

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549

FORM S-1  
 REGISTRATION STATEMENT  
 UNDER  
 THE SECURITIES ACT OF 1933

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

1711  
 (PRIMARY STANDARD INDUSTRIAL  
 CLASSIFICATION CODE NUMBER)

DELAWARE  
 (STATE OR OTHER JURISDICTION OF  
 INCORPORATION OR ORGANIZATION)

76-0526487  
 (I.R.S. EMPLOYER  
 IDENTIFICATION NUMBER)

FRED M. FERREIRA  
 CHIEF EXECUTIVE OFFICER  
 THREE RIVERWAY  
 SUITE 200  
 HOUSTON, TEXAS 77056  
 (713) 830-9600

(NAME AND ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING  
 AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES AND AGENT FOR SERVICE)

COPIES TO:

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 711 LOUISIANA STREET, SUITE 2900  
 HOUSTON, TEXAS 77002-2781

WILLIAM GEORGE  
 COMFORT SYSTEMS USA, INC.  
 THREE RIVERWAY  
 SUITE 200  
 HOUSTON, TEXAS 77056

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time  
 to time after this Registration Statement becomes effective.

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

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

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

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

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, \$.01 par value per share.....	583,878	\$18.8125	\$10,984,205	\$3,329

(1) Estimated solely for the purpose of calculating the registration fee  
 pursuant to Rule 457(c).

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

COMFORT SYSTEMS USA, INC.

COMMON STOCK

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

All of the shares of Comfort Systems USA, Inc. (the "Company") Common Stock, par value \$.01 per share (the "Common Stock"), offered hereby are being sold by the holders of the Common Stock named herein under "Selling Stockholders" (the "Selling Stockholders"). The outstanding Common Stock of the Company is listed on the New York Stock Exchange (the "NYSE") under the symbol "FIX". On October 13, 1997, the last reported sale price of the Common Stock on the NYSE was \$18.6875 per share.

The Company will not receive any of the proceeds from the sale of the Common Stock. Any or all of such Common Stock covered by this Prospectus may be sold, from time to time, by means of ordinary brokerage transactions or otherwise. See "Plan of Distribution."

The Selling Stockholders named herein, or any pledgees, donees, transferees or other successors in interest, directly, through agents to be designated from time to time, or through dealers or underwriters also to be designated, may sell the Common Stock from time to time in one or more transactions on The New York Stock Exchange or in the over-the-counter market and in negotiated transactions, on terms to be determined at the time of sale. To the extent required, the specific Common Stock to be sold, the names of the Selling Stockholders, the respective purchase prices and public offering prices, the names of any such agent, dealer or underwriter, and any applicable commissions or discounts with respect to a particular offer will be set forth in any accompanying Prospectus Supplement or, if appropriate, a post-effective amendment to the Registration Statement of which this Prospectus is a part. See "Plan of Distribution." By agreement, the Company will pay all the expenses of the registration of the Common Stock by the Selling Stockholders other than underwriting discounts and commissions and transfer taxes, if any. Such expenses to be borne by the Company are estimated at \$50,000.

The Selling Stockholders and any broker-dealers, agents or underwriters that participate with the Selling Stockholders in the distribution of the Common Stock may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), and any commissions received by them and any profit on the resale of the Common Stock purchased by them may be deemed underwriting commissions or discounts under the 1933 Act.

SEE "RISK FACTORS" ON PAGE 9 FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED BEFORE ACQUIRING THE COMMON STOCK OFFERED HEREBY.

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

THE COMPANY INTENDS TO FURNISH ITS STOCKHOLDERS WITH ANNUAL REPORTS CONTAINING FINANCIAL STATEMENTS AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS AND WITH QUARTERLY REPORTS CONTAINING UNAUDITED SUMMARY FINANCIAL INFORMATION FOR EACH OF THE FIRST THREE QUARTERS OF EACH FISCAL YEAR.

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THE DATE OF THIS PROSPECTUS IS , 1997

## PROSPECTUS SUMMARY

IN CONNECTION WITH ITS INITIAL PUBLIC OFFERING ON JULY 2, 1997 (THE "IPO"), COMFORT SYSTEMS USA, INC. ACQUIRED, IN SEPARATE MERGER OR SHARE EXCHANGE TRANSACTIONS (THE "MERGERS") IN EXCHANGE FOR CASH AND SHARES OF ITS COMMON STOCK, 12 COMPANIES ENGAGED PRINCIPALLY IN THE HEATING, VENTILATION AND AIR CONDITIONING ("HVAC") BUSINESS (EACH A "FOUNDING COMPANY" AND, COLLECTIVELY, THE "FOUNDING COMPANIES"). UNLESS OTHERWISE INDICATED, ALL REFERENCES TO THE "COMPANY" HEREIN INCLUDE THE COMPANY AND ALL OF ITS SUBSIDIARIES, AND REFERENCES HEREIN TO "COMFORT SYSTEMS" MEAN COMFORT SYSTEMS USA, INC. PRIOR TO THE CONSUMMATION OF THE MERGERS. THE FOUNDING COMPANIES AND SUBSEQUENTLY ACQUIRED BUSINESSES ARE SOMETIMES COLLECTIVELY REFERRED TO HEREIN AS THE ACQUIRED COMPANIES.

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

UNLESS OTHERWISE INDICATED, ALL REFERENCES HEREIN TO COMMON STOCK INCLUDE BOTH COMMON STOCK, \$0.01 PAR VALUE, AND RESTRICTED VOTING COMMON STOCK, \$0.01 PAR VALUE (THE "RESTRICTED COMMON STOCK") OF COMFORT SYSTEMS.(1)

### THE COMPANY

Comfort Systems was founded in 1996 to become a leading national provider of comprehensive HVAC installation services and maintenance, repair and replacement of HVAC systems, focusing primarily on the commercial and industrial markets. On July 2, 1997, the Company acquired in separate, concurrent transactions twelve companies and since the IPO the Company has acquired additional companies, all of which are engaged principally in the HVAC business. See "Recent Developments." The Company's commercial and industrial applications include office buildings, retail centers, apartment complexes, hotels, manufacturing plants and government facilities. The Company also provides specialized HVAC applications such as process cooling, control systems, electronic monitoring and process piping. Approximately 90% of the Company's pro forma combined 1996 revenues of \$167.5 million was derived from commercial and industrial customers, with approximately 53% of combined revenues attributable to installation services and 47% attributable to maintenance, repair and replacement services. Since the IPO, and through October 13, 1997, the Company has acquired eleven additional mechanical contracting companies engaged principally in the HVAC business.

Based on available industry data, the Company believes that the HVAC industry is highly fragmented with over 40,000 companies, most of which are small, owner-operated businesses with limited access to capital for modernization and expansion. The overall HVAC industry, including the commercial, industrial and residential markets, is estimated to generate annual revenues in excess of \$75 billion, over \$35 billion of which is in the commercial and industrial markets. The Company believes there is a significant opportunity for a well-capitalized national company to provide comprehensive HVAC services and that the fragmented nature of the HVAC industry will provide it with significant opportunities to consolidate commercial, industrial and residential HVAC businesses.

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

The Company also provides maintenance, repair and replacement of HVAC systems. Growth in this segment is driven by a number of factors, particularly (i) the aging of the installed base, (ii) the increasing energy efficiency, sophistication and complexity of HVAC systems and (iii) the increasing restrictions on

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(1) Affiliates of Notre Capital Ventures II, L.L.C. ("Notre"), hold in the aggregate 2,742,912 shares of Restricted Common Stock, which are entitled to elect one member of the Company's Board of Directors and to 0.55 of one vote for each share held on all other matters on which they are entitled to vote. Restricted Common Stock is convertible into one share of Common Stock under certain circumstances. See "Description of Capital Stock -- Common Stock and Restricted Common Stock."

the use of refrigerants commonly used in older HVAC systems. The energy efficiency and sophistication of new HVAC systems are encouraging building owners to upgrade and reconfigure their current HVAC systems. Moreover, the increasing sophistication and complexity of these HVAC systems are leading many commercial and industrial building owners and property managers to outsource maintenance and repair through service agreements with HVAC service providers. Service agreements lead to better utilization of personnel, link the customer with the Company should a major repair or replacement be needed and result in recurring revenues. The Company believes there is also an opportunity to expand its presence in the highly-fragmented residential maintenance, repair and replacement market. The replacement segment of the residential HVAC market has grown significantly in recent years as a result of the aging of the installed base of residential HVAC systems, the introduction of more energy-efficient systems and the upgrading of older homes with central air conditioning.

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

**OPERATING STRATEGY.** The Company believes there are significant opportunities to increase its profitability and that of subsequently acquired businesses. The key elements of the Company's operating strategy are:

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

**OPERATE ON DECENTRALIZED BASIS.** The Company believes that, while maintaining strong operating and financial controls, a decentralized operating structure will retain the entrepreneurial spirit present in each of the Founding Companies and will allow the Company to capitalize on the considerable local and regional market knowledge and customer relationships possessed by each Founding Company.

**ACHIEVE OPERATING EFFICIENCIES.** The Company intends to use its increased purchasing power to gain volume discounts in areas such as HVAC components, raw materials, service vehicles, advertising, bonding and insurance. In addition, the Company will identify "best practices" that can be successfully implemented throughout its operations.

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

**INTERNAL GROWTH.** A key component of the Company's strategy is to continue the internal growth at the Founding Companies and subsequently acquired businesses. The key elements of the Company's internal growth strategy are:

**CAPITALIZE ON SPECIALIZED TECHNICAL AND MARKETING STRENGTHS.** The Company believes it will be able to expand the services it offers in its local markets by leveraging the specialized technical and marketing strengths of individual Founding Companies.

**ESTABLISH NATIONAL MARKET COVERAGE.** The Company believes that significant demand exists from large national companies to utilize the services of a single HVAC service provider and believes existing local and regional relationships can be expanded as it develops a nationwide network.

ACQUISITIONS. The Company believes that, due to the highly fragmented nature of the HVAC industry, it has a significant opportunity to achieve its acquisition strategy. The key elements of the Company's acquisition strategy are:

ENTER NEW GEOGRAPHIC MARKETS. The Company will pursue acquisitions that are located in new geographic markets, are financially stable, and which will have the customer base, technical skills and infrastructure necessary to be a core business into which other HVAC service operations can be consolidated.

EXPAND WITHIN EXISTING MARKETS. Once the Company has entered a market, it will seek to acquire other well-established HVAC businesses operating within that region and will also pursue "tuck-in" acquisitions of smaller companies, whose operations can be integrated into an existing operation to leverage the Company's infrastructure.

ACQUIRE COMPLEMENTARY BUSINESSES. The Company will focus on the HVAC industry and may also acquire companies providing complementary services to the same customer base, such as commercial and industrial process piping and plumbing and electrical companies.

## RECENT DEVELOPMENTS

During late 1996 and early 1997, members of the Company's management team and certain consultants were assembled to pursue the consolidation of the Founding Companies. Notre, a consolidator of highly-fragmented industries, provided the Company with expertise regarding the consolidation process and advanced the Company the funds needed to pay organizational and Offering expenses. In connection therewith, during 1996 and January and February 1997, Comfort Systems sold an aggregate of 1,269,935 shares of Common Stock to management of and consultants to the Company at a price of \$0.01 per share. As a result, the Company recorded a non-recurring, non-cash compensation charge of \$11.6 million (the "Compensation Charge") in the first quarter of 1997, representing the difference between the amount paid for the shares and the estimated fair value of the shares on the date of sale. This Compensation Charge of \$11.6 million is not included in pro forma combined net income.

On July 2, 1997, the Company consummated the IPO and the Mergers. In connection therewith, the Company issued 7,015,000 shares of Common Stock at a price of \$13.00 per share (less underwriting discounts and commissions).

The aggregate consideration paid by Comfort Systems in the Mergers consisted of \$45.3 million in cash and 9,720,927 shares of Common Stock, plus the assumption of \$20.4 million of existing debt of the Founding Companies. The consideration paid by Comfort Systems for each Founding Company was negotiated by the parties and was based primarily upon the pro forma adjusted net income of each Founding Company. For a more detailed description of these transactions, see "Certain Transactions -- Organization of the Company."

Between January 1, 1997 and the date of the Mergers, each Founding Company which was a C Corporation, except Atlas, distributed to its stockholders an amount equal to its net income for the period from January 1, 1997 through the date of the Mergers (the "Interim Earnings Distributions"). These aggregate distributions were \$1.5 million and were funded from the Founding Companies' cash and from borrowings from existing sources available to the Founding Companies.

Since the IPO, and through October 13, 1997, the Company has acquired eleven additional mechanical contracting companies engaged principally in the HVAC business. The Company paid approximately \$1.6 million in cash and 2,250,449 shares of Common Stock as consideration for these companies. The Company will account for seven of these acquisitions as pooling-of-interests transactions and the remaining four acquisitions will be accounted for as purchase transactions. Annualized revenues were approximately \$70 million for these acquisitions.

Comfort Systems USA, Inc. was incorporated in 1996 in Delaware. The Company's executive offices are located at Three Riverway, Suite 200, Houston, Texas 77056, and its telephone number is (800) 723-8431.

## RISK FACTORS

The Common Stock offered hereby involves a high degree of risk. See "Risk Factors".

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

Comfort Systems acquired the Founding Companies in connection with the IPO. For financial statement presentation purposes, Comfort Systems has been identified as the "accounting acquirer." The following table presents unaudited pro forma combined financial data for the Company, adjusted for (i) the effects of the Mergers, (ii) the effects of certain pro forma adjustments to the historical financial statements described below and (iii) the consummation of the IPO and the application of the net proceeds therefrom. See "Selected Financial Data," the Unaudited Pro Forma Combined Financial Statements and the Notes thereto and the historical Financial Statements for Comfort Systems and certain of the Founding Companies and the Notes thereto included elsewhere in this Prospectus.

	PRO FORMA COMBINED(1)	
	TWELVE MONTHS ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997
	-----	-----
<b>INCOME STATEMENT DATA:</b>		
Revenues.....	\$167,525	\$86,900
Gross profit.....	47,813	24,505
Selling, general and administrative expenses(2)....	27,814	15,397
Goodwill amortization(3).....	3,495	1,748
Income from operations.....	16,504	7,360
Interest and other income (expense), net(4).....	(798)	(530)
Income before income taxes.....	15,706	6,830
Net income(5).....	8,026	3,621
Net income per share.....	0.44	0.20
Shares used in computing pro forma net income per share(6).....	18,252,311	18,252,311

	JUNE 30, 1997	
	PRO FORMA COMBINED	AS ADJUSTED(8)
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<b>BALANCE SHEET DATA:(7)</b>		
Working capital(4).....	\$ (23,874)(9)	\$ 56,001
Total assets.....	195,394	225,410
Long-term debt, net of current maturities(4).....	20,246	20,246
Stockholders' equity(4).....	101,118	180,993

(1) The pro forma combined income statement data assume that the Mergers and the IPO were consummated on January 1, 1996 and are not necessarily indicative of the results the Company would have obtained had these events actually then occurred or of the Company's future results.

(2) The pro forma combined income statement data reflect an aggregate of \$6.6 million for the twelve months ended December 31, 1996 and \$2.5 million for the six months ended June 30, 1997 in pro forma reductions in salaries, bonuses and benefits to the owners of the Founding Companies to which they have agreed prospectively (the "Compensation Differential") and does not include the Compensation Charge of \$11.6 million recorded in the first quarter of 1997.

(3) Consists of amortization of goodwill to be recorded as a result of the Mergers over a 40-year period and computed on the basis described in the Notes to the Unaudited Pro Forma Combined Financial Statements.

(4) Several of the Founding Companies were S Corporations. In connection with the Mergers, these Founding Companies made distributions to their stockholders totalling \$20.9 million, representing substantially all of their previously taxed undistributed earnings through June 30, 1997 (the "S Corporation Distributions"). In order to fund these distributions, the Founding Companies borrowed \$11.0 million from existing sources. Accordingly, pro forma interest expense has been increased by \$772,000 for the twelve months ended December 31, 1996 and \$386,000 for the six months ended June 30, 1997, pro forma working capital has been reduced by \$1.9 million, pro forma long-term debt has been increased by \$11.0 million and pro forma stockholders' equity has been reduced by \$12.9 million.

(5) Assuming a corporate income tax rate of 40% and the non-deductibility of goodwill.

(6) Includes (i) 2,969,912 shares issued to Notre, (ii) 1,269,935 shares issued to management of and consultants to Comfort Systems, (iii) 9,720,927 shares issued to owners of the Founding Companies and (iv) 4,291,537 of the 7,015,000 shares sold in the IPO necessary to pay the cash portion of the Merger consideration and expenses of the IPO and excludes 915,000 shares of common stock purchased by the underwriters pursuant to an overallotment option.

(7) The pro forma combined balance sheet data assume that the Mergers were consummated on June 30, 1997.

(8) Adjusted for the sale of the 7,015,000 shares of Common Stock offered in the IPO and the application of the estimated net proceeds therefrom, which

includes 915,000 shares of common stock purchased by the underwriters pursuant to an overallotment option.

- (9) Includes a \$45.3 million note payable to owners of the Founding Companies, representing the cash portion of the Merger consideration paid from a portion of the net proceeds of the IPO.



SUMMARY INDIVIDUAL FOUNDING COMPANY FINANCIAL DATA  
(IN THOUSANDS)

The following table presents summary income statement data for the Founding Companies for each of their three most recent fiscal years. Income from operations has not been adjusted for the Compensation Differential or to take into account increased costs associated with the Company's new corporate management and with being a public company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Introduction."

	FISCAL YEARS ENDED(1)			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
<b>QUALITY:</b>					
Revenues.....	\$ 24,434	\$ 32,594	\$ 29,597	\$ 15,396	\$ 16,747
Income from operations.....	2,154	4,953	4,490	2,391	3,014
<b>ATLAS:</b>					
Revenues.....	21,848	22,444	30,030	14,485	13,962
Income from operations.....	105	643	2,101	497	1,056
<b>TRI-CITY:</b>					
Revenues.....	16,883	25,030	24,237	11,199	17,016
Income from operations.....	393	2,539	1,773	800	1,142
<b>LAWRENCE:</b>					
Revenues.....	12,758	12,568	17,163	6,807	9,042
Income (loss) from operations.....	112	(51)	67	(197)	(259)
<b>ACCURATE:</b>					
Revenues.....	9,763	12,171	16,806	7,416	6,204
Income (loss) from operations.....	(122)	213	499	333	228
<b>EASTERN:</b>					
Revenues.....	7,348	6,067	7,944	4,047	3,465
Income from operations.....	274	117	431	249	209
<b>CSI/BONNEVILLE:</b>					
Revenues.....	6,502	6,361	7,842	3,509	3,828
Income from operations.....	881	448	981	432	428
<b>TECH:</b>					
Revenues.....	6,923	6,960	7,537	3,395	3,904
Income from operations.....	593	948	1,680	434	616
<b>SEASONAIR:</b>					
Revenues.....	5,168	5,942	6,737	3,203	3,767
Income (loss) from operations.....	189	451	134	147	184
<b>WESTERN:</b>					
Revenues.....	4,149	4,112	6,494	2,844	2,174
Income (loss) from operations.....	161	(151)	744	231	76
<b>ALL OTHER FOUNDING COMPANIES(2):</b>					
Revenues.....	8,934	12,264	13,138	6,437	6,791
Income from operations.....	266	321	531	225	381

(1) The fiscal years presented are as follows: Quality -- the fiscal years ended March 31, 1995 and 1996 and the year ended December 31, 1996; Atlas and Accurate -- the fiscal years ended June 30, 1994 and 1995 and the year ended December 31, 1996; Lawrence -- the fiscal years ended October 31, 1994, 1995 and 1996; and Tri-City, Eastern, CSI/Bonneville, Tech, Seasonair and Western -- the years ended December 31.

(2) The other Founding Companies are Standard and Freeway, and data presented are for the years ended December 31, 1994, 1995 and 1996, in the case of Standard, and the fiscal years ended March 31, 1995 and 1996 and the year ended December 31, 1996, in the case of Freeway.

## RISK FACTORS

AN INVESTMENT IN THE SHARES OF COMMON STOCK OFFERED BY THIS PROSPECTUS INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, THE FOLLOWING RISK FACTORS SHOULD BE CONSIDERED CAREFULLY IN EVALUATING AN INVESTMENT IN THE COMMON STOCK. THIS PROSPECTUS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF ANY NUMBER OF FACTORS, INCLUDING THE RISK FACTORS SET FORTH BELOW AND ELSEWHERE IN THIS PROSPECTUS.

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

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

**RISKS RELATED TO ACQUISITION FINANCING.** The timing, size and success of the Company's acquisition efforts and the associated capital commitments cannot be readily predicted. The Company intends to continue to finance future acquisitions by using shares of its Common Stock for all or a substantial portion of the consideration to be paid. If the Common Stock does not maintain a sufficient market value, or if potential acquisition candidates are otherwise unwilling to accept Common Stock as part of the consideration for the sale of their businesses, the Company may be required to utilize more of its cash resources, if available, in order to initiate and maintain its acquisition program. If the Company does not have sufficient cash resources, its growth could be limited unless it is able to obtain additional capital through debt or equity financings. The Company has obtained a bank line of credit of \$75.0 million from Bank One, Texas, NA ("Bank One") as agent, and a group of other banks, for working capital and acquisitions. As of October 13, 1997, borrowings under the line of credit were \$18.9 million, which was used to repay existing

indebtedness of the Founding Companies. The line of credit is subject to customary financial covenants and drawing conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Combined Liquidity and Capital Resources."

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

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

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

**SEASONAL AND CYCLICAL NATURE OF THE HVAC INDUSTRY.** The HVAC industry is subject to seasonal variations. Specifically, the demand for new installations is generally lower during the winter months due to reduced construction activity during inclement weather and less use of air conditioning during colder months. Demand for HVAC maintenance, repair and replacement services is generally higher in the second and third calendar quarters due to the increased use of air conditioning during warmer months. Accordingly, the Company expects its revenues and operating results generally will be lower in the first and fourth quarters. Historically, the construction industry has been highly cyclical. As a result, the Company's volume

of business may be adversely affected by declines in new installation projects in various geographic regions of the United States.

**REGULATION.** HVAC systems are subject to various environmental statutes and regulations, including the Clean Air Act and those regulating the production, servicing and disposal of certain ozone depleting refrigerants used in HVAC systems. There can be no assurance that the regulatory environment in which the Company operates will not change significantly in the future. Various local, state and federal laws and regulations impose licensing standards on technicians who install and service HVAC systems. The Company's failure to comply with these laws and regulations could subject it to substantial fines and the loss of its licenses. See "Business -- Governmental Regulation and Environmental Matters."

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

**CONTROL BY EXISTING MANAGEMENT AND STOCKHOLDERS.** The Company's executive officers and directors, former stockholders of the Founding Companies and entities affiliated with them beneficially own approximately 59.6% of the outstanding shares of Common Stock. These persons, if acting in concert, would be able to exercise control over the Company's affairs, to elect the entire Board of Directors and to control the outcome of any matter submitted to a vote of stockholders. See "Principal Stockholders."

**SUBSTANTIAL PROCEEDS OF OFFERING PAYABLE TO AFFILIATES OF FOUNDING COMPANIES.** Of the net proceeds of the IPO, \$45.3 million, or approximately 53.4%, were paid as the cash portion of the purchase price for the Founding Companies. Some of the recipients of these funds are directors of the Company or holders of more than 5% of the Common Stock.

**BENEFITS TO NOTRE AND MANAGEMENT.** Notre, management and certain consultants to the Company own in the aggregate 4,239,847 shares of Common Stock. These stockholders acquired their Common Stock at a price of \$0.01 per share. These parties own, in the aggregate, approximately 20% of the outstanding Common Stock. Of these shares of Common Stock, 2,742,912 shares are Restricted Common Stock, which are entitled to elect one member of the Company's Board of Directors and to 0.55 of one vote for each share held on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors and control in the aggregate 8.8% of the votes of all shares of Common Stock. See "Principal Stockholders."

**NO PRIOR PUBLIC MARKET.** The Company went public on July 2, 1997 and the market price of the Common Stock may be subject to significant fluctuations in response to numerous factors, including the timing of any acquisitions by the Company, variations in the Company's annual or quarterly financial results or those of its competitors, changes by financial research analysts in their estimates of the future earnings of the Company, conditions in the economy in general or in the Company's industry in particular, unfavorable publicity or changes in applicable laws and regulations (or judicial or administrative interpretations thereof) affecting the Company or the HVAC, process piping and plumbing and electrical services industries. From time to time, the stock market experiences significant price and volume volatility, which may affect the market price of the Common Stock for reasons unrelated to the Company's performance.

**POTENTIAL EFFECT OF SHARES ELIGIBLE FOR FUTURE SALE ON PRICE OF COMMON STOCK.** As of October 13, 1997 there were 23,226,223 shares of Common Stock outstanding. The 7,015,000 shares sold in the IPO, 34,496 shares issued in acquisitions and 583,878 shares registered hereunder (other than shares that may have been or that may subsequently be purchased by affiliates of the Company) are freely tradable. The remaining outstanding shares may be resold publicly only following their registration under the Securities Act of 1933, as amended (the "Securities Act"), or pursuant to an available exemption from registration (such as provided by Rule 144 following a one year holding period for previously unregistered shares), or upon the expiration of contractual restrictions. Certain of the holders of these remaining shares have certain

rights to have their shares registered in the future under the Securities Act, but may not exercise such registration rights, and have agreed with the Company that they will not sell, transfer or otherwise dispose of any of their shares prior to July 2, 1998. See "Shares Eligible for Future Sale." In addition, 1,452,833 shares issued in acquisitions since the IPO will become tradeable on the first anniversaries of such acquisitions late in the third quarter and early in the fourth quarter of 1998, and 179,242 of such shares will become tradeable during the same period in 1999. The Company also has outstanding options to purchase up to a total of 2,258,653 shares of Common Stock. In addition, up to 7,807,374 shares issuable pursuant to a shelf registration statement for use in connection with acquisitions may be freely traded after their issuance by persons not affiliated with the Company unless the Company contractually restricts their resale. The market price of the Common Stock might be adversely affected by the sale, or availability for sale, of substantial amounts of the Common Stock in the public market as described above.

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

**DILUTION.** Purchasers of Common Stock will experience immediate, substantial dilution in the net tangible book value of their stock.

**PRICE RANGE OF COMMON STOCK**

The Company's Common Stock has traded on the New York Stock Exchange since June 27, 1997. On October 13, 1997, the last sale price of the Common Stock was \$18.6875 per share, as published in THE WALL STREET JOURNAL on October 14, 1997. At October 13, 1997 there were approximately 127 stockholders of record of the Company's Common Stock. The following table sets forth the range of high and low sale prices for the Common Stock for the period from June 27, 1997, the date of the IPO, through June 30, 1997, from July 1, 1997, through September 30, 1997, and from October 1, 1997 through October 13, 1997.

	HIGH	LOW
	-----	-----
June 27-30, 1997.....	\$ 16.125	\$ 13.00
July 1-September 30, 1997.....	\$ 21.5625	\$ 15.50
October 1-13, 1997.....	\$ 20.0625	\$ 18.375

THE COMPANY

Comfort Systems was founded in 1996 to become a leading national provider of comprehensive HVAC installation services and maintenance, repair and replacement of HVAC systems, focusing primarily on the commercial and industrial markets. In furtherance of this goal, Comfort Systems acquired the twelve Founding Companies on July 2, 1997, and since the IPO the Company has acquired eleven additional companies, all of which are principally engaged in the commercial HVAC business.

USE OF PROCEEDS

The Company will not receive any of the proceeds of the Common Stock offered hereunder by the Selling Stockholders.

SELLING STOCKHOLDERS

The Selling Stockholders have acquired the 583,878 shares of Common Stock offered hereby from the Company pursuant, in each case, to an agreement (the "Acquisition Agreements") by and among the Company, a wholly-owned subsidiary of the Company, and a company formerly wholly or partially owned by such Selling Stockholders. The Company may from time to time supplement or amend this Prospectus, as required, to provide other information with respect to the Selling Stockholders.

None of the Selling Stockholders holds any position or office with, has been employed by, or otherwise has a material relationship with the Company, or any of its predecessors or affiliates, other than as officers, stockholders and/or creditors of their respective companies.

The following table sets forth certain information regarding ownership of the Company's Common Stock by the Selling Stockholders. Except as otherwise indicated, none of the Selling Stockholders owns more than 1% of the Common Stock. No estimate can be given as to the amount of the Common Stock that will be held by Selling Stockholders upon termination of this offering.

SELLING SECURITYHOLDER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED	NUMBER OF SHARES OFFERED HEREBY*	PERCENT OF OUTSTANDING
Grover Lee Walker, III.....	421,274	105,319	1.8%
John P. Walker, Jr. ....	421,274	105,319	1.8%
Paul G. Morey.....	344,516	103,355	1.5%
James J. Scruggs.....	179,745	53,924	*
Randall Troost.....	136,622	40,987	*
Bernard P. Malewitz.....	92,478	23,120	*
Robert A. Dood.....	92,478	23,120	*
Mark R. Alder.....	88,889	22,222	*
Craig W. Salmon.....	88,889	22,222	*
Grover Lee Walker, Jr. ....	43,207	10,802	*
John P. Walker, Sr. ....	43,207	10,802	*
John L. Kuempel, Jr. ....	30,399	9,120	*
John W. Lowe.....	30,399	9,120	*
Alder Enterprises Trust.....	22,223	22,223	*
Salmon Enterprises Trust.....	22,223	22,223	*
	2,057,823	583,878	8.9%

\* Less than 1%.

## PLAN OF DISTRIBUTION

The Company will not receive any of the proceeds from the sale by the Selling Stockholders of the Common Stock offered hereby. Any or all of the shares of Common Stock may be sold from time to time (i) to or through underwriters or dealers, (ii) directly to one or more other purchasers, (iii) through agents on a best-efforts basis, or (iv) through a combination of any such methods of sale.

The shares of the Common Stock offered hereby (the "Shares") may be sold from time to time by the Selling Stockholders, or by pledgees, donees, transferees or other successors in interest. Such sales may be made on one or more exchanges or in the over-the-counter market, or otherwise at prices and at terms then prevailing or at prices related to the then current market price, or in negotiated transactions. The Shares may be sold by one or more of the following: (a) a block trade in which the broker or dealer so engaged will attempt to sell the Shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (b) purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to this Prospectus; (c) an exchange distribution in accordance with the rules of such exchange; and (d) ordinary brokerage transactions and transactions in which the broker solicits purchasers. In effecting sales, brokers or dealers engaged by the Selling Stockholders may arrange for other brokers or dealers to participate. Brokers or dealers will receive commissions or discounts from Selling Stockholders in amounts to be negotiated prior to the sale.

The Selling Stockholders and any such underwriters, dealers or agents that participate in the distribution of the Common Stock may be deemed to be underwriters within the meaning of the Securities Act, and any profit on the sale of the Common Stock by them and any discounts, commissions or concessions received by them may be deemed to be underwriting discounts and commissions under the Securities Act. The Common Stock may be sold from time to time in one or more transactions at a fixed offering price, which may be changed, or at varying prices determined at the time of sale or at negotiated prices. Such prices will be determined by the Selling Stockholders or by an agreement between the Selling Stockholders and underwriters or dealers. Brokers or dealers acting in connection with the sale of Common Stock contemplated by this Prospectus may receive fees or commissions in connection therewith.

At the time a particular offer of Common Stock is made, to the extent required, a supplement to this Prospectus will be distributed which will identify and set forth the aggregate number of shares of Common Stock being offered and the terms of the offering, including the name or names of any underwriters, dealers or agents, the purchase price paid by any underwriter for Common Stock purchased from the Selling Stockholders, any discounts, commissions and other items constituting compensation from the Selling Stockholders and/or the Company and any discounts, commissions or concessions allowed or reallocated or paid to dealers, including the proposed selling price to the public. Such supplement to this Prospectus and, if necessary, a post-effective amendment to the Registration Statement of which this Prospectus is a part, will be filed with the Commission to reflect the disclosure of additional information with respect to the distribution of the Common Stock.

Under applicable rules and regulations under the Exchange Act, any person engaged in a distribution of the Common Stock may not simultaneously engage in market making activities with respect to the Common Stock for a period of nine business days prior to the commencement of such distribution. In addition and without limiting the foregoing, the Selling Stockholders and any person participating in the distribution of the Common Stock will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including without limitation rules 10b-6 and 10b-7, which provisions may limit the timing of purchases and sales of the Common Stock by the Selling Stockholders or any such other person.

In order to comply with certain states' securities laws, if applicable, the Common Stock will be sold in such jurisdictions only through registered or licensed brokers or dealers. In certain states the Common Stock may not be sold unless it has been registered or qualified for sale in such state, or unless an exemption from registration or qualification is available.

#### DIVIDEND POLICY

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



CAPITALIZATION

The following table sets forth the current maturities of long-term obligations and capitalization at June 30, 1997 (i) of the Founding Companies combined; (ii) of Comfort Systems on a pro forma combined basis to give effect to the issuance of 1,269,935 shares of Common Stock to management of and consultants to Comfort Systems, the Mergers and the S Corporation Distributions; and (iii) of Comfort Systems, pro forma combined, as adjusted to give effect to the Mergers, the S Corporation Distributions, the IPO and the application of a portion of the net proceeds therefrom. This table should be read in conjunction with the Unaudited Pro Forma Combined Financial Statements of the Company and the Notes thereto included elsewhere in this Prospectus.

	JUNE 30, 1997		
	COMBINED	PRO FORMA COMBINED	AS ADJUSTED
	(IN THOUSANDS)		
Current maturities of long-term debt obligations(1).....	\$ 165	\$ 45,468(2)	\$ 165
Long-term obligations, less current maturities(1).....	\$20,246	\$ 20,246	\$ 20,246
Stockholders' equity:			
Preferred Stock: \$0.01 par value, 5,000,000 shares authorized; none issued or outstanding.....	--	--	--
Common Stock: \$0.01 par value, 52,969,912 shares authorized; 14,875,774 shares issued and outstanding pro forma combined; and 20,975,774 shares issued and outstanding, as adjusted(3).....	433	140	210
Additional paid-in capital.....	11,731	100,978	180,783
Retained earnings (deficit).....	(3,781)	--	--
Treasury stock.....	(1,201)	--	--
Total stockholders' equity.....	7,182	101,118	180,993
Total capitalization.....	\$27,428	\$ 121,364	\$ 201,239

- (1) For a description of the Company's debt, see the Notes to Unaudited Pro Forma Combined Financial Statements and Notes to the Founding Companies' Financial Statements.
- (2) Includes a \$45.3 million note payable to owners of the Founding Companies, representing the cash portion of the Merger consideration that was paid from a portion of the net proceeds of the IPO.
- (3) Excludes 2,174,954 shares of Common Stock subject to options to be granted upon consummation of the IPO at an exercise price equal to the initial public offering price. See "Management -- 1997 Long-Term Incentive Plan" and "-- 1997 Non-Employee Directors' Stock Plan."

SELECTED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Comfort Systems acquired the Founding Companies in connection with the consummation of the IPO. For financial statement presentation purposes, Comfort Systems has been identified as the "accounting acquirer." The following selected financial data for Comfort Systems as of December 31, 1996 has been derived from audited financial statements of Comfort Systems. The selected historical financial data as of June 30, 1997 and the six months ended June 30, 1997 have been derived from unaudited financial statements of Comfort Systems, which have been prepared on the same basis as the audited financial statements and, in the opinion of Comfort Systems, reflect all adjustments consisting of normal recurring adjustments, necessary for a fair presentation of such data. The selected unaudited pro forma combined financial data present data for the Company, adjusted for (i) the effects of the Mergers, (ii) the effects of certain pro forma adjustments to the historical financial statements described below and (iii) the consummation of the IPO and the application of the net proceeds therefrom. See the Unaudited Pro Forma Combined Financial Statements and the Notes thereto and the historical Financial Statements of Comfort Systems and certain of the Founding Companies and the Notes thereto included elsewhere in this Prospectus.

	TWELVE MONTHS ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, 1997		
	-----	-----		
<b>INCOME STATEMENT DATA:</b>				
<b>COMFORT SYSTEMS</b>				
Revenues.....	\$ --	\$ --		
Gross profit.....	--	--		
Selling, general and administrative expenses(1).....	--	11,556		
	-----	-----		
Loss from operations.....	--	(11,556)		
Interest and other income (expense), net.....	--	--		
	-----	-----		
Net loss.....	\$ --	\$ (11,556)		
	=====	=====		
<b>PRO FORMA COMBINED(2)</b>				
Revenues.....	\$ 167,525	\$ 86,900		
Gross profit.....	47,813	24,505		
Selling, general and administrative expenses(3).....	27,814	15,397		
Goodwill amortization(4).....	3,495	1,748		
Income from operations.....	16,504	7,360		
Interest and other income (expense), net(5).....	(798)	(530)		
Income before income taxes.....	15,706	6,830		
Net income(6).....	8,026	3,621		
Net income per share.....	0.44	0.20		
Shares used in computing pro forma net income per share(7)...	18,252,311	18,252,311		
	COMFORT SYSTEMS		COMBINED COMPANIES	
	-----		-----	
	DECEMBER 31,	JUNE 30,	JUNE 30, 1997	
	-----	-----	-----	
	1996	1997	PRO FORMA COMBINED(8)	AS ADJUSTED(9)
	-----	-----	-----	-----
<b>BALANCE SHEET DATA:</b>				
Working capital(5).....	\$ 1	\$ 42	\$ (23,874)(10)	\$ 56,001
Total assets.....	178	4,598	195,394	225,410
Long-term debt, net of current maturities(5).....	--	--	20,246	20,426
Stockholders' equity(5).....	1	42	101,118	180,993

(FOOTNOTES ON FOLLOWING PAGE)

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- (1) Represents the non-recurring, non-cash Compensation Charge of \$11.6 million.
  - (2) The pro forma combined income statement data assume that the Mergers and the IPO were consummated on January 1, 1996 and are not necessarily indicative of the results the Company would have obtained had these events actually then occurred or of the Company's future results.
  - (3) The pro forma combined income statement data reflect the Compensation Differential of \$6.6 million for the twelve months ended December 31, 1996 and \$2.5 million for the six months ended June 30, 1997 and does not include the Compensation Charge of \$11.6 million recorded in the first quarter of 1997.
  - (4) Consists of amortization of goodwill to be recorded as a result of the Mergers over a 40-year period and computed on the basis described in the Notes to the Unaudited Pro Forma Combined Financial Statements.
  - (5) Several of the Founding Companies were S Corporations. In connection with the Mergers, these Founding Companies made S Corporation Distributions totalling \$20.9 million through June 30, 1997. In order to fund these distributions, the Founding Companies borrowed \$11.0 million from existing sources. Accordingly, pro forma interest expense has been increased by \$772,000 for the twelve months ended December 31, 1996 and \$386,000 for the six months ended June 30, 1997, pro forma working capital has been reduced by \$1.9 million, pro forma long-term debt has been increased by \$11.0 million and pro forma stockholders' equity has been reduced by \$12.9 million.
  - (6) Assuming a corporate income tax rate of 40% and the non-deductibility of goodwill.
  - (7) Includes (i) 2,969,912 shares issued to Notre, (ii) 1,269,935 shares issued to management of and consultants to Comfort Systems, (iii) 9,720,927 shares issued to owners of the Founding Companies and (iv) 4,291,537 of the 7,015,000 shares sold in the Offering necessary to pay the cash portion of the Merger consideration and expenses of the IPO and excludes 915,000 shares of common stock purchased by the underwriters pursuant to an overallotment option.
  - (8) The pro forma combined balance sheet data assume that the Mergers were consummated on June 30, 1997.
  - (9) Adjusted for the sale of the 7,015,000 shares of Common Stock offered in the IPO and the application of the estimated net proceeds therefrom.
  - (10) Includes a \$45.3 million note payable to owners of the Founding Companies, representing the cash portion of the Merger consideration paid from a portion of the net proceeds of the IPO.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Financial Data" and the Founding Companies' Financial Statements and related Notes thereto appearing elsewhere in this Prospectus.

This discussion contains statements regarding future financial performance and results. The realization of outcomes consistent with these forward-looking statements is subject to numerous risks and uncertainties to the Company including, but not limited to, the availability of attractive acquisition opportunities, the successful integration and profitable management of acquired businesses, improvement of operating efficiencies, the availability of working capital and financing for future acquisitions, the Company's ability to grow internally through expansion of services and customer bases and reduction of overhead, seasonality and other risk factors discussed in the Registration Statement.

#### INTRODUCTION

The Company's revenues are derived from providing comprehensive HVAC installation services and maintenance, repair and replacement of HVAC systems primarily for commercial and industrial customers. The Company's commercial and industrial applications include office buildings, retail centers, apartment complexes, hotels, manufacturing plants and government facilities. The Company also provides specialized HVAC applications such as process cooling, control systems, electronic monitoring and process piping. Approximately 90% of the Company's pro forma combined 1996 revenues of \$167.5 million was derived from commercial and industrial customers, with approximately 53% of total revenues attributable to installation services and 47% attributable to maintenance, repair and replacement services.

Revenues related to commercial and industrial installation are of two types: "design and build" and "plan and spec." Approximately 80% of the commercial and industrial installation revenues for 1996 were generated from "design and build" projects, which generally yield higher margins than "plan and spec" projects because the Company is responsible for designing, engineering and installing a cost-effective, energy-efficient system that is customized to the specific needs of the building owner. This enables the Company to control the customer's cost and reduce overall design and installation time. Additionally, the costs and other terms of "design and build" projects are normally established through relationship-based negotiation with the building owner or its representative rather than through a competitive bid process. "Plan and spec" installation projects typically yield lower margins than "design and build" projects because the building's architect or consulting engineer designs the HVAC system and the installation project is put out for bid.

Most installation and reconfiguration projects are completed within one year. Generally, these contracts are accounted for under the percentage-of-completion method of accounting. Revenues are recorded based on the percentage of costs incurred during a particular period, in proportion to total estimated costs for each contract. Maintenance, repair and replacement service revenues are recorded as services are performed. Costs of services consist primarily of HVAC components, parts and materials related to new installation, equipment maintenance and rental, salaries and benefits payable to service and repair technicians, as well as supervisory and subcontract labor. Selling, general and administrative expenses consist primarily of compensation and benefits to owners as well as to sales and administrative employees, fees for professional services, depreciation of equipment and other general office expenses. Selling, general and administrative expenses also include incentive and discretionary bonuses paid to owners, significant portions of which were paid in lieu of S Corporation distributions to enable stockholders to meet their income tax obligations.

The Founding Companies have operated throughout the periods presented as independent, privately-owned entities, and their results of operations reflect varying tax structures (S Corporations or C Corporations) which have influenced the historical level of owners' compensation. Gross profit margins and selling, general and administrative expenses as a percentage of revenues may not be comparable among the individual Founding Companies. The owners of the Founding Companies have agreed to certain reductions in their compensation and benefits in connection with the organization of the Company. The Compensation

Differential for 1996 of \$6.6 million and \$2.5 million for the six months ended June 30, 1997 has been reflected as a pro forma adjustment in the Unaudited Pro Forma Combined Statements of Operations.

The Company anticipates that following the Mergers it will realize savings from (i) greater volume discounts from suppliers of HVAC components, parts and raw materials; (ii) consolidation of insurance and bonding programs; (iii) other general and administrative areas such as training and advertising; and (iv) the Company's ability to borrow at lower interest rates than most of the Founding Companies. It is anticipated that these savings will be offset by costs related to the Company's new corporate management and by the costs associated with being a public company. The Company believes that neither these savings nor the costs associated therewith can be quantified because the Mergers have not occurred, and there have been no combined operating results upon which to base any assumptions. As a result, they have not been included in the pro forma financial information included herein.

During January and February 1997, Comfort Systems sold an aggregate of 1,269,935 shares of Common Stock to management and consultants. As a result, the Company recorded a non-recurring, non-cash Compensation Charge of \$11.6 million in the first quarter of 1997, representing the difference between the amount paid for the shares and the estimated fair value of the shares on the date of sale. This Compensation Charge of \$11.6 million is not included in pro forma financial information or Combined Results of Operations.

In July 1996, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 97 ("SAB 97") relating to business combinations immediately prior to an initial public offering. SAB 97 requires that these combinations be accounted for using the purchase method of acquisition accounting. Under the purchase method, one of the companies must be designated as the accounting acquirer. For the remaining companies, \$139.3 million, representing the excess of the fair value of the Merger consideration received over the fair value of the net assets to be acquired, will be recorded as "goodwill" on the Company's balance sheet. Goodwill will be amortized as a non-cash charge to the income statement over a 40-year period. The pro forma impact of this amortization expense, which is non-deductible for tax purposes, is \$3.5 million per year on an after-tax basis. Prior to the issuance of SAB 97, goodwill and related amortization expense were not required to be recorded for most business combinations similar to the Mergers. See "Certain Transactions -- Organization of the Company."

#### COMBINED RESULTS OF OPERATIONS

The combined results of operations of the Founding Companies for the periods presented do not represent combined results of operations presented in accordance with generally accepted accounting principles, but are only a summation of the revenues, cost of services and selling, general and administrative expenses of the individual Founding Companies on a historical basis. The combined results also exclude the effect of pro forma adjustments and may not be comparable to, and may not be indicative of, the Company's post-combination results of operations because (i) the Founding Companies were not under common control or management during the periods presented; (ii) the Founding Companies used different tax structures (S Corporations or C Corporations) during the periods presented; (iii) the Company will incur incremental costs related to its new corporate management and the costs of being a public company; (iv) the Company will use the purchase method to record the Mergers, resulting in the recording of goodwill which will be amortized over 40 years; and (v) the combined data do not reflect the Compensation Differential and potential benefits and cost savings the Company expects to realize when operating as a combined entity.

The following table sets forth the combined results of operations of the Founding Companies on a historical basis and such results as a percentage of revenues.

	FISCAL YEARS ENDED(1)						SIX MONTHS ENDED JUNE 30,	
	1994		1995(2)		1996(2)		1996	
(IN THOUSANDS)								
Revenues.....	\$ 124,710	100.0%	\$ 146,512	100.0%	\$ 167,525	100.0%	\$ 78,738	100.0%
Cost of services.....	92,318	74.0	105,043	71.7	119,712	71.5	56,859	72.2
Gross profit.....	32,392	26.0	41,469	28.3	47,813	28.5	21,879	27.8
Selling, general and administrative expenses.....	27,386	22.0	31,038	21.2	34,382	20.5	16,336	20.7
Income from operations.....	5,006	4.0	10,431	7.1	13,431	8.0	5,543	7.1
1997								
Revenues.....	\$ 86,900	100.0%						
Cost of services.....	62,395	71.8						
Gross profit.....	24,505	28.2						
Selling, general and administrative expenses.....	17,430	20.1						
Income from operations.....	7,075	8.1						

(1) The fiscal years presented are as follows: Quality -- the fiscal years ended March 31, 1995 and 1996 and the year ended December 31, 1996; Atlas and Accurate -- the fiscal years ended June 30, 1994 and 1995 and the year ended December 31, 1996; Lawrence -- the fiscal years ended October 31, 1994, 1995 and 1996; and Tri-City, Eastern, CSI/Bonneville, Tech, Seasonair and Western -- the years ended December 31 for all periods presented.

(2) The financial data for 1995 and 1996 both include Quality's results for the three months ended March 31, 1996 which were as follows: revenues of \$6.3 million, cost of services of \$4.3 million, and selling, general and administrative expenses of \$1.6 million.

COMBINED RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1996

**REVENUES.** Pro forma combined revenues increased \$8.2 million, or 10.4% million from \$78.7 million for the six months ended June 30, 1996, to \$86.9 million for the six months ended June 30, 1997. This resulted primarily from increases in revenues at Tri-City, Lawrence and Quality, net of a decline at Accurate. Revenues at Tri-City increased \$5.8 million primarily due to two design/build installation projects. One of these projects is for a large nationally-known healthcare organization and involves the first major facility on what is expected to be a medical campus covering more than 100 acres. The second project is at a new fabrication facility for a major semiconductor manufacturer. Revenues at Lawrence increased \$2.2 million over the same six month period as a result of a "design and build" installation project at a manufacturing facility in North Carolina and a "design and build" installation project for a nationally known consumer products company. Quality's revenues increased \$1.4 million over 1996 due to broad-based growth in its design/build activity and its maintenance, repair and replacement service. These increases were partially offset by a decline of \$1.2 million at Accurate due to inclement and unseasonably cool weather in Houston, its primary market, during the first six months of 1997.

**GROSS PROFIT.** Combined gross profit as a percentage of revenues for the six months of increases at Atlas, Lawrence, Quality and Eastern, net of a decline at Tri-City. Atlas' gross margin increased as a result of its ability to be more selective in accepting projects in design/build installation for multi-unit facilities. Lawrence's gross margin was up as a result of its ability to earn better margins on design/build work from a growing client base. Quality's gross margin improved due to increasing demand for its services in its market and because its gross margin during the first half of 1996 was somewhat lower due to narrower margins on a large automotive industry project it completed in the second quarter of 1996. These increases were partially offset by a decrease in gross margin at Tri-City where the medical facility project referred to above included a significant amount of revenue related to subcontract work and procured equipment, both of which typically carry lower margins. In addition, Accurate also contributed to the increase in six-month gross margin through the use of less subcontracting.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Combined SG&A expenses increased \$1.1 million, or 6.7%, from \$16.3 million for the six months ended June 30, 1996, to \$17.4 million for the six months ended June 30, 1997. This increase was principally due to additions to personnel and infrastructure at Quality, Atlas, Lawrence and Tri-City to support growth in their commercial and industrial "design and build" installation activity. As a percentage of revenues, SG&A decreased from 20.7% for the first half of 1996 to 20.1% for the first half of 1997.

COMBINED RESULTS FOR 1996 COMPARED TO 1995

REVENUES. Combined revenues increased approximately \$21.0 million, or 14.3%, from \$146.5 million in 1995 to \$167.5 million in 1996. The increase in combined revenues occurred primarily at Atlas,

Accurate and Lawrence. This increase in combined revenues was primarily attributable to an increase in commercial and industrial "design and build" revenues of approximately 15% and an increase in maintenance, repair and replacement revenues of approximately 30%. Revenues for Atlas increased \$7.6 million from 1995 to 1996 due to increasing demand by several large national customers for HVAC "design and build" installation services provided by Atlas for multi-unit facilities. Revenues for Accurate increased \$4.6 million from 1995 to 1996 reflecting the success of an increased marketing effort along with the addition of sales personnel and project managers. Revenues at Lawrence increased by \$4.6 million from 1995 to 1996 due to a management decision in 1995 to expand the number of general contractors for which Lawrence provides industrial installation services and due to a large "design and build" installation contract obtained in 1996 for a food processing facility. Seven of the other Founding Companies reported an increase in revenues from 1995 and 1996, partially offset by a decline in revenues at Quality and Tri-City.

GROSS PROFIT. Combined gross profit increased \$6.3 million, or 15.3%, from \$41.5 million in 1995 to \$47.8 million in 1996, due principally to increases in gross profit of \$2.2 million at Atlas, \$1.5 million at Lawrence and \$1.1 million at Western. As a percentage of revenues, combined gross profit increased from 28.3% in 1995 to 28.5% in 1996. Gross profit as a percentage of revenues at Atlas increased from 12.5% of revenues in 1995 to 16.5% of revenues in 1996 as increasing demand for Atlas' specialized installation services enabled Atlas to earn higher margins. Gross profit as a percentage of revenues at Accurate decreased from 26.1% of revenues in 1995 to 21.0% of revenues in 1996 as a result of an increase in overtime and subcontract labor necessary to support the increased number of "design and build" projects. Gross profit as a percentage of revenues at Western increased from 17.1% to 28.2% from 1995 to 1996, which resulted in part from Western's participation in an incentive program sponsored by the Public Service Company of Colorado during 1996. Western does not intend to participate in this program during 1997.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased \$3.4 million, or 10.8%, from \$31.0 million in 1995 to \$34.4 million in 1996. Selling, general and administrative expenses increased \$1.4 million at Lawrence, approximately one-half of which was related to increases in salary and incentive compensation paid to the owners, and the other half of which was related to increases in incentive compensation and discretionary profit sharing contributions for employees. Selling, general and administrative expenses increased \$0.7 million at Tri-City as a result of a \$1.1 million increase in compensation to the owners in lieu of S Corporation distributions, offset by \$0.4 million of reductions in other overhead expenses. As a percentage of combined revenues, selling, general and administrative expenses decreased from 21.2% in 1995 to 20.5% in 1996.

#### COMBINED RESULTS FOR 1995 COMPARED TO 1994

REVENUES. Combined revenues increased approximately \$21.8 million, or 17.5%, from \$124.7 million in 1994 to \$146.5 million in 1995, primarily due to an increase in commercial and industrial "design and build" revenues of approximately 40% and an increase of approximately 10% in maintenance, repair and replacement revenues. Revenues at Quality increased \$8.2 million from 1994 to 1995 as a result of management's focus on obtaining more "design and build" projects and related service work. Revenues at Tri-City increased \$8.1 million from 1994 to 1995 as a result of a strategy implemented in late 1994 to focus on larger "design and build" projects and the related service relationships. To accomplish its strategy, Tri-City increased the size of its sales and project management staff.

GROSS PROFIT. Combined gross profit increased \$9.1 million, or 28.0%, from \$32.4 million in 1994 to \$41.5 million in 1995. Gross profit increased \$3.1 million at Tri-City and \$2.9 million at Quality. As a percentage of revenues, combined gross profit increased from 26.0% in 1994 to 28.3% in 1995. Gross profit as a percentage of revenues at Tri-City increased from 15.5% in 1994 to 22.9% in 1995 as a result of an increase in the number of higher-margin "design and build" installation projects. Gross profit as a percentage of revenues at Lawrence increased from 23.2% in fiscal 1994 to 27.3% in fiscal 1995 as management emphasized higher-margin "design and build" projects and successfully implemented an incentive program for project managers to control project costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased \$3.6 million, or 13.3%, from \$27.4 million in 1994 to \$31.0 million in 1995. Selling, general and



administrative expenses increased \$1.0 million at Tri-City from 1994 to 1995 primarily due to a \$0.8 million increase in compensation to its owners. Selling, general and administrative expenses at Lawrence increased \$0.6 million primarily due to an increase in salary and incentive compensation to its owners. As a percentage of combined revenues, combined selling, general and administrative expenses decreased from 22.0% in 1994 to 21.2% in 1995.

#### COMBINED LIQUIDITY AND CAPITAL RESOURCES

During the six months ended June 30, 1997, net cash provided by operating activities was \$4.8 million, capital expenditures were \$1.1 million and net borrowings of debt amounted to \$11.8 million. Additionally, payments for S Corporation Distributions were \$20.6 million. At June 30, 1997, the combined Founding Companies had working capital of \$21.4 million and total debt of \$20.5 million, including \$1.9 million of debt to stockholders.

In connection with and prior to the Mergers, certain Founding Companies made S Corporation Distributions to their owners of substantially all of their previously-taxed undistributed earnings. The pro forma combined financial statements as of March 31, 1997 and for the three months then ended, included elsewhere in this Prospectus, reflect pro forma adjustments for the estimated amount of these S Corporation Distributions and additional debt needed to fund these distributions had they occurred in their entirety as of March 31, 1997. These pro forma adjustments reflect \$16.8 million of S Corporation Distributions and \$11.0 million of additional debt.

On a combined basis, the Founding Companies generated \$9.0 million of net cash from operating activities during fiscal 1996, primarily at Quality, Tri-City and CSI/Bonneville. Net cash used in investing activities was \$3.0 million on a combined basis, primarily for equipment purchases. Net cash used in financing activities was \$7.3 million on a combined basis, consisting of net reductions in long-term debt of \$1.6 million and distributions to stockholders of \$5.7 million. At December 31, 1996, the combined Founding Companies had working capital of \$18.9 million and total debt of \$8.6 million, including debt to stockholders.

The Company intends to pursue acquisition opportunities. The Company expects to fund future acquisitions through the issuance of additional Common Stock, borrowings, including use of amounts available under its credit facility executed in connection with the IPO and cash flow from operations. The Company anticipates that its cash flow from operations will provide cash in excess of the Company's normal working capital needs, debt service requirements and planned capital expenditures for equipment. On a combined basis, the Founding Companies made capital expenditures of \$2.3 million in fiscal 1996.

The Company has obtained a revolving line of credit of \$75.0 million from Bank One. The facility will be used for acquisitions, capital expenditures, refinancing of debt not paid out of the proceeds of the IPO and for general corporate purposes. The credit facility requires the Company to comply with various loan covenants including (i) maintenance of certain financial ratios, (ii) restrictions on additional indebtedness, and (iii) restrictions on liens, guarantees, advances and dividends. As of October 13, 1997, borrowings under the line of credit were \$18.9 million, which was used to repay existing indebtedness of the Founding Companies.

#### QUALITY RESULTS OF OPERATIONS

Quality, headquartered in Grand Rapids, Michigan, was founded in 1968 and operates primarily throughout western Michigan. Quality focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems, primarily for medium and large commercial facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED MARCH 31,		YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,			
	1995	1996(1)	1996(1)	1996(1)	1995	1996		
(IN THOUSANDS)								
Revenues.....	\$ 24,434	100.0%	\$ 32,594	100.0%	\$ 29,597	100.0%	\$ 26,279	100.0%
Cost of services.....	15,634	64.0	20,850	64.0	18,467	62.4	16,559	63.0
Gross profit.....	8,800	36.0	11,744	36.0	11,130	37.6	9,720	37.0
Selling, general and administrative expenses.....	6,646	27.2	6,791	20.8	6,640	22.4	5,183	19.7
Income from operations.....	2,154	8.8	4,953	15.2	4,490	15.2	4,537	17.3
SIX MONTHS ENDED JUNE 30,								
	1996		1996		1997			
Revenues.....	\$ 23,282	100.0%	\$ 15,396	100.0%	\$ 16,747	100.0%		
Cost of services.....	14,176	60.9	9,819	63.8	9,854	58.8		
Gross profit.....	9,106	39.1	5,577	36.2	6,893	41.2		
Selling, general and administrative expenses.....	5,032	21.6	3,186	20.7	3,879	23.2		
Income from operations.....	4,074	17.5	2,391	15.5	3,014	18.0		

(1) The financial data for the year ended December 31, 1996 and the year ended March 31, 1996 both include results for the three months ended March 31, 1996, which were as follows: revenues of \$6.3 million, cost of services of \$4.3 million and selling, general and administrative expenses of \$1.6 million.

#### QUALITY RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

**REVENUES.** Revenues increased \$1.4 million, or 8.8%, from \$15.4 million for the six months ended June 30, 1996 to \$16.7 million for the six months ended June 30, 1997 due to broad based growth in its commercial "design and build" installation activity and maintenance, repair and replacement revenues.

**GROSS PROFIT.** Gross profit increased \$1.3 million, or 23.6%, from \$5.6 million for the six months ended June 30, 1996 to \$6.9 million for the six months ended June 30, 1997. As a percentage of revenues, gross profit increased from 36.2% to 41.2%. Quality's gross margin improved due to increasing demand for its services in its market and because its gross margin during the first half of 1996 was somewhat lower due to narrower margins on a large automotive "design and build" installation it completed in the second quarter of 1996.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.7 million, or 21.8%, from \$3.2 million for the six months ended June 30, 1996 to \$3.9 million for the six months ended June 30, 1997. The increase in selling, general and administrative expenses was primarily attributable to additions in personnel and infrastructure to support the growth in commercial "design and build" installation activity. As a percentage of revenues, selling, general and administrative expenses increased from 20.7% to 23.2%.

#### QUALITY RESULTS FOR NINE MONTHS ENDED DECEMBER 31, 1996 COMPARED TO NINE MONTHS ENDED DECEMBER 31, 1995

**REVENUES.** Revenues decreased \$3.0 million, or 11.4%, from \$26.3 million for the nine months ended December 31, 1995 to \$23.3 million for the nine months ended December 31, 1996 due to a decrease in Quality's volume of commercial "design and build" installation projects. Quality's decline in revenues from 1995 to 1996 resulted from management's decision to be more selective in accepting installation projects. Management continues to emphasize project selectivity and expansion of capacity through the addition of technical staff and management rather than through subcontract labor and employee overtime.

**GROSS PROFIT.** Gross profit decreased \$0.6 million, or 6.3%, from \$9.7 million for the nine months ended December 31, 1995 to \$9.1 million for the nine months ended December 31, 1996. As a percentage of revenues, gross profit increased from 37.0% to 39.1% due to management's emphasis on project selection and a decrease in the use of subcontract labor, employee overtime and outside services.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses decreased \$0.2 million, or 2.9%, from \$5.2 million for the nine months ended December 31, 1995 to \$5.0 million for the nine months ended December 31, 1996. As a percentage of revenues, these expenses increased from 19.7% to 21.6% due to the decline in revenues.

#### QUALITY RESULTS FOR YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED MARCH 31, 1996

REVENUES. Revenues decreased \$3.0 million, or 9.2%, from \$32.6 million for the year ended March 31, 1996 to \$29.6 million for the year ended December 31, 1996, for the reasons described above.

**GROSS PROFIT.** Gross profit decreased \$0.6 million, or 5.2%, from \$11.7 million for the year ended March 31, 1996 to \$11.1 million for the year ended December 31, 1996. As a percentage of revenues, gross profit increased from 36.0% to 37.6% due to management's emphasis on project selection and a decrease in the use of subcontract labor, employee overtime and outside services.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses decreased \$0.2 million, or 2.2%, from \$6.8 million for the year ended March 31, 1996 to \$6.6 million for the year ended December 31, 1996. As a percentage of revenues, selling, general and administrative expenses increased from 20.8% to 22.4% due to the decline in revenues.

#### QUALITY RESULTS FOR YEAR ENDED MARCH 31, 1996 COMPARED TO YEAR ENDED MARCH 31, 1995

**REVENUES.** Revenues increased \$8.2 million, or 33.4%, from \$24.4 million for the fiscal year ended March 31, 1995 to \$32.6 for the fiscal year ended March 31, 1996. This increase in revenues was primarily attributable to management's emphasis on obtaining more "design and build" installation projects and the related service work.

**GROSS PROFIT.** Gross profit increased \$2.9 million, or 33.5%, from \$8.8 million for the fiscal year ended March 31, 1995 to \$11.7 million for the fiscal year ended March 31, 1996. As a percentage of revenues, gross profit remained unchanged at 36.0% as the benefits associated with higher revenues were offset by an increase in subcontract labor, employee overtime and outside services.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.2 million, or 2.2%, from \$6.6 million for the fiscal year ended March 31, 1995 to \$6.8 million for the fiscal year ended March 31, 1996. As a percentage of revenues, selling, general and administrative expenses decreased from 27.2% to 20.8% as the Company successfully leveraged its infrastructure to support the significant increase in volume.

#### QUALITY LIQUIDITY AND CAPITAL RESOURCES

Quality generated \$1.9 million in net cash from operating activities for the six months ended June 30, 1997. Net cash used in investing activities was approximately \$0.2 million, principally from purchases of equipment. Net cash used in financing activities was \$3.8 million, representing borrowings of long-term debt of \$6.1 million and distributions to shareholders of \$9.9 million.

At June 30, 1997, Quality had working capital of \$6.2 million and \$7.4 million of total debt outstanding.

Quality generated \$4.5 million in net cash from operating activities for the twelve months ended December 31, 1996. Net cash used in investing activities was approximately \$0.4 million, principally for equipment purchases. Net cash used in financing activities was \$4.4 million, of which \$3.5 million was distributed to shareholders and \$0.9 million was used to repay long-term debt.

At December 31, 1996, Quality had working capital of \$4.9 million and \$1.3 million of total debt outstanding.

#### ATLAS RESULTS OF OPERATIONS

Atlas, headquartered in Houston, Texas, was founded in 1947 and operates primarily in the southwest, northeast and mid-Atlantic regions of the United States. Atlas is a leading provider of HVAC installation services for apartment complexes, condominiums, hotels and elder care facilities in the United States and also provides maintenance, repair and replacement of HVAC systems.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED JUNE 30,						SIX MONTHS ENDED DECEMBER 31,	
	1994		1995		1996		1995	
	(IN THOUSANDS)							
Revenues.....	\$ 21,848	100.0%	\$ 22,444	100.0%	\$ 29,174	100.0%	\$ 14,689	100.0%
Cost of services.....	19,657	90.0	19,635	87.5	25,449	87.2	12,886	87.7
Gross profit.....	2,191	10.0	2,809	12.5	3,725	12.8	1,803	12.3
Selling, general and administrative expenses.....	2,086	9.5	2,166	9.6	2,843	9.8	1,417	9.6
Income from operations.....	105	0.5	643	2.9	882	3.0	386	2.7
	SIX MONTHS ENDED MARCH 31,							
	1996		1996		1997			
Revenues.....	\$ 15,545	100.0%	\$ 14,485	100.0%	\$ 13,962	100.0%		
Cost of services.....	12,508	80.5	12,562	86.7	11,166	80.0		
Gross profit.....	3,037	19.5	1,923	13.3	2,796	20.0		
Selling, general and administrative expenses.....	1,432	9.2	1,426	9.8	1,740	12.5		
Income from operations.....	1,605	10.3	497	3.5	1,056	7.5		

ATLAS RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

**REVENUES.** Revenues decreased \$0.5 million, or 3.6%, from \$14.5 million for the six months ended June 30, 1996 to \$14.0 million for the six months ended June 30, 1997.

**GROSS PROFIT.** Gross profit increased \$0.9 million, or 45.4%, from \$1.9 million for the six months ended June 30, 1996 to \$2.8 million for the six months ended June 30, 1997. As a percentage of revenues, gross profit increased from 13.3% to 20.0%. Atlas' gross margin increased as a result of its ability to be more selective in accepting "design and build" projects for multi-unit facilities.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.3 million, or 22.0%, from \$1.4 million for the six months ended June 30, 1996 to \$1.7 million for the six months ended June 30, 1997. This increase was principally due to addition to personnel and infrastructure. As a percentage of revenues, selling, general and administrative expenses increased from 9.8% to 12.5%.

ATLAS RESULTS FOR SIX MONTHS ENDED DECEMBER 31, 1996 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 1995

**REVENUES.** Revenues increased \$0.8 million, or 5.8%, from \$14.7 million for the six months ended December 31, 1995 to \$15.5 million for the six months ended December 31, 1996. This increase was primarily attributable to an increase in demand for Atlas' specialized services for multi-unit facilities.

**GROSS PROFIT.** Gross profit increased \$1.2 million, or 68.4%, from \$1.8 million for the six months ended December 31, 1995 to \$3.0 million for the six months ended December 31, 1996. As a percentage of revenues, gross profit increased from 12.3% to 19.5% due to an increase in the proportion of "design and build" projects and management's ability to be more selective in accepting projects.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses remained unchanged at \$1.4 million for the six months ended December 31, 1995 and the six months ended December 31, 1996. As a percentage of revenues, selling, general and administrative expenses decreased from 9.6% to 9.2% as Atlas was able to increase revenues without a commensurate increase in overhead expenses.

ATLAS RESULTS FOR YEAR ENDED JUNE 30, 1996 COMPARED TO YEAR ENDED JUNE 30, 1995

**REVENUES.** Revenues increased \$6.8 million, or 30.0%, from \$22.4 million for the year ended June 30, 1995 to \$29.2 million for the year ended June 30, 1996 due to an increase in demand for Atlas' specialized services for multi-unit facilities.

**GROSS PROFIT.** Gross profit increased \$0.9 million, or 32.6%, from \$2.8 million for the year ended June 30, 1995 to \$3.7 million for the year ended June 30, 1996. As a percentage of revenues, gross profit increased from 12.5% to 12.8%.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.6 million, or 31.3%, from \$2.2 million for the year ended June 30, 1995 to \$2.8 million for the year ended June 30, 1996, as Atlas increased its infrastructure to support higher volume. As a percentage of revenues, selling, general and administrative expenses increased from 9.6% to



ATLAS RESULTS FOR JUNE 30, 1995 COMPARED TO YEAR ENDED JUNE 30, 1994

REVENUES. Revenues increased \$0.6 million, or 2.7%, from \$21.8 million for the year ended June 30, 1994 to \$22.4 million for the year ended June 30, 1995.

GROSS PROFIT. Gross profit increased \$0.6 million, or 28.2%, from \$2.2 million for the year ended June 30, 1994 to \$2.8 million for the year ended June 30, 1995. As a percentage of revenues, gross profit increased from 10.0% to 12.5%. The increase in the gross profit percentage from 1994 to 1995 was primarily related to higher demand for Atlas' specialized installation services for multi-unit facilities and a decrease in lower-margin "plan and spec" projects.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$0.1 million, or 3.8%, from \$2.1 million for the twelve months ended June 30, 1994 to \$2.2 million for the twelve months ended June 30, 1995. As a percentage of revenues, selling, general and administrative expenses increased from 9.5% to 9.6%.

ATLAS LIQUIDITY AND CAPITAL RESOURCES

Atlas generated \$0.3 million in net cash from operating activities for the six months ended June 30, 1997. Net cash used in financing activities was \$0.1 million, representing repayments on notes payable, to affiliates.

At June 30, 1997, Atlas had working capital of \$3.5 million and total debt of \$1.6 million.

Atlas used \$0.3 million in net cash from operating activities for the twelve months ended June 30, 1996 primarily due to an increase in accounts receivable which were collected in subsequent periods. Net cash used in investing activities was approximately \$0.1 million for equipment purchases. Net cash provided by financing activities was \$0.3 million for the twelve months ended June 30, 1996, principally as a result of a net increase in long-term debt and notes payable.

At December 31, 1996, Atlas had working capital of \$2.7 million and total debt of \$1.8 million.

TRI-CITY RESULTS OF OPERATIONS

Tri-City, headquartered in Tempe, Arizona, was founded in 1962 and operates in Arizona, California and Nevada. Tri-City focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems primarily for large commercial and industrial facilities, as well as process piping for industrial facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED DECEMBER 31,						SIX MONTHS ENDED	
	1994		1995		1996		JUNE 30,	
							1996	
	(IN THOUSANDS)							
Revenues.....	\$ 16,883	100.0%	\$ 25,030	100.0%	\$ 24,237	100.0%	\$ 11,199	100.0%
Cost of services.....	14,271	84.5	19,298	77.1	18,561	76.6	8,417	75.2
Gross profit.....	2,612	15.5	5,732	22.9	5,676	23.4	2,782	24.8
Selling, general and administrative expenses.....	2,219	13.2	3,193	12.8	3,903	16.1	1,982	17.7
Income from operations.....	393	2.3	2,539	10.1	1,773	7.3	800	7.1
	1997							
Revenues.....	\$ 17,016	100.0%						
Cost of services.....	14,528	85.4						
Gross profit.....	2,488	14.6						
Selling, general and administrative expenses.....	1,346	7.9						
Income from operations.....	1,142	6.7						

TRI-CITY RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

REVENUES. Revenues increased \$5.8 million, or 51.9%, from \$11.2 million for the six months ended June 30, 1996 to \$17.0 million for the six months ended June 30, 1997 due primarily to two "design and build" installation projects. One of these projects is for a nationally-known healthcare organization, and represents the first major facility on what is expected to be a medical campus covering more than 100 acres. Tri-City pursued this project to expand its presence in its regional healthcare HVAC market. Tri-City was

selected as the lead mechanical contractor on this project. Installation of the HVAC and process piping systems on this project began in October 1996 and accounted for approximately 48% of the revenues in the six months ended June 30, 1997. The second project is at a new fabrication facility for a major semiconductor manufacturer.

**GROSS PROFIT.** Gross profit decreased \$0.3 million, or 10.6%, from \$2.8 million for the six months ended June 30, 1996 to \$2.5 million for the six months ended June 30, 1997. As a percentage of revenues, gross profit decreased from 24.8% to 14.6%. In its role as lead mechanical contractor on this major healthcare project Tri-City is responsible for arranging a significant amount of subcontract work as well as for procuring most of the HVAC equipment on this project. Margins on subcontract work and procured equipment are typically lower than margins on work performed directly by Tri-City.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses decreased \$0.6 million, or 32.1%, from \$2.0 million for the six months ended June 30, 1996 to \$1.3 million for the six months ended June 30, 1997 due to a decrease in owners' compensation. This decrease was partially offset by an increase in personnel and infrastructure to support growth in their commercial "design and build" installation activity. As a percentage of revenues, selling, general and administrative expenses decreased from 17.7% to 7.9% due to the decrease in owners' compensation.

#### TRI-CITY RESULTS FOR YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

**REVENUES.** Revenues decreased \$0.8 million, or 3.2%, from \$25.0 million in 1995 to \$24.2 million in 1996, primarily due to a decrease in "plan and spec" revenues from 1995 to 1996 of approximately \$2.0 million, partially offset by an increase of approximately \$1.2 million in commercial HVAC maintenance, repair and replacement service revenues.

**GROSS PROFIT.** Gross profit remained constant at \$5.7 million for 1995 and 1996. As a percentage of revenues, gross profit increased from 22.9% to 23.4%, due to a decrease in lower margin "plan and spec" projects in 1996.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.7 million, or 22.2%, from \$3.2 million in 1995 to \$3.9 million in 1996 due to a \$1.1 million increase in compensation to owners in lieu of S Corporation distributions, offset by a \$0.4 million reduction in other overhead expenses. As a percentage of revenues, selling, general and administrative expenses increased from 12.8% in 1995 to 16.1% in 1996, primarily as a result of the increase in owners' compensation.

#### TRI-CITY RESULTS FOR YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

**REVENUES.** Revenues increased \$8.1 million, or 48.2%, from \$16.9 million in 1994 to \$25.0 million in 1995 as a result of a strategy implemented in 1994 to emphasize "design and build" projects. To implement its strategy, Tri-City increased its sales and project management staff.

**GROSS PROFIT.** Gross profit increased \$3.1 million, or 119.4%, from \$2.6 million in 1994 to \$5.7 million in 1995. As a percentage of revenues, gross profit increased from 15.5% in 1994 to 22.9% in 1995 as a result of an increase in the proportion of "design and build" installation projects.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$1.0 million, or 43.9%, from \$2.2 million in 1994 to \$3.2 million in 1995. The increase in selling, general and administrative expenses in 1995 was primarily attributable to a \$0.8 million increase in compensation to owners in lieu of S Corporation distributions and an increase in the number of the sales personnel and project managers. As a percentage of revenues, selling, general and administrative expenses decreased from 13.2% in 1994 to 12.8% in 1995 as Tri-City was able to substantially increase its volume without a commensurate increase in overhead expenses.

#### TRI-CITY LIQUIDITY AND CAPITAL RESOURCES

Tri-City generated \$1.8 million in net cash from operating activities for the six months ended June 30, 1997. Net cash provided by investing activities was \$0.5 million from the sale of investments. Net cash used in financing activities was \$3.7 million of which \$3.1 was borrowed on the line of credit to fund distributions to shareholders of \$6.8 million.



At June 30, 1997, working capital was \$3.0 million and there was \$3.5 million of debt outstanding.

Tri-City generated \$1.4 million in net cash from operating activities in 1996. Net cash used in investing activities was approximately \$0.7 million, of which \$0.5 million was used for investments in U.S. Treasury obligations and \$0.2 million for equipment purchases. Net cash used in financing activities was \$1.2 million, primarily for distributions to shareholders.

At December 31, 1996, working capital was \$5.5 million and there was no debt outstanding.

#### LAWRENCE RESULTS OF OPERATIONS

Lawrence, headquartered in Jackson, Tennessee, was founded in 1917 and operates primarily in Tennessee and the surrounding states. Lawrence focuses on providing "design and build" installation services and process piping primarily for industrial facilities and maintenance, repair and replacement of commercial and industrial HVAC systems.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED OCTOBER 31,						EIGHT MONTHS ENDED JUNE 30	
	1994		1995		1996		1996	
(IN THOUSANDS)								
Revenues.....	\$ 12,758	100.0%	\$ 12,568	100.0%	\$ 17,163	100.0%	\$ 9,775	100.0%
Cost of services.....	9,797	76.8	9,142	72.7	12,211	71.1	7,200	73.7
Gross profit.....	2,961	23.2	3,426	27.3	4,952	28.9	2,575	26.3
Selling, general and administrative expenses.....	2,849	22.3	3,477	27.7	4,885	28.5	2,890	29.6
Income (loss) from operations.....	112	0.9	(51)	(0.4)	67	0.4	(315)	(3.3)
1997								
Revenues.....	\$ 11,575	100.0%						
Cost of services.....	8,156	70.5						
Gross profit.....	3,419	29.5						
Selling, general and administrative expenses.....	3,460	30.0						
Income (loss) from operations.....	(41)	(0.5)						

#### LAWRENCE RESULTS FOR EIGHT MONTHS ENDED JUNE 30, 1997 COMPARED TO EIGHT MONTHS ENDED JUNE 30, 1996

**REVENUES.** Revenues increased \$1.8 million, or 18.4%, from \$9.8 million for the eight months ended June 30, 1996 to \$11.6 million for the eight months ended June 30, 1997 primarily due to both an increase in "design and build" installation revenues primarily related to a manufacturing facility in North Carolina and a "design and build" installation project for a nationally known consumer products company.

**GROSS PROFIT.** Gross profit increased \$0.8 million, or 32.8%, from \$2.6 million for the eight months ended June 30, 1996 to \$3.4 million for the eight months ended June 30, 1997. As a percentage of revenues, gross profit increased from 26.3% to 29.5% as a result of its ability to earn better margins on "design and build" projects from a growing client base.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.6 million, or 19.7%, from \$2.9 million for the eight months ended June 30, 1996 to \$3.5 million for the eight months ended June 30, 1997 primarily due to an increase in discretionary bonuses to the owners and, to a lesser extent, additions to personnel and infrastructure to support growth in their commercial and industrial "design and build" installation activity. As a percentage of revenues, selling, general and administrative expenses increased from 29.6% to 30.0% due to the increase in owners' compensation.

#### LAWRENCE RESULTS FOR YEAR ENDED OCTOBER 31, 1996 COMPARED TO YEAR ENDED OCTOBER 31, 1995

**REVENUES.** Revenues increased \$4.6 million, or 36.6%, from \$12.6 million for the year ended October 31, 1995 to \$17.2 million for the fiscal year ended October 31, 1996 due to a management decision in 1995 to expand the number of general contractors for which Lawrence provides industrial installation services and due to a large "design and build" installation contract obtained in 1996 for a food processing facility in Tennessee.

**GROSS PROFIT.** Gross profit increased \$1.5 million, or 44.5%, from \$3.5 million for the fiscal year ended October 31, 1995 to \$5.0 million for the fiscal year ended October 31, 1996. As a percentage of

revenues, gross profit increased from 27.3% to 28.9%, primarily as a result of an increase in the volume of "design and build" installation projects.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$1.4 million, or 40.5%, from \$3.5 million for the fiscal year ended October 31, 1995 to \$4.9 million for the fiscal year ended October 31, 1996. The increase in selling, general and administrative expenses in fiscal 1996 was primarily attributable to a \$0.6 million increase in salary and incentive compensation paid to the owners and a \$0.7 million increase in incentive compensation to employees and discretionary profit sharing contributions. As a percentage of revenues, selling, general and administrative expenses increased from 27.7% in fiscal 1995 to 28.5% in fiscal 1996.

LAWRENCE RESULTS FOR FISCAL YEAR ENDED OCTOBER 31, 1995 COMPARED TO FISCAL YEAR ENDED OCTOBER 31, 1994

REVENUES. Revenues decreased \$0.2 million, or 1.5%, from \$12.8 million the fiscal year ended October 31, 1994 to \$12.6 million for the fiscal year ended October 31, 1995.

GROSS PROFIT. Gross profit increased \$0.4 million, or 15.7%, from \$3.0 million for the fiscal year ended October 31, 1994 to \$3.4 million for the fiscal year ended October 31, 1995. As a percentage of revenues, gross profit increased from 23.2% to 27.3% as management emphasized higher-margin "design and build" projects and successfully implemented an incentive program for project managers designed to control project costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$0.7 million, or 22.0%, from \$2.8 million in fiscal 1994 to \$3.5 million in fiscal 1995 primarily due to an increase in salary and incentive compensation paid to the owners. As a percentage of revenues, selling, general and administrative expenses increased from 22.3% in fiscal 1994 to 27.7% in fiscal 1995 and, as a result, Lawrence incurred an operating loss in fiscal 1995.

LAWRENCE LIQUIDITY AND CAPITAL RESOURCES

Lawrence used \$0.3 million in net cash from operating activities for the eight months ended June 30, 1997 primarily due to a decrease in accounts payable and accrued expenses. Net cash used in investing activities was approximately \$0.1 million, principally for equipment purchases. Net cash provided by financing activities was \$0.2 million from borrowings from shareholders.

Working capital as of June 30, 1997 was \$1.5 million and there was \$0.3 million of debt outstanding as of that date.

Lawrence generated \$0.1 million in net cash from operating activities for the fiscal year ended October 31, 1996. Net cash used in investing activities was approximately \$0.4 million, principally for equipment purchases and leasehold improvements.

Working capital as of October 31, 1996 was \$1.4 million and there was no debt outstanding as of that date.

ACCURATE RESULTS OF OPERATIONS

Accurate, headquartered in Houston, Texas, was founded in 1980 and operates primarily in Texas and Oklahoma. Accurate focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems for commercial facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED JUNE 30,		YEAR ENDED		SIX MONTHS ENDED			
	1994	1995	DECEMBER 31,	1996	JUNE 30,	1996		
	(IN THOUSANDS)							
Revenues.....	\$ 9,763	100.0%	\$ 12,171	100.0%	\$ 16,806	100.0%	\$ 7,416	100.0%
Cost of services.....	7,204	73.8	8,998	73.9	13,270	79.0	5,707	77.0
Gross profit.....	2,559	26.2	3,173	26.1	3,536	21.0	1,709	23.0
Selling, general and administrative expenses.....	2,681	27.5	2,960	24.3	3,037	18.0	1,376	18.6
Income (loss) from operations.....	(122)	(1.3)	213	1.8	499	3.0	333	4.4
	1997							
Revenues.....	\$ 6,204	100.0%						
Cost of services.....	4,776	77.0						
Gross profit.....	1,428	23.8						
Selling, general and administrative expenses.....	1,200	19.3						
Income (loss) from operations.....	228	4.5						

ACCURATE RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

REVENUES. Revenues decreased \$1.2 million, or 16.3%, from \$7.4 million for the six months ended June 30, 1996 to \$6.2 million for the six months ended June 30, 1997 due to a decrease in commercial installation services. This decrease resulted from a decrease in commercial installation services due to the inclement and unseasonably cool weather in Houston, its primary market.

GROSS PROFIT. Gross profit decreased \$0.3 million, or 16.4%, from \$1.7 million for the six months ended June 30, 1996 to \$1.4 million for the six months ended June 30, 1997. As a percentage of revenues, gross profit increased from 23.0% to 23.8% due to the use of less subcontracting.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased \$0.2, or 12.8% from \$1.4 million for the six months ended June 30, 1996 to \$1.2 million for the six months ended June 30, 1997 primarily due to a decrease in owners' compensation. As a percentage of revenues, selling, general and administrative expenses increased from 18.6% to 19.3%.

ACCURATE RESULTS FOR YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED JUNE 30, 1995

REVENUES. Revenues increased \$4.6 million, or 38.1%, from \$12.2 million for the year ended June 30, 1995 to \$16.8 million for the year ended December 31, 1996, reflecting the success of an increased marketing effort along with the addition of project management personnel who also have sales responsibility. These efforts resulted in an increase in commercial "design and build" installation revenues and an increase in replacement services.

GROSS PROFIT. Gross profit increased \$0.3 million, or 11.4%, from \$3.2 million for the year ended June 30, 1995 to \$3.5 million for the year ended December 31, 1996. As a percentage of revenues, gross profit decreased from 26.1% to 21.0%, primarily as a result of an increase in subcontract labor and employee overtime necessary to support the increased number of "design and build" projects.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses remained constant at \$3.0 million for the fiscal year ended June 30, 1995 and the year ended December 31, 1996. As a percentage of revenues, selling, general and administrative expenses decreased from 24.3% to 18.0% as Accurate was able to increase revenues without a commensurate increase in overhead expenses.

ACCURATE RESULTS FOR YEAR ENDED JUNE 30, 1995 COMPARED TO YEAR ENDED JUNE 30, 1994

REVENUES. Revenues increased \$2.4 million, or 24.7%, from \$9.8 million for the year ended June 30, 1994 to \$12.2 million for the fiscal year ended June 30, 1995. This increase was primarily attributable to a new project for an existing customer to design and build an HVAC system for a correctional facility and an increase in maintenance and replacement services.

GROSS PROFIT. Gross profit increased \$0.6 million, or 24.0%, from \$2.6 million for the fiscal year ended June 30, 1994 to \$3.2 million for the fiscal year ended June 30, 1995. As a percentage of revenues, gross profit remained stable over these periods.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$0.3 million, or 10.4%, from \$2.7 million in fiscal 1994 to \$3.0 million in fiscal 1995. As a percentage of revenues, selling, general and administrative expenses decreased from 27.5% to 24.3% as Accurate was able to increase revenues without a commensurate increase in overhead expenses.

#### ACCURATE LIQUIDITY AND CAPITAL RESOURCES

Accurate provided \$0.2 million of net cash for operating activities for the six months ended June 30, 1997. Net cash used in investing activities was \$0.1 million from the sale of property and equipment. Net cash used in financing activities of \$0.1 million resulted from an increase in long-term debt used to fund working capital needs.

Working capital at June 30, 1997 was \$1.6 million and total debt outstanding was \$1.0.

Accurate generated \$0.2 million in net cash from operating activities for the year ended December 31, 1996. Net cash used in investing activities was approximately \$0.1 million for equipment purchases.

Working capital at December 31, 1996 was \$0.2 million and total debt outstanding was \$1.3 million, of which \$0.6 million was owed to a shareholder.

#### CSI/BONNEVILLE RESULTS OF OPERATIONS

CSI/Bonneville, headquartered in Salt Lake City, Utah, was founded in 1969 and operates primarily in Utah. CSI/Bonneville focuses on providing maintenance, repair and replacement of HVAC systems for commercial and residential facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED DECEMBER 31,						SIX MONTHS ENDED	
	1994		1995		1996		JUNE 30,	
							1996	
	(IN THOUSANDS)							
Revenues.....	\$ 6,502	100.0%	\$ 6,361	100.0%	\$ 7,842	100.0%	\$ 3,509	100.0%
Cost of services.....	4,393	67.6	4,413	69.4	5,201	66.3	2,354	67.1
Gross profit.....	2,109	32.4	1,948	30.6	2,641	33.7	1,155	32.9
Selling, general and administrative expenses.....	1,228	18.9	1,500	23.6	1,660	21.2	723	20.6
Income from operations.....	881	13.5	448	7.0	981	12.5	432	12.3
	1997							
Revenues.....	\$ 3,828	100.0%						
Cost of services.....	2,535	66.2						
Gross profit.....	1,293	33.8						
Selling, general and administrative expenses.....	865	22.6						
Income from operations.....	428	11.2						

#### CSI/BONNEVILLE RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

REVENUES. Revenues increased \$0.3 million, or 9.1%, from \$3.5 million for the six months ended June 30, 1996 to \$3.8 million for the six months ended June 30, 1997 primarily due to an increase in commercial and residential maintenance, repair and replacement services.

GROSS PROFIT. Gross profit increased \$0.1 million, or 12.0%, from \$1.2 million for the six months ended June 30, 1996 to \$1.3 million for the six months ended June 30, 1997. As a percentage of revenues, gross profit increased from 32.9% to 33.8%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$0.1 million, or 19.6%, from \$0.7 million for the six months ended June 30, 1996 to \$0.9 million for the six months ended June 30, 1997 as a result of an increase in administrative personnel. As a percentage of revenues, selling, general and administrative expenses increased from 20.6% to 22.6%.

#### CSI/BONNEVILLE RESULTS FOR YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

REVENUES. Revenues increased \$1.4 million, or 23.3%, from \$6.4 million in 1995 to \$7.8 million in 1996, primarily as a result of an increase in both commercial and residential maintenance, repair and replacement services due to an increase in the number of sales and marketing personnel in 1995 and 1996. Revenues declined in 1995 due to the deployment of operating personnel to a move to a new facility in that year.

**GROSS PROFIT.** Gross profit increased \$0.7 million, or 35.6%, from \$1.9 million for 1995 to \$2.6 million in 1996. As a percentage of revenues, gross profit increased from 30.6% in 1995 to 33.7% in 1996. The lower gross profit in 1995 was due to the deployment of operating personnel to a move to a new facility.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.2 million, or 10.7%, from \$1.5 million in 1995 to \$1.7 million in 1996. As a percentage of revenues, selling, general and administrative expenses decreased from 23.6% in 1995 to 21.2% in 1996.

**CSI/BONNEVILLE RESULTS FOR YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994**

**REVENUES.** Revenues decreased from \$6.5 million in 1994 to \$6.4 million in 1995 as a result of CSI/Bonneville's move into a new facility during 1995.

**GROSS PROFIT.** Gross profit decreased \$0.2 million, or 7.6%, from \$2.1 million in 1994 to \$1.9 million in 1995. As a percentage of revenues, gross profit declined from 32.4% in 1994 to 30.6% in 1995 as a result of CSI/Bonneville's move into a new facility during 1995.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses increased \$0.3 million, or 22.1%, from \$1.2 million in 1994 to \$1.5 million in 1995. As a percentage of revenues, selling, general and administrative expenses increased from 18.9% in 1994 to 23.6% in 1995. This percentage increase was primarily attributable to rent, depreciation and related costs associated with the new facility occupied in 1995.

**CSI/BONNEVILLE LIQUIDITY AND CAPITAL RESOURCES**

CSI/Bonneville's operating activities generated \$0.4 million for the six months ended June 30, 1997. Net cash used in investing activities was \$0.1 million, principally for equipment purchases. Net cash used in financing activities was \$0.2 million. Distributions to shareholders of \$1.1 million was funded with borrowings of long-term debt of \$0.9 million.

Working capital at June 30, 1997 was \$0.7 million and total debt outstanding was \$1.4 million, all of which was owed to shareholders.

CSI/Bonneville generated \$1.1 million in net cash from operating activities in 1996. Net cash used in investing activities was \$0.2 million, principally for equipment purchases. Net cash used in financing activities was \$0.8 million, primarily for distributions to shareholders.

Working capital at December 31, 1996 was \$0.5 million and total debt outstanding was \$0.5 million, all of which was owed to shareholders.

**TECH RESULTS OF OPERATIONS**

Tech, headquartered in Solon, Ohio, was founded in 1979 and operates primarily in the greater Cleveland, Ohio area. Tech focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems for commercial and industrial facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED DECEMBER 31,				SIX MONTHS ENDED JUNE 30,			
	1995		1996		1996		1997	
	(IN THOUSANDS)							
Revenues.....	\$ 6,960	100.0%	\$ 7,537	100.0%	\$ 3,395	100.0%	\$ 3,904	100.0%
Cost of services.....	4,212	60.5	3,996	53.0	2,004	59.0	2,229	57.1
Gross profit.....	2,748	39.5	3,541	47.0	1,391	41.0	1,675	42.9
Selling, general and administrative expenses.....	1,800	25.9	1,861	24.7	957	28.2	1,059	27.1
Income from operations.....	948	13.6	1,680	22.3	434	12.8	616	15.5

TECH RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

REVENUES. Revenues increased \$0.5 million, or 15.0%, from \$3.4 million for the six months ended June 30, 1996 to \$3.9 million for the six months ended June 30, 1997 due primarily to an increase in commercial installation services because there were fewer days of inclement weather in the first three months of 1997 as compared to the prior comparable period.

GROSS PROFIT. Gross profit increased \$0.3 million, or 20.4%, from \$1.4 million for the six months ended June 30, 1996 to \$1.7 million for the six months ended June 30, 1997. As a percentage of revenues, gross profit increased from 41.0% to 42.9%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$0.1 million, or 10.7%, from \$1.0 million for the six months ended June 30, 1996 to \$1.1 million for the six months ended June 30, 1997 due to an increased marketing effort, including an increase in marketing personnel. As a percentage of revenues, selling, general and administrative expenses declined from 28.2% to 27.1% as Tech was able to substantially increase its volume without a commensurate increase in overhead expenses.

TECH RESULTS FOR YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

REVENUES. Revenues increased \$0.5 million, or 8.3%, from \$7.0 million in 1995 to \$7.5 million in 1996. This increase was primarily attributable to an increase in commercial "design and build" installation projects and related service work.

GROSS PROFIT. Gross profit increased \$0.8 million, or 28.9%, from \$2.7 million in 1995 to \$3.5 million in 1996. As a percentage of revenues, gross profit increased from 39.5% to 47.0%, primarily due to an increase in "design and build" versus "plan and spec" installation projects.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses remained relatively unchanged from 1995 to 1996. As a percentage of revenues, selling, general and administrative expenses decreased from 25.9% in 1995 to 24.7% in 1996 as Tech successfully leveraged its infrastructure to achieve revenue growth.

TECH LIQUIDITY AND CAPITAL RESOURCES

Tech generated \$0.7 million in net cash from operating activities for the six months ended June 30, 1997. Net cash used in financing activities was \$1.0 million, principally for distributions to shareholders of \$2.6 million offset by borrowings of long-term debt of \$1.6 million.

Working capital at June 30, 1997 was \$1.6 million and total debt outstanding at June 30, 1997 was \$1.9 million.

Tech generated \$0.9 million in net cash from operating activities in 1996. Net cash used in investing activities was \$0.3 million for equipment purchases. Net cash used in financing activities was \$0.4 million, principally for distributions to shareholders.

Working capital at December 31, 1996 was \$1.6 million and total debt outstanding was \$0.3 million.

WESTERN RESULTS OF OPERATIONS

Western, headquartered in Denver, Colorado, was founded in 1980 and operates primarily in Colorado. Western focuses on providing "design and build" installation services and maintenance, repair and replacement of HVAC systems for commercial facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED DECEMBER 31,				SIX MONTHS ENDED JUNE 30,			
	1995		1996		1996		1997	
	(IN THOUSANDS)							
Revenues.....	\$ 4,112	100.0%	\$ 6,494	100.0%	\$ 2,844	100.0%	\$ 2,174	100.0%
Cost of services.....	3,408	82.9	4,662	71.8	2,038	71.7	1,641	75.5
Gross profit.....	704	17.1	1,832	28.2	806	28.3	533	24.5
Selling, general and administrative expenses.....	855	20.8	1,088	16.7	575	20.2	457	21.0
Income (loss) from operations.....	(151)	(3.7)	744	11.5	231	8.1	76	3.5

WESTERN RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

REVENUES. Revenues decreased \$0.7 million, or 23.6%, from \$2.8 million for the six months ended June 30, 1996 to \$2.2 million for the six months ended June 30, 1997. This decrease was primarily attributable to a decrease in commercial replacement revenues of \$0.6 million related to the Demand Side Management ("DSM") incentive program developed by the Public Service Company of Colorado ("PSC"). This program provided incentives for commercial PSC customers to replace existing HVAC systems with more energy-efficient systems and ended in November 1996. Western does not intend to participate in this program during 1997.

GROSS PROFIT. Gross profit decreased \$0.3 million, or 33.9%, from \$0.8 million for the six months ended June 30, 1996 to \$0.5 million for the six months ended June 30, 1997 primarily due to the decrease in DSM revenues. As a percentage of revenues, gross profit decreased from 28.3% to 24.5% due primarily to the decline in revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses decreased \$0.1 million from the six months ended June 30, 1996 to the six months ended June 30, 1997. As a percentage of revenues, selling, general and administrative expenses increased from 20.2% to 21.0% due to the decline in revenues.

WESTERN RESULTS FOR YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

REVENUES. Revenues increased \$2.4 million, or 57.9%, from \$4.1 million in 1995 to \$6.5 million in 1996. This increase was primarily attributable to an increase in commercial replacement revenues of \$1.5 million related to the DSM incentive program discussed above.

GROSS PROFIT. Gross profit increased \$1.1 million, or 160.2%, from \$0.7 million in 1995 to \$1.8 million in 1996. As a percentage of revenues, gross profit increased from 17.1% in 1995 to 28.2% in 1996, primarily due to an increase in maintenance, repair and replacement revenues, including revenues generated under the DSM program.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$0.2 million in 1995, or 27.3%, from \$0.9 million in 1995 to \$1.1 million in 1996. As a percentage of revenues, selling, general and administrative expenses decreased from 20.8% to 16.7% as a result of the substantial revenue increase without a commensurate increase in overhead expenses.

WESTERN LIQUIDITY AND CAPITAL RESOURCES

Western used \$0.1 million in net cash from operating activities in the six months ended June 30, 1997 primarily due to an increase in costs on uncompleted contracts.

Working capital at June 30, 1997 was \$0.5 million and total long-term debt outstanding was \$0.8 million.

Western generated \$0.6 million in net cash from operating activities in 1996. Net cash used in investing activities was approximately \$0.1 million, principally for equipment purchases. Net cash used in

financing activities was \$0.4 million, as a result of distributions to shareholders and net repayments of long-term debt.

Working capital at December 31, 1996 was \$0.4 million and total long-term debt outstanding was \$0.3 million.

#### SEASONAIR RESULTS OF OPERATIONS

Seasonair, headquartered in Rockville, Maryland, was founded in 1966 and operates primarily in Maryland, the District of Columbia and Virginia. Seasonair focuses on providing installation services and maintenance, repair and replacement of HVAC systems for light commercial facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:

	YEAR ENDED DECEMBER 31, 1996		SIX MONTHS ENDED JUNE 30,			
			1996		1997	
Revenues.....	\$ 6,737	100.0%	\$ 3,203	100.0%	\$ 3,767	100.0%
Cost of services.....	4,006	59.5	1,803	56.3	2,339	62.1
Gross profit.....	2,731	40.5	1,400	43.7	1,428	37.9
Selling, general and administrative expenses.....	2,597	38.5	1,253	39.1	1,244	33.0
Income from operations.....	134	2.0	147	4.6	184	4.9

#### SEASONAIR RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

**REVENUES.** Revenues increased \$0.6 million, or 17.6%, from \$3.2 million for the six months ended June 30, 1996 to \$3.8 million for the six months ended June 30, 1997 due to an increase in maintenance, repair and replacement services resulting from management's decision to expand the business more rapidly.

**GROSS PROFIT.** Gross profit remained flat at \$1.4 million for the six months ended June 30, 1996 and the six months ended June 30, 1997. As a percentage of revenues, gross profit decreased from 43.7% to 37.9%.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses remained flat at \$1.2 million for the six months ended June 30, 1996 and the six months ended June 30, 1997. As a percentage of revenues, selling, general and administrative expenses decreased from 39.1% to 33.0% due to management's ability to increase revenues without a commensurate increase in overhead expenses.

#### SEASONAIR LIQUIDITY AND CAPITAL RESOURCES

Seasonair's operating activities were breakeven on a cash flow basis for the six months ended June 30, 1997.

Working capital at June 30, 1997 was \$0.7 million and total debt outstanding was \$0.2 million.

Seasonair used \$0.2 million in net cash from operating activities in 1996 primarily due to an increase in prepaid expenses and other current assets. Net cash provided by investing activities was \$0.1 million from proceeds on sale of equipment. Net cash used in financing activities was \$0.1 million to repay long-term debt.

Working capital at December 31, 1996 was \$0.5 million and total debt outstanding was \$0.1 million.

#### EASTERN RESULTS OF OPERATIONS

Eastern, headquartered in Albany, New York, was founded in 1945 and operates primarily within a 75 mile radius of Albany, New York. Eastern focuses on providing "design and build" installation and maintenance, repair and replacement of HVAC systems for commercial and industrial facilities. Eastern also offers continuous monitoring and control services for commercial facilities.

The following table sets forth selected statement of operations data and such data as a percentage of revenues for the periods indicated:



	YEAR ENDED		SIX MONTHS ENDED			
	DECEMBER 31,		JUNE 30,			
	1996		1996		1997	
Revenues.....	\$ 7,944	100.0%	\$ 4,047	100.0%	\$ 3,465	100.0%
Cost of services.....	5,276	66.4	2,714	67.1	2,112	61.0
Gross profit.....	2,668	33.6	1,333	32.9	1,353	39.0
Selling, general and administrative expenses.....	2,237	28.2	1,084	26.8	1,144	33.0
Income from operations.....	431	5.4	249	6.1	209	6.0

EASTERN RESULTS FOR SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

**REVENUES.** Revenues decreased \$0.5 million, or 14.4% from \$4.0 million for the six months ended June 30, 1996 to \$3.5 million for the six months ended June 30, 1997 due primarily to a decrease in maintenance, repair and replacement services. As a result of a mild winter season in the first three months of 1997 in the Albany, New York area, the need for service work on heating equipment decreased.

**GROSS PROFIT.** Gross profit remained flat at \$1.3 million for the six months ended June 30, 1996 and the six months ended June 30, 1997. As a percentage of revenues, gross profit increased from 32.9% to 39.0%.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Selling, general and administrative expenses remained flat at \$1.1 million for the six months ended June 30, 1996 and the six months ended June 30, 1997. As a percentage of revenues, selling, general and administrative expenses increased from 26.8% to 33.0% due to the higher expenses and the decrease in revenues.

EASTERN LIQUIDITY AND CAPITAL RESOURCES

Eastern generated \$0.4 million in net cash from operating activities primarily from increases in accounts payable and accrued expenses of \$0.7 million. Cash flows provided by financing activities were \$0.1 million for distributions to shareholders of \$0.6 million for repayment of long-term debt. Net cash used in investing activities was \$0.1 million for purchases of equipment.

As of June 30, 1997, Eastern had working capital of \$0.9 million and total debt outstanding of \$1.6 million.

Eastern generated \$0.5 million in net cash from operating activities in 1996 primarily due to \$0.4 million in net income. Net cash used in investing activities was \$0.2 million for the purchase of property and equipment. Net cash used in financing activities in 1996 was \$0.3 million for distributions to shareholders.

Working capital at December 31, 1996 was \$0.1 million and total debt outstanding was \$0.9 million of which \$0.3 million is payable to the former owner.

SEASONAL AND CYCLICAL NATURE OF THE HVAC INDUSTRY

The HVAC industry is subject to seasonal variations. Specifically, the demand for new installations is generally lower during the winter months due to reduced construction activities 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 quarters due to the 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 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.

INFLATION

Inflation did not have a significant effect on the results of operations of the combined Founding Companies for 1994, 1995 or 1996 or the six months ended June 30, 1997.

## BUSINESS

Comfort Systems was founded in 1996 to become a leading national provider of comprehensive HVAC installation services and maintenance, repair and replacement of HVAC systems, focusing primarily on the commercial and industrial markets. The Company's commercial and industrial applications include office buildings, retail centers, apartment complexes, hotels, manufacturing plants and government facilities. The Company also provides specialized HVAC applications such as process cooling, control systems, electronic monitoring and process piping. Approximately 90% of the Company's pro forma combined 1996 revenues of \$167.5 million was derived from commercial and industrial customers, with approximately 53% of combined revenues attributable to installation services and 47% attributable to maintenance, repair and replacement services.

### INDUSTRY OVERVIEW

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

Growth in the HVAC industry is being positively affected by a number of factors, particularly (i) the aging of the installed base, (ii) the increasing efficiency, sophistication and complexity of HVAC systems and (iii) the increasing restrictions on the use of refrigerants commonly used in older HVAC systems. These factors are expected to increase demand for the reconfiguration or replacement of existing HVAC systems. These factors also mitigate the effect on the HVAC industry of the cyclicity inherent in the traditional construction industry.

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

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

**MAINTENANCE, REPAIR AND REPLACEMENT SEGMENT.** This segment includes the maintenance, repair, replacement, reconfiguration and monitoring of previously installed HVAC systems and controls. Growth in this segment has been fueled by the aging of the installed base of HVAC systems and the increasing demand for more efficient, sophisticated and complex systems and controls. The increasing sophistication

and complexity of these HVAC systems is leading many commercial and industrial building owners and property managers to outsource maintenance and repair, often through service agreements with HVAC service providers. In addition, increasing restrictions are being placed on the use of certain types of refrigerants used in HVAC systems, which, along with air quality concerns, are expected to increase demand for the reconfiguration and replacement of existing HVAC systems. State-of-the-art control and monitoring systems feature electronic sensors and microprocessors and require specialized training to install, maintain and repair, which the typical building engineer does not have. Increasingly, HVAC systems in commercial and industrial buildings are being remotely monitored through PC-based communications systems to improve energy efficiency and expedite problem diagnosis and correction.

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

#### STRATEGY

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

**OPERATING STRATEGY.** The Company believes there are significant opportunities to increase the profitability of the Founding Companies and subsequently acquired businesses. The key elements of the Company's operating strategy are:

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

**OPERATE ON DECENTRALIZED BASIS.** The Company intends to manage the Founding Companies on a decentralized basis, with local management assuming responsibility for the day-to-day operations, profitability and growth of the business. The Company believes that, while maintaining strong operating and financial controls, a decentralized operating structure will retain the entrepreneurial spirit present in each of the acquired companies and will allow the Company to capitalize on the considerable local and regional market knowledge and customer relationships possessed by each acquired company.

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

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

INTERNAL GROWTH. A key component of the Company's strategy is to continue the internal growth at the Founding Companies and subsequently acquired businesses. The key elements of the Company's internal growth strategy are:

CAPITALIZE ON SPECIALIZED TECHNICAL AND MARKETING STRENGTHS. The Company believes it will be able to expand the services it offers in its markets by leveraging the specialized technical and marketing strengths of individual acquired companies. For example, one of the acquired companies has developed significant industry recognition for its technical expertise within apartment complexes, condominiums, hotels and elder care facilities which may be transferable to other acquired companies. A number of acquired companies currently focus primarily on installation and, therefore, have only limited maintenance, repair and replacement operations. The Company believes there are significant opportunities for these acquired companies to provide maintenance, repair and replacement services, particularly by offering those services to its "design and build" customers. Several of the acquired companies have specific expertise in HVAC control and monitoring systems, process cooling, replacement and other service strengths, many of which can be shared with other acquired companies and subsequently acquired businesses.

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

ACQUISITIONS. The Company believes the HVAC industry is highly fragmented with over 40,000 companies, most of which are small, owner-operated businesses with limited access to adequate capital for modernization and expansion. The key elements of the Company's acquisition strategy are:

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

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

ACQUIRE COMPLEMENTARY BUSINESSES. The Company will focus on its traditional markets in the HVAC industry and may acquire companies providing complementary services to the same customer base, such as commercial and industrial process piping and plumbing as well as electrical companies. This will enable the Company to offer, on a comprehensive basis and from a single provider, HVAC, mechanical and electrical services in certain markets.

#### ACQUISITION PROGRAM

The Company believes it will be regarded by acquisition candidates as an attractive acquirer because of: (i) the Company's strategy for creating a national, comprehensive and professionally managed HVAC service provider that capitalizes on cross-marketing and business development opportunities; (ii) the Company's decentralized operating strategy; (iii) the Company's increased visibility and access to financial resources as a public company; (iv) the potential for increased profitability due to certain centralized administrative functions, enhanced systems capabilities and access to increased marketing resources; and

(v) the potential for the owners of the businesses being acquired to participate in the Company's planned internal growth and growth through acquisitions, while realizing liquidity.

As consideration for future acquisitions, the Company intends to use various combinations of its Common Stock, cash and notes. The consideration for each future acquisition will vary on a case-by-case basis. The major factors in establishing the purchase price for each acquisition will be historical operating results, future prospects of the acquiree and the ability of that business to complement the services offered by the Company. Management believes that companies providing commercial and industrial HVAC services are larger than those providing residential services, with commercial and industrial companies generating annual revenues ranging from \$5 million to \$35 million, compared to companies providing residential HVAC services which generally have annual revenues ranging from \$500,000 to \$3 million.

#### OPERATIONS AND SERVICES PROVIDED

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

**INSTALLATION SEGMENT.** The Company's installation business comprised approximately 53% of the Company's 1996 revenues. This segment consists of the design, engineering, integration, installation and start-up of HVAC systems. The commercial and industrial installation services performed by the Company consist primarily of "design and build" systems for office buildings, retail centers, apartment complexes, hotels, manufacturing plants and government facilities. In a "design and build" project, the customer typically has an overall design for the facility prepared by an architect or a consulting engineer who then enlists the Company's sales and engineering personnel to prepare a specific design for the HVAC system. The Company determines the needed capacity, energy efficiency and type of controls that best suit the proposed facility. The Company's engineer then estimates the amount of time, labor, materials and equipment needed to build the specified system. Materials and equipment for a typical commercial or industrial project include ductwork, compressors, blowers, chillers, cooling towers, air handling equipment and the associated pumps and piping necessary to complete the system. The Company utilizes CAD/CAM systems in the design and engineering phases of the project to calculate the material and labor costs of the project based on previously established Company standards and to generate mechanical drawings for each project. The drawings are prepared in a format appropriate for submission to local building inspectors. The final design, terms, price and timing of the project are then negotiated with the customer or its representatives, after which any necessary modifications are made to the system.

Once an agreement has been reached, the Company orders the necessary materials and equipment for delivery to meet the project schedule. In most instances, the Company fabricates in its own facilities the ductwork and piping and assembles certain components for the system based on the mechanical drawing

specifications, thereby eliminating the need to subcontract ductwork or piping fabrication. The Company's CAD/CAM systems are capable of automatically cutting ductboard, sheet metal and piping, thereby reducing the amount of labor necessary to produce the ductwork and piping for the system. Project specific components are then fabricated at the Company's facilities in sections small enough to be transported to the job site. This enables the Company to limit the amount of field work required for installation, reduce the labor associated with the actual installation process and meet the shorter time requirements increasingly demanded by commercial and industrial customers. The Company installs the system at the project site, working closely with the general contractor. Most commercial and industrial installation projects last from two weeks to one year and generate revenues from \$25,000 to \$2,000,000 per project. These projects are generally billed periodically as costs are incurred throughout the project, with a 10% retainage until completion and successful start-up of the HVAC system.

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

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

The Company's residential services consist of installing complete central HVAC systems in new and existing homes, often through agreements with housing developers. In 1996, residential installation comprised approximately 2% of the Company's revenues.

The Company's subsidiaries generally warrant their labor for the first year after installation on new HVAC systems and for 30 days after servicing of existing HVAC systems. A reserve for warranty costs is recorded based on a percentage of material costs.

**MAINTENANCE, REPAIR AND REPLACEMENT SEGMENT.** The Company's maintenance, repair and replacement segment comprised approximately 47% of the Company's 1996 combined revenues and includes the maintenance, repair, replacement, reconfiguration and monitoring of HVAC systems and industrial process piping. Over one-half of the Company's maintenance, repair and replacement segment revenues were derived from reconfiguring existing HVAC systems for commercial and industrial customers. Reconfiguration often utilizes consultative expertise similar to that provided in the "design and build" installation market. The Company believes that the reconfiguration of an existing system results in a more cost-effective, energy-efficient system that better meets the specific needs of the building owner. The reconfiguration also enables the Company to utilize its design and engineering personnel as well as its sheet metal and pre-fabrication facilities.

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

Commercial and industrial service agreements usually have terms of one to three years, with automatic annual renewals, and typically provide fees from \$3,000 to \$20,000 per year. The Company also provides remote monitoring of temperature, pressure, humidity and air flow for HVAC systems for commercial and industrial customers. If the system is not operating within the specifications set forth by the customer and cannot be remotely adjusted, a service crew is dispatched to analyze and repair the system, as appropriate. Residential service agreements generally have one year terms, automatic renewal provisions and provide annual fees between \$100 and \$200 per system.

#### SOURCES OF SUPPLY

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

#### SALES AND MARKETING

The Company has a diverse customer base, with no single customer accounting for more than 4% of the Company's pro forma combined 1996 revenues. Management and a dedicated sales force at the acquired companies have been responsible for developing and maintaining successful long-term relationships with key customers. Customers of the acquired companies generally include building owners and developers and property managers, as well as general contractors, architects and consulting engineers. The Company intends to continue its emphasis on developing and maintaining long-term relationships with its customers by providing superior, high-quality service in a professional manner. Moreover, the dedicated sales force will receive additional technical and sales training to enhance the comprehensive selling skills necessary to serve the HVAC needs of its customers.

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

#### EMPLOYEES

As of September 30, 1997 the Company had 2,156 employees, including 127 management personnel, 1,698 engineers and service and installation technicians, 89 sales personnel and 242 administrative personnel. The Company does not anticipate any reductions in staff as a result of the recent consolidation of the Founding Companies. Rather, as it implements its internal growth and acquisition strategies, the Company expects that the number of employees will increase. Certain of the Company's subsidiaries have collective bargaining agreements which cover, in the aggregate, approximately 350 employees. Under these agreements, these subsidiaries generally make payments to multi-employer pension plans. The Company

has not experienced any strikes or work stoppages and believes its relationship with its employees and union representatives is satisfactory.

#### RECRUITING, TRAINING AND SAFETY

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

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

#### FACILITIES AND VEHICLES

All of the Company's facilities are leased. See "Certain Transactions -- Leases of Real Property by Founding Companies." The Company believes that its facilities are sufficient for its current needs. The Company operates a fleet of more than 750 owned or leased service trucks, vans and support vehicles. It believes these vehicles generally are well-maintained and adequate for the Company's current operations. The Company leases its principal executive and administrative offices in Houston, Texas.

#### RISK MANAGEMENT, INSURANCE AND LITIGATION

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

The Company is, from time to time, a party to litigation arising in the normal course of its business, most of which involves claims for personal injury and property damage incurred in connection with its operations. The Company is not currently involved in any litigation, nor is the Company aware of any threatened litigation, that the Company believes is likely to have a material adverse effect on its financial condition or results of operations.

The Company generally offers one year warranties on labor it performs and passes to the customer warranties on equipment purchased from manufacturers. The Company does not expect warranty claims to have a material effect on its results of operations or financial condition.

#### COMPETITION

The HVAC industry is highly competitive. The Company believes that purchasing decisions in the commercial and industrial markets are based on (i) long-term customer relationships, (ii) quality, timeliness and reliability of services provided, (iii) competitive price, (iv) range of services provided, and (v) scale of operation. The Company believes its strategy of becoming a leading national provider of comprehensive HVAC installation services as well as maintenance, repair and replacement of HVAC systems directly addresses these factors. Specifically, the Company's strategy to focus on the highly consultative "design and build" installation segment and the maintenance, repair and replacement segment, as well as its strategy



to operate on a decentralized basis, should promote the development and strengthening of long-term customer relationships. In addition, the Company's focus on attracting, training and retaining quality employees by utilizing professionally managed recruiting, training and benefits programs should allow it to offer high quality, comprehensive HVAC services at a competitive price.

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

#### GOVERNMENTAL REGULATION AND ENVIRONMENTAL MATTERS

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

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

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

Prior to entering into the agreements relating to the Mergers, the Company evaluated the properties owned or leased by the acquired companies and engaged an independent environmental consulting firm to conduct or review assessments of environmental conditions at these properties. No material environmental problems were discovered in these reviews, and the Company is not aware of any material environmental liabilities associated with these properties.

MANAGEMENT

DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

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

NAME	AGE	POSITION
Fred M. Ferreira.....	54	Chairman of the Board, Chief Executive Officer and President
Michael Nothum, Jr.....	43	Chief Operating Officer (acting), President of Tri-City, Director
J. Gordon Beittenmiller.....	38	Senior Vice President, Chief Financial Officer and Director
Reagan S. Busbee.....	33	Senior Vice President
William George, III.....	32	Vice President, General Counsel and Secretary
Milburn E. Honeycutt.....	34	Vice President and Controller
S. Craig Lemmon.....	45	Vice President -- Acquisitions
Brian J. Vensel.....	37	Vice President -- Acquisitions
Brian S. Atlas.....	45	Chief Executive Officer of Atlas, Director
Thomas J. Beaty.....	43	President of Accurate, Director
Robert R. Cook.....	42	President of Tech, Director
Alfred J. Giardenelli, Jr.....	50	President of Eastern, Director
Charles W. Klapperich.....	50	President of Western, Director
Samuel M. Lawrence III.....	45	Chief Executive Officer of Lawrence, Director
John C. Phillips.....	55	President of CSI/Bonneville, Director
Robert J. Powers.....	57	President of Quality, Director
Steven S. Harter.....	35	Director
Larry Martin.....	55	Director
John Mercadante, Jr.....	52	Director
Robert Arbuckle.....	47	President of Freeway
James C. Hardin, Sr.....	35	Chief Executive Officer of Seasonair
Thomas B. Kime.....	50	President of Standard

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

Michael Nothum, Jr. is a director of the Company and its Chief Operating Officer (acting). He has been employed by Tri-City since 1979, serving as President since 1992. Mr. Nothum currently serves on the Education and Training Committee of Associated Builders and Contractors and on the Legislative Committee of the Air Conditioning Contractors Association. It is anticipated that Mr. Nothum will return full-time to his duties at Tri-City when a permanent Chief Operating Officer joins the Company.

J. Gordon Beittenmiller has served as Senior Vice President, Chief Financial Officer and a director of Comfort Systems since February 1997. From 1994 to February 1997, Mr. Beittenmiller was Corporate Controller of Keystone International, Inc. ("Keystone"), a publicly-traded manufacturer of industrial valves and actuators, and served Keystone in other financial positions from 1991 to 1994. From 1987 to

1991, he was Vice President -- Finance of Critical Industries, Inc., a publicly-traded manufacturer and distributor of specialized safety equipment. From 1982 to 1987, he held various positions with Arthur Andersen LLP. Mr. Beittenmiller is a Certified Public Accountant.

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

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

Milburn E. Honeycutt has served as Vice President and Controller of Comfort Systems since February 1997. From 1994 to January 1997, Mr. Honeycutt was Financial Accounting Manager -- Corporate Controllers Group for Browning-Ferris Industries, Inc., a publicly-traded waste services company. From 1986 to 1994, he was a certified public accountant with Arthur Andersen LLP.

S. Craig Lemmon is Vice President -- Acquisitions. Mr. Lemmon has been a consultant to Comfort Systems since its inception in December 1996. From 1993 to 1996, he served as Manager of Mergers and Acquisitions of Allwaste Environmental Services, Inc. From 1992 to 1993, he served as Vice President -- Acquisitions and Vice President -- Southern Region of United Waste Systems, Inc., an environmental services company. Prior thereto, Mr. Lemmon held various positions in the transportation and solid waste industries.

Brian J. Vensel has served as Vice President -- Acquisitions of the Company since February 1997. From September 1996 through January 1997, Mr. Vensel served as Projects Director of the Liquids Business Unit of NGC Corporation, a publicly-traded gas marketer and processor. From April 1996 through August 1996, Mr. Vensel served as Corporate Controller and an officer of Phoenix Energy Products, Inc., a privately-owned, oilfield service company. From 1982 through March 1996, Mr. Vensel held various positions, primarily with Price Waterhouse LLP and Arthur Andersen LLP. Mr. Vensel is a Certified Public Accountant.

Brian S. Atlas is a director of the Company. He has been employed by Atlas since 1974, serving as its Chief Executive Officer since 1983.

Thomas J. Beaty is a director of the Company. He founded and has served as President of Accurate since 1980.

Robert R. Cook is a director of the Company. He founded and has served as President of Tech since 1979.

Alfred J. Giardenelli, Jr. is a director of the Company. He has been the President of Eastern since 1982.

Charles W. Klapperich is a director of the Company. He founded and has served as President of Western since 1980.

Samuel M. Lawrence III is a director of the Company. He has been employed by Lawrence since 1977, serving as its Chairman and Chief Executive Officer since 1991.

John C. Phillips is a director of the Company. He co-founded CSI/Bonneville in 1969, serving as President and General Manager since 1969. Mr. Phillips was President of the Utah Heating and Air Conditioning Contractors Association from 1981 to 1982 and is currently a director of that association.

Robert J. Powers is a director of the Company. He has been employed by Quality since 1977, serving as President since 1988.

Steven S. Harter has been a director of the Company since December 1996 and is the director elected by the holders of the Restricted Common Stock. Mr. Harter is President of Notre, a consolidator of highly-

fragmented industries. Prior to becoming the President of Notre, Mr. Harter was Senior Vice President of Notre Capital Ventures, Ltd. ("Notre I") from June 1993 through July 1995 and was the Notre I principal primarily responsible for the initial public offerings of US Delivery Systems, Inc., a consolidator of the local delivery industry, and Physicians Resource Group, Inc., a consolidator of eye care physician management companies. From April 1989 to June 1993, Mr. Harter was Director of Mergers and Acquisitions for Allwaste. From May 1984 to April 1989, Mr. Harter was a certified public accountant with Arthur Andersen LLP. Mr. Harter also serves as a director of Coach USA, Inc. ("Coach") and Metals USA, Inc..

Larry Martin is a director of the Company. Mr. Martin, a co-founder of Sanifill, Inc., an environmental services provider ("Sanifill"), served as its Vice Chairman from March 1992 through August 1996. From July 1991 to February 1992, he was President of Sanifill, and from October 1989 to July 1991, he served as its President and Co-Chief Executive Officer. Prior to that time, Mr. Martin served in various positions in the environmental services and contracting industries. Mr. Martin currently serves on the Board of Directors of USA Waste Services, Inc., an environmental services company.

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

Robert Arbuckle has been employed by Freeway since 1975, serving as its President since 1987.

James C. Hardin, Sr. has been employed by Seasonair since 1986, serving initially as a service technician, as field supervisor from 1988 to 1990, as service manager from 1990 to 1993 and as Vice President of Operations from 1993 to March 1997. Mr. Hardin currently serves as Chief Executive Officer of Seasonair

Thomas B. Kime has been employed by Standard since 1977, serving as its President since 1996.

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

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

#### DIRECTORS' COMPENSATION

Directors who are also employees of the Company or one of its subsidiaries will not receive additional compensation for serving as directors. Each director who is not an employee of the Company or one of its subsidiaries will receive a fee of \$2,000 for attendance at each Board of Directors' meeting and \$1,000 for each committee meeting (unless held on the same day as a Board of Directors' meeting). In addition, under the Company's 1997 Non-Employee Directors' Stock Plan, each non-employee director will automatically be granted an option to acquire 10,000 shares of Common Stock upon such person's initial election as a director, and an annual option to acquire 5,000 shares at each annual meeting of the Company's stockholders thereafter at which such director is re-elected or remains a director, unless such annual meeting is held within three months of such person's initial election as a director. Each non-employee director also may elect to receive shares of Common Stock or credits representing "deferred shares" in lieu of cash directors' fees. See " -- 1997 Non-Employee Directors' Stock Plan." Directors are also reimbursed for out-of-pocket expenses incurred in attending meetings of the Board of Directors or committees thereof.

The Company was incorporated in December 1996 and did not pay any of its executive officers compensation during 1996. The Company anticipates that during 1997 its five most highly compensated executive officers will be Messrs. Ferreira, Beittenmiller, George, Nothum and Powers.

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

Each of Messrs. Nothum and Powers has entered into an employment agreement with their respective Founding Company providing for an annual base salary of \$150,000. Each employment agreement is for a term of five years, and unless terminated or not renewed by the Founding Company or not renewed by the employee, the term will continue thereafter on a year-to-year basis on the same terms and conditions existing at the time of renewal. Each of these agreements provides that, in the event of a termination of employment by the Founding Company without cause during the first three years of the employment term (the "Initial Term"), the employee will be entitled to receive from the Founding Company an amount equal to his then current salary for the remainder of the Initial Term or for one year, whichever is greater. In the event of a termination of employment with cause during the final two years of the initial five year term of the employment agreement, the employee will be entitled to receive an amount equal to his then current salary for one year. In either case, payment is due in one lump sum on the effective date of termination. In the event of a change in control of the Company (as defined in the agreement) during the Initial Term, if the employee is not given at least five days' notice of such change in control, the employee may elect to terminate his employment and receive in one lump sum three times the amount he would receive pursuant to a termination without cause during the Initial Term. The non-competition provisions of the employment agreement do not apply to a termination without such notice. In the event the employee is given at least five days' notice of such change in control, the employee may elect to terminate his employment agreement and receive in one lump sum two times the amount he would receive pursuant to a termination without cause during the Initial Term. In such event, the non-competition provisions of the employment agreement would apply for two years from the effective date of termination. Each employment agreement contains a covenant not to compete with the Company for a period of two years immediately following termination of employment or, in the case of a termination by the Company without cause in the absence of a change in control, for a period of one year following termination of employment.

At least one principal executive officer of each of the other Founding Companies has entered into an employment agreement, containing substantially the same provisions, including a covenant not to compete, as Messrs. Nothum's and Power's employment agreements.

#### 1997 LONG-TERM INCENTIVE PLAN

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

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

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

At the closing of the IPO, NQSOs to purchase a total of 675,000 shares of Common Stock were granted as follows: 200,000 shares to Mr. Ferreira, 100,000 shares to Mr. Beittenmiller, 100,000 shares to Mr. Busbee, 100,000 shares to Mr. Lemmon, 75,000 shares to Mr. George, 50,000 shares to Mr. Honeycutt and 50,000 shares to Mr. Vensel. In addition, options to purchase 1,583,653 shares have been granted to certain employees of the Company. Each of the foregoing options has an exercise price equal to the stock price on the date of grant. These options will vest at the rate of 20% per year, commencing on the first anniversary of the date of grant and will expire at the earlier of seven years from the date of grant or three months following termination of employment.

#### 1997 NON-EMPLOYEE DIRECTORS' STOCK PLAN

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

CERTAIN TRANSACTIONS

ORGANIZATION OF THE COMPANY

In connection with the formation of Comfort Systems, Comfort Systems issued to Notre a total of 2,969,912 shares of Common Stock for an aggregate cash consideration of \$29,699. Mr. Harter is the President of Notre and a director of the Company. In March 1997, Notre exchanged 2,742,912 shares of Common Stock for an equal number of shares of Restricted Common Stock. Notre advanced \$1.4 million to provide funds necessary to effect the Mergers and the IPO. All of Notre's advances were repaid from the net proceeds of the IPO.

In January and February 1997, the Company issued a total of 902,435 shares of Common Stock at \$.01 per share to various members of management, as follows: Mr. Ferreira -- 479,435 shares, Mr. Beittenmiller -- 116,000 shares, Mr. Busbee -- 116,000 shares, Mr. George -- 75,000 shares, Mr. Honeycutt -- 58,000 shares and Mr. Vensel -- 58,000 shares. The Company also issued 116,000 shares to Mr. Lemmon and 251,500 shares of Common Stock to other consultants to the Company at \$.01 per share. The Company also granted options to purchase 10,000 shares of Common Stock under the Directors' Plan, effective upon the consummation of the IPO, to Mr. Harter, a Director of the Company, and to Messrs. Mercadante and Martin, who became directors of the Company upon the closing of the IPO.

In connection with the IPO, Comfort Systems acquired by merger or share exchange all of the issued and outstanding stock of the Founding Companies, each of which is now a wholly-owned subsidiary of the Company. The aggregate consideration paid by Comfort Systems in the Mergers consisted of \$45.3 million in cash and 9,720,927 shares of Common Stock. In addition, prior to the Mergers, Accurate distributed to Thomas J. Beaty real property having a net book value of approximately \$370,000.

The following table sets forth the consideration paid and total debt assumed by Comfort Systems for each of the Founding Companies:

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

Additionally, prior to the Mergers, the Founding Companies which are C Corporations, except Atlas, made Interim Earnings Distributions to their stockholders in the amount of \$1.5 million.

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

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

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

#### LEASES OF REAL PROPERTY BY FOUNDING COMPANIES

Atlas leases its office space in Houston, Texas, as well as mobile homes located in Austin, Texas; Phoenix, Arizona; and Antioch, Tennessee. These properties are owned by M & B Interests, Inc. ("M & B"), a corporation wholly-owned by Mr. Brian S. Atlas, who is a director of the Company, and his brother, Mr. Michael Atlas. The lease for the real property in Houston expires on September 30, 1997 and provides for an annual rental of \$90,000. The three single family residences are leased on a month-to-month basis, at an annual aggregate rental of \$36,780. The Company has also agreed with M & B to lease a recently constructed office and warehouse facility constructed by M & B in Houston for an annual rental of \$204,000. This new office and warehouse facility replaced Atlas' existing facility. The Company believes that the rent for these properties does not exceed fair market value.

Tri-City leases its office space in Tempe, Arizona from Mr. Nothum, Jr. and his father. Mr. Nothum, Jr. is a trustee of a family trust that is a stockholder of Tri-City and will become a director of the Company upon consummation of this Offