's consolidated 2002 revenues were attributable to installation of systems in newly constructed buildings. As a result, if general economic activity in the U.S. slows significantly from current levels, and leads to a corresponding decrease in new nonresidential building construction, the Company's operating results could suffer.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under this new standard, which is discussed in "Results of Operations" and "New Accounting Pronouncements" below, 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 assessments. Additionally, amortization of goodwill has been discontinued in 2002 operating results as a result of this standard.

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Under this new standard, the operating results of companies which were sold or held for sale as of March 31, 2002, have been reported as discontinued operations in the accompanying consolidated statements of operations. However, the operating results for companies which were sold or shut down during 2001 are presented as continuing operations through the date of disposition.

RESULTS OF OPERATIONS (IN THOUSANDS):

	THREE MONTHS ENDED MARCH 31,			
	2001		2002	
Revenues	$204,330	100.0%	$ 190,649	100.0%
Cost of services	167,791	82.1%	160,089	84.0%
Gross profit	36,539	17.9%	30,560	16.0%
Selling, general and administrative expenses	35,471	17.4%	32,595	17.1%
Goodwill amortization	2,072	1.0%	--	--
Restructuring charges	238	0.1%	1,878	1.0%
Operating loss	(1,242)	(0.6)%	(3,913)	(2.1)%
Other expense, net	(2,316)	(1.1)%	(1,559)	(0.8)%
Loss before income taxes	(3,558)	(1.7)%	(5,472)	(2.9)%
Income tax benefit	(1,296)		(1,519)	
Loss from continuing operations	(2,262)	(1.1)%	(3,953)	(2.1)%
Discontinued operations -				
Operating results, net of tax	3,362		207	
Estimated loss on disposition, net of tax	--		(10,987)	
Cumulative effect of change in accounting principle, net of tax	--		(202,521)	
Net income (loss)	$ 1,100		$(217,254)	

Revenues - Revenues decreased $13.7 million, or 6.7%, to $190.6 million for the first quarter of 2002 compared to the same period in 2001. The 6.7% decline in revenue for the quarter was comprised of a 5.3% decline in revenues at ongoing operations and a 1.4% decline in revenues related to operations that were sold or shut down during 2001.

The Company's decline in revenues at ongoing operations for the first quarter of 2002 was primarily due to the lagged effect of the general economic slowdown that began last year which slowed decisions to proceed on both new and retrofit projects. The Company's decline in revenue is also consistent with management's decreased emphasis on revenue growth in favor of improvement in profit margins, operating efficiency, and cash flow. In view of these factors, the Company may continue to experience only modest revenue growth or revenue declines in upcoming periods. There can be no assurance, however, that this strategy will lead to improved profit margins in the near term. In addition, if general economic activity in the U.S. slows significantly from current levels, the Company may realize further decreases in revenue and lower operating margins.

The Company's backlog at continuing operations as of March 31, 2002 was $449 million, a 7% increase as compared to December 31, 2001 backlog of $419 million and a 4% increase over March 31, 2001 backlog of $431 million. The Company believes this backlog information indicates generally improving near-term business conditions.

Gross Profit - Gross profit decreased $6.0 million, or 16.4%, to $30.6 million for the first quarter of 2002 compared to the same period in 2001. As a percentage of revenues, gross profit decreased from 17.9% for the three months ended March 31, 2001 to 16.0% for the three months ended March 31, 2002.

The decline in gross profit was primarily due to project delays, primarily driven by market conditions, at a number of the Company's operations. In addition, the Company recorded increased reserves at one of its operating locations in the West as a result of execution shortfalls on certain of its projects that are nearing completion.

Selling, General and Administrative Expenses ("SG&A") - SG&A decreased $2.9 million, or 8.1%, to $32.6 million for the first quarter of 2002 compared to the same period in 2001. As a percentage of revenues, SG&A decreased from 17.4% for the three months ended March 31, 2001 to 17.1% for the three months ended March 31, 2002. The decrease in SG&A is primarily due to a concerted effort to reduce SG&A throughout the Company.

SG&A as a percentage of revenues is higher than historical levels because the financial statements do not allocate any corporate overhead to the discontinued operations. As a result, SG&A for continuing operations reflects substantially the full amount of corporate office overhead that was in place to support the Company's operations prior to its sale of 19 units to Emcor as discussed further below under "Discontinued Operations." In response to the smaller size of the Company following the Emcor transaction, the Company reduced corporate overhead at the end of the first quarter of 2002. The cost of this workforce reduction is included in restructuring charges recorded in March 2002. The Company will begin to realize lower corporate overhead costs during the second quarter of 2002 as a result of these steps.

Goodwill Amortization - Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." This pronouncement discontinued goodwill amortization. See "Cumulative Effect of Change in Accounting Principle" for further discussion.

Restructuring Charges - During the first quarter of 2002, the Company recorded restructuring charges of approximately $1.9 million primarily due to severance costs associated with the reduction in corporate overhead in light of the Company's smaller size following the Emcor transaction. In addition, the Company incurred costs associated with decisions to merge or close three smaller divisions of certain of the Company's operating locations. These restructuring charges are primarily cash obligations but did include approximately $0.3 million of non-cash writedowns associated with long-lived assets. Severance costs of $0.8 million are included in restructuring charges and relate to the termination of 33 employees all of whom were terminated as of March 31, 2002.

During the first quarter of 2001, the Company recorded restructuring charges of approximately $0.2 million, primarily related to contractual severance obligations of two operating presidents in connection with the Company's significant restructuring program in the second half of 2000. These restructuring charges are net of a gain of approximately $0.1 million related to management's decision to sell a small operation during the first quarter of 2001.

Other Expense, Net - Other expense, net, primarily includes interest expense and decreased $0.8 million, or 32.7%, to $1.6 million for the first quarter of 2002. A portion of the Company's actual interest expense in both periods has been allocated to the discontinued operations caption based upon the Company's 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, 2001 and 2002 was $3.8 million and $1.5 million, respectively. 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 the Company's borrowing capacity following the Emcor transaction, as discussed further below under "Liquidity and Capital Resources."

Income Tax Benefit - The Company's effective tax rates associated with its loss from continuing operations for the three months ended March 31, 2001 and 2002 were 36.4% and 27.8%, respectively. As a result of the discontinuation of goodwill amortization as a result of the adoption of SFAS No. 142

effective January 1, 2002, there is no longer a permanent difference related to the non-deductible goodwill amortization in the 2002 effective tax rate.

Discontinued Operations - On February 11, 2002, the Company entered into an agreement with Emcor Group, Inc. ("Emcor") to sell 19 operations. This transaction closed on March 1, 2002. Under the terms of the agreement, the total purchase price was approximately $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. Of the purchase price, $7.5 million was deposited into an escrow account to secure contractual indemnification obligations and the settlement of a post-closing balance sheet adjustment. The net cash proceeds of approximately $155 million through March 31, 2002 were used to reduce the amount outstanding on the Company's credit facility. An estimated tax liability of $16 million related to this transaction was recorded at March 31, 2002 and will be paid within the next twelve months.

Based on continuing discussions with Emcor, the Company recorded a receivable as of March 31, 2002 of $9.5 million from Emcor comprised of $7.0 million in connection with a post-closing balance sheet adjustment, and $2.5 million for the expected release of a related escrow. These amounts have been included in the loss on the sale of operations to Emcor reflected under discontinued operations in the Company's statement of operations. The remaining escrow funds of $5.0 million represent a contingent asset of the Company and due to the uncertainty of the collection of these monies, the Company has not recognized a receivable associated with these escrow amounts. If the Company receives any funds related to these escrows, a corresponding gain will be recorded as a component of discontinued operations in future reporting periods.

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 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 a loss of $10.6 million including related tax expense related to 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 taxes, as of January 1, 2002. The reporting of the Company's aggregate 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, the Company also decided to divest of an additional operating company. This unit's operating results in the first quarter of $(0.1) million, net of taxes, have been reported in discontinued operations under "Operating income, net of applicable income taxes" in the Company's statement of operations. In addition, an estimate of the loss the Company will realize upon divestiture of this operation of $0.6 million has been included in "Estimated loss on disposition, including income tax expense" in the Company's statement of operations.

Cumulative Effect of Change in Accounting Principle - Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." 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 financial position.

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 taxes. Impairment charges recognized after the initial adoption, if any, generally are to be reported as a component of operating income.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow - Cash provided by operating activities less customary capital expenditures plus the proceeds from asset sales is generally called free cash flow and, if positive, 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.

For the three months ended March 31, 2002, the Company had negative free cash flow of $11.2 million, a decrease of $16.8 million as compared to positive free cash flow of $5.6 million in the first three months of 2001. This decline primarily resulted from a decline in the Company's operating results in the first quarter as well as transition effects relating to the Company's sale of 19 operating units to Emcor.

Cash used in financing activities for the three months ended March 31, 2002 was $134.0 million and was primarily attributable to net payments of long-term debt of $134.2 million primarily from proceeds associated with the sale transaction with Emcor. Net cash used in financing activities for the three months ended March 31, 2001 was $0.7 million and was primarily attributable to net payments of long-term debt primarily used for working capital and capital expenditures.

Revolving Credit Facility - The Company's principal debt financing is a revolving credit facility (the "Credit Facility" or the "Facility") provided by Bank One, Texas, N.A. ("Bank One") and other banks (including Bank One, the "Bank Group"). In connection with the Company's sale of operations to Emcor as discussed in "Results of Operations" above and in Note 3 to the Consolidated Financial Statements included elsewhere in this Form 10-Q, the Company agreed in February 2002 to pay down debt under the Facility by at least $130 million, and to reduce the size of the Facility to the lesser of $100 million or 80% of accounts receivable, net of reserves ("Net Receivables"). Borrowings under the Facility are secured by accounts receivable, inventory, fixed assets other than real estate, and the shares of capital stock of the Company's subsidiaries. The Credit Facility expires on January 1, 2003, at which time all amounts outstanding are due.

The Company has a choice of two interest rate options under the Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus 0.5% or Bank One's prime rate. An additional margin of 1% to 2% is then added to the higher of these two rates. Under the other interest rate option, borrowings bear interest based on designated short-term Eurodollar rates (which generally approximate London Interbank Offered Rates or "LIBOR") plus 2.5% to 3.5%. The additional margin for both options depends on the ratio of the Company's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined. Commitment fees of 0.375% to 0.5% per annum, also depending on the ratio of debt to EBITDA, are payable on the unused portion of the Facility.

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

In the fourth quarter of 2001, the Company estimated and recorded an allowance of $3.5 million against its receivables with the Kmart Corporation based on Kmart's bankruptcy filing in January 2002. Including this reserve, the Company's fourth quarter 2001 EBITDA did not meet the Facility's minimum EBITDA covenant. The Bank Group agreed to exclude the Kmart reserve from covenant calculations. In addition, the Company's first quarter 2002 EBITDA did not meet the Facility's minimum EBITDA covenant. The Bank Group waived that covenant violation. As a result, the Company has no unresolved covenant violations under the Facility.

As a result of its substantial reduction in debt following the Emcor transaction, the Company currently complies with the Facility's debt to EBITDA and EBITDA to interest expense covenants by comfortable margins. The Bank Group agreed to adjust the Facility's minimum EBITDA covenants to reflect the Company's reduced size following the Emcor transaction. While the Bank Group waived the Company's first quarter 2002 minimum EBITDA covenant violation, and while the Company expects to be in compliance with the Facility's EBITDA requirements for future periods, the minimum EBITDA covenant allows less room for variance than the Facility's other financial covenants. If the Company violates this or any other covenant in the future, it may have to negotiate new borrowing terms under the Facility. While the Company believes that its improved creditworthiness following the Emcor transaction would result in a successful negotiation of new terms if necessary, there can be no assurance that it could obtain terms acceptable to the Company. In view of these restrictions, the Facility's January 2003 maturity, and the Company's improved creditworthiness, the Company is continuing to evaluate its potential for more flexible borrowing arrangements.

As of March 31, 2002, the Company had $31.7 million in borrowings and $1.7 million in letters of credit outstanding under the Credit Facility. The Company's unused borrowing capacity under the Facility, as measured by the most restrictive covenant in the Facility, was $35.4 million as of March 31, 2002. The Facility's interest rate terms as summarized above currently result in an all-in floating interest rate under the Facility of approximately 8.0%. As of May 14, 2002, $31.5 million in borrowings and $1.7 million in letters of credit were outstanding under the Facility, and $35.6 million in unused capacity was available as measured by the Facility's most restrictive covenant.

Notes to Affiliates and Former Owners - Subordinated notes were issued to former owners of certain purchased companies as part of the consideration used to acquire their companies. These notes had an outstanding balance of $16.6 million as of March 31,2002, and bear interest, payable quarterly, at a weighted average interest rate of 9.73%. As of May 14, 2002, there had been no change in the outstanding balance of these notes. Remaining maturities on this debt are $1.1 million in 2002 and $15.5 million in 2003. Substantially all of this debt's 2003 maturities fall in April 2003.

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

The Company enters into noncancelable operating leases for many of its facility, vehicle and equipment needs. These leases allow the Company 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, the Company has no further obligation to the lessor. The Company may decide to cancel or terminate a lease before the end of its term. Typically the Company is liable to the lessor for the remaining lease payments under the term of the lease.

Some customers require the Company to post letters of credit to guarantee performance under the Company's contracts and to ensure payment to the Company's subcontractors and vendors under those contracts. Certain of the Company's vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of the Company, such as to beneficiaries under the Company's self-funded insurance programs. 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.

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. 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 has not had any significant reimbursements to its surety for bond-related costs. The Company believes that it is unlikely that it will have to fund claims under its surety arrangements in the foreseeable future.

The Company's future contractual obligations include (in thousands):

	TWELVE MONTHS ENDED MARCH 31,						
	2003	2004	2005	2006	2007	THEREAFTER	TOTAL
Debt obligations..............	$32,937	$15,553	$ 77	$ 53	$ 53	$ 156	$48,829
Operating lease obligations...	$10,169	$ 8,418	$6,148	$4,535	$3,515	$15,716	$48,501

The Company's current letter of credit commitments expire as follows (in thousands):

	TWELVE MONTHS ENDED MARCH 31,						
	2003	2004	2005	2006	2007	THEREAFTER	TOTAL
Letters of credit............	$ 1,384	$ 284	$ --	$ --	$ --	$ --	$ 1,668

Outlook - As of March 31, 2002, the Company had total debt outstanding of $48.8 million. As of May 14, 2002, the Company had total debt outstanding of approximately $48.6 million. Following disposition in the second quarter of Emcor-transaction-related items including post-closing adjustments, transaction costs and taxes, the Company expects total debt outstanding at the end of the second quarter to be between $50 million and $60 million. Most of this expected debt balance will be due in January 2003, with substantially the remainder due in April 2003. While the Company expects to generate positive free cash flow and reduce these debt balances over upcoming quarters, it is expected that a significant portion of these expected debt balances will need to be refinanced during the current year. The Company believes that its significantly improved financial position following the Emcor transaction will enable it to refinance this debt, but there can be no assurance that the Company will be able to secure new financing when needed or on terms the Company deems acceptable.

As noted above, the Company has agreed to relatively tight restrictions under the Credit Facility. If the Company violates any of these restrictions, it will be required to negotiate new terms with its banks. There can be no assurance that in that event, the Company will receive satisfactory new terms from its banks, or that if the Company needs additional financing, that such financing can be secured when needed or on terms the Company deems acceptable.

SEASONALITY AND CYCLICALITY

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

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

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 establishes new accounting and reporting requirements for goodwill and other intangibles. The Company adopted this new standard effective January 1, 2002. See Note 4 for further discussion.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Company adopted SFAS No. 144 effective January 1, 2002. Under SFAS No. 144, the operating results of companies sold or held for sale meeting certain criteria as well as any gain or loss on the sale of these operations are presented as discontinued operations in the Company's statements of operations. See Note 3 of the Consolidated Financial Statements for a discussion of the Company's discontinued operations. The operating results for companies which were sold or shut down during 2001 are presented as continuing operations through the date of disposition. The adoption of SFAS No. 144 did affect the presentation of discontinued operations in the consolidated financial statements; however, it did not have a material financial impact on the Company's results of operations, financial position or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

During the three month period ended March 31, 2002, the Company did not issue any unregistered shares of its common stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Employment Agreement between Gary E. Hess and the Company dated April 1, 2002. (Filed herewith).

10.2 Form of Restricted Stock Award Agreement between William F. Murdy and the Company dated March 22, 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 February 15, 2002. Under Item 5 of that report, the Company disclosed that it had entered into a Purchase Agreement with EMCOR-CSI Holding Co. ("EMCOR Holding"), a Delaware corporation and wholly-owned subsidiary of EMCOR Group, Inc., pursuant to which the Company agreed to sell to EMCOR Holding all of the outstanding capital stock of and ownership interests in 19 of the Company's subsidiary operations.

(ii) The Company filed a report on Form 8-K with the Securities and Exchange Commission on March 18, 2002. Under Item 5 of that report, the Company disclosed that it had completed the sale of all of the outstanding capital stock of and ownership interests in 19 of the Company's subsidiary operations to EMCOR Holding, a Delaware corporation and wholly-owned subsidiary of Emcor Group, Inc. ("Emcor"). The filing includes the Pro Forma Consolidated Balance Sheet as of December 31, 2001 and Pro Forma Consolidated Statements of Operations for the years ended December 31, 1999, 2000 and 2001.

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

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMFORT SYSTEMS USA, INC.

By: /s/ J. GORDON BEITTENMILLER

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

Dated: May 15, 2002

EXHIBIT INDEX

10.1	Employment Agreement between Gary E. Hess and the Company dated April 1, 2002. (Filed herewith).
10.2	Form of Restricted Stock Award Agreement between William F. Murdy and the Company dated March 22, 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 Gary E. Hess ("Employee") is entered into effective as of the 1st day of April, 2002.

RECITALS

1. The Company, Comfort Systems USA, Inc., a Delaware corporation, and its subsidiaries and affiliates (collectively, the "Comfort Group") are engaged in the business of mechanical contracting services, including heating, ventilation and air conditioning, piping, plumbing and electrical and related services ("Services").

2. Employee has been employed by the Company in various executive positions through March 31, 2002, most recently as its Chief Operating Officer and President. In connection with the transition of Employee from such position to a new part time role, the Company desires to engage Employee in a part-time capacity to facilitate the transition with respect to various matters with which Employee has been involved and the Company also desires to use Employee as a resource during the term of this Agreement.

3. Employee is a party to that certain Employment Agreement dated January 1, 2001 between the Employee and the Company (the "Prior Employment Agreement").

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

1. PRIOR EMPLOYMENT AGREEMENT TERMINATED. Employee hereby agrees that the Prior Employment Agreement is hereby irrevocably terminated. As consideration for such termination and in complete satisfaction and release of all rights and benefits of the Employee under the Prior Employment Agreement, Company will pay to Employee a lump-sum payment equal to $250,000. The payment will be made on or before April 15, 2002 and shall be subject to all legally required withholding.

2. ENGAGEMENT AND DUTIES. The Company hereby engages Employee as a part-time Employee for a period commencing on the date hereof, and ending on September 30, 2005 (the "Term"), to perform such duties as the Company may reasonably specify. Employee hereby accepts this engagement and agrees to perform and make himself available from time to time to and to devote reasonable time, attention and efforts, but not to an average of 90 hours per quarter, to promote and further the Company's business as the Company may reasonably require.

3. COMPENSATION, EXPENSES AND TERMINATION. During the term of Employee's engagement with the Company, for all services rendered by Employee to the Company, the Company shall pay to Employee $10,715 per calendar quarter for each of the fourteen

quarters during the Term, for an aggregate total payment of $150,010. Payments will made pursuant to the Company's normal pay practices, including all required deductions. Employee agrees that as a result of his part-time status he will not be entitled to participate in any of the Company's welfare benefit programs, including and health and dental insurance. If at any time during the Term (i) substantially all of the outstanding capital stock or assets of the Comfort Group is acquired, by merger or otherwise, or (ii) the Employee is terminated without cause, then, within 30 days of such event the Company shall pay to Employee a single lump sum payment equal to all of the remaining salary payable under this Agreement and shall vest any options that he holds that are not vested and that have not otherwise been exercised or terminated, provided, however, in the event Employee has accepted full-time employment with any third party or has associated himself in any capacity with a third party engaged in providing Services, the Company may terminate this Agreement without vesting any options or paying the remaining salary otherwise payable hereunder.

4. CONFIDENTIALITY.

a. 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, whether acquired during the Term or prior to the Term in Employee's former capacity, 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, Employee or by any other person or entity; provided, however, that the term "Confidential Information" shall not include information, technical data or know-how that Employee can demonstrate is generally available to the public not as a result of any breach of this Agreement by Employee.

b. Except in the performance of Employee's duties as a Employee to the Company, Employee will not, during or after the term of Employee's engagement with the Company, disclose to any person or entity or use, for any reason whatsoever, any Confidential Information.

5. NON-COMPETITION.

a. Employee will not, during the Term and for a period of one year following the Term, for any reason whatsoever, directly or indirectly, on Employee's behalf or on behalf of or in conjunction with any other person, company, partnership or business of whatever nature:

(i) engage within one hundred miles of where the Comfort Group conducts business (the "Territory") in any capacity whatsoever for any business or person engaged in Services;

(ii) call upon any person who is an employee of the Company or any other member of the Comfort Group for the purpose of enticing such employee away from or out of the employ of the Company or the Comfort Group;

(iii) call upon any person which is, at that time, or which has been, within the term of such Employee's engagement, a customer of the Company or any other member of the Comfort Group for the purpose of selling Services; or

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

b. It is agreed that the period during which this Section 4 shall be effective shall be computed by excluding from such computation of time any time during which Employee is in violation of this Agreement.

6. RETURN OF COMPANY PROPERTY. All records, plans, manuals, "field guides", memoranda, lists, documents, statements and other property delivered to Employee 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 Employee), by any acquisition candidate of the Company or any other member of the Comfort Group, and all records compiled by Employee which pertain to the business or activities of the Company or any other member of the Comfort Group, whether acquired during the Term or before the Term in Employee's prior capacity, shall be and remain the property of the Company, and be subject at all times to its discretion and control.

7. SEVERABILITY. The covenants set forth in this Agreement are severable and separate, and the unenforceability of any specific covenant shall not affect any other covenant or provision set forth herein. In the event that any court of competent jurisdiction shall determine that any covenant contained herein is unreasonable, it is the intention of the parties that such restrictions be enforced to the fullest extent that the court deems reasonable, and this Agreement shall thereby be reformed.

8. SURVIVAL. The provisions and covenants of Sections 3, 4, 5, 6 and 7 shall survive termination of this Agreement.

9. 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 and 5 and because of the immediate and irreparable damage that could be caused to the Company for which it would have no other adequate remedy, Employee 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 Employee, by injunctions, restraining orders and other appropriate equitable relief. Employee further agrees to waive any requirement for the securing or posting of any bond.

10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Texas.

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

EMPLOYEE:

/s/ Gary E. Hess
- ---------------------------
Gary E. Hess

COMPANY:

COMFORT SYSTEMS USA (TEXAS), L.P.
By: Comfort Systems USA G.P., Inc.

By: /s/ William George

William George
Senior Vice President

EXHIBIT 10.2

William F. Murdy

COMFORT SYSTEMS USA, INC.
2000 EQUITY INCENTIVE PLAN

Restricted Stock Award Agreement

Comfort Systems USA, Inc.
777 Post Oak Blvd, 5th Floor
Houston, TX 77056

Ladies and Gentlemen:

The undersigned (i) acknowledges that he has received an award (the "Award") of restricted stock from Comfort Systems USA, Inc., a Delaware corporation (the "Company") under the 2000 Equity Incentive Plan (the "Plan"), subject to the terms set forth below and in the Plan; (ii) further acknowledges receipt of a copy of the Plan as in effect on the date hereof; and (iii) agrees with the Company as follows:

1. Effective Date. This Agreement shall take effect as of March 22, 2002, which is the date of grant of the Award.

2. Shares Subject to Award. The Award consists of 200,000 shares (the "Shares") of common stock of the Company ("Stock"). The undersigned's rights to the Shares are subject to the restrictions described in this Agreement and the Plan (which is incorporated herein by reference with the same effect as if set forth herein in full) in addition to such other restrictions, if any, as may be imposed by law.

3. Meaning of Certain Terms. Except as otherwise expressly provided, all terms used herein shall have the same meaning as in the Plan. The term "vest" as used herein with respect to any Share means the lapsing of the restrictions described herein and in the Plan with respect to such Share.

4. Nontransferability of Shares. The Shares acquired by the undersigned pursuant to this Agreement shall not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of except as provided below and in the Plan.

5. Forfeiture Risk. Except as provided in Section 7(b) of this Agreement, if the undersigned ceases to be employed by the Company and its subsidiaries for any reason, including death, any then outstanding and unvested Shares acquired by the undersigned hereunder shall be immediately forfeited. The undersigned hereby (i) appoints the Company as the attorney-in-fact of the undersigned to take such actions as may be necessary or appropriate to effectuate a transfer of the record ownership of any such shares that are unvested and forfeited hereunder, (ii) agrees to deliver to the Company, as a precondition to the issuance of any certificate or certificates with respect to unvested Shares hereunder, one or more stock powers, endorsed in blank,

with respect to such Shares, and (iii) agrees to sign such other powers and take such other actions as the Company may reasonably request to accomplish the transfer or forfeiture of any unvested Shares that are forfeited hereunder.

6. Retention of Certificates. Any certificates representing unvested Shares shall be held by the Company. The undersigned agrees that the Company may give stop transfer instructions to the depository to ensure compliance with the provisions hereof.

7. Vesting of Shares. The shares acquired hereunder shall vest in accordance with the provisions of this Paragraph 7 and applicable provisions of the Plan, as follows:

(a) If the Committee determines that, for the period from April 1, 2002 through March 31, 2003, the Company did not have positive earnings from its continuing operations, as determined before interest, taxes, depreciation and amortization, all as determined and reported in accordance with generally accepted accounting principles in the Company's regularly prepared financial statements, Employee shall immediately and irrevocably forfeit all of the Shares.

(b) If and only if the positive earnings goal in Section 7(a) has been achieved, and provided that the undersigned is then, and since the date of grant has continuously been employed by the Company or its subsidiaries, then the Shares shall vest as follows:

50,000 Shares on May 31, 2003;

an additional 50,000 Shares on March 22, 2004;

an additional 50,000 Shares on March 22, 2005; and

an additional 50,000 Shares on March 22, 2006.

provided, however, that, not withstanding (a) or (b) above, any unvested Shares that have not earlier been forfeited shall vest immediately in the event of (i) a "Change in Control" as defined in the Employment Agreement dated June 27, 2000 between the undersigned and the Company (the "Employment Agreement") or (ii) the termination by the Company of executive without cause as defined in the Employment Agreement.

8. Legend. Any certificates representing unvested Shares shall be held by the Company, and any such certificate shall contain a legend substantially in the following form:

> THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE COMPANY'S 2000 EQUITY INCENTIVE PLAN AND A RESTRICTED STOCK AWARD AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND COMFORT SYSTEMS USA, INC. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE IN THE OFFICES OF COMFORT SYSTEMS USA, INC.

As soon as practicable following the vesting of any such Shares the Company shall cause a certificate or certificates covering such Shares to be delivered to the undersigned.

9. Dividends, etc. The undersigned shall be entitled to (i) receive any and all dividends or other distributions paid with respect to those Shares of which he is the record owner on the record date for such dividend or other distribution, and (ii) vote any Shares of which he is the record owner on the record date for such vote; provided, however, that any property (other than cash) distributed with respect to a share of Stock (the "associated share") acquired hereunder, including without limitation a distribution of Stock by reason of a stock dividend, stock split or otherwise, or a distribution of other securities with respect to an associated share, shall be subject to the restrictions of this Agreement in the same manner and for so long as the associated share remains subject to such restrictions, and shall be promptly forfeited to the Company if and when the associated share is so forfeited; and further provided, that the Administrator may require that any cash distribution with respect to the Shares other than a normal cash dividend be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan. References in this Agreement to the Shares shall refer, mutatis mutandis, to any such restricted amounts.

10. Sale of Vested Shares. The undersigned understands that he will be free to sell any Share once it has vested, subject to (i) satisfaction of any applicable tax withholding requirements with respect to the vesting or transfer of such Share; (ii) the completion of any administrative steps (for example, but without limitation, the transfer of certificates) that the Company may reasonably impose; and (iii) applicable company policies and the requirements of federal and state securities laws.

11. Certain Tax Matters. The undersigned expressly acknowledges the following:

a. The undersigned has been advised to confer promptly with a professional tax advisor to consider whether the undersigned should make a so-called "83(b) election" with respect to the Shares. Any such election, to be effective, must be made in accordance with applicable regulations and within thirty (30) days following the date of this award. The Company has made no recommendation to the undersigned with respect to the advisability of making such an election.

b. The award or vesting of the Shares acquired hereunder, and the payment of dividends with respect to such shares, may give rise to "wages" subject to withholding. The undersigned expressly acknowledges and agrees that his rights hereunder are subject to his paying to the Company in cash (or by such other means as may be acceptable to the Company in its discretion, including, if the Committee so determines, by the delivery of previously acquired Stock or shares of Stock acquired hereunder or by the withholding of amounts from any payment hereunder) all taxes required to be withheld in connection with such award, vesting or payment.

Very truly yours,

William F. Murdy

The foregoing Restricted Stock Award Agreement is hereby accepted:

COMFORT SYSTEMS USA, INC.

By

Its: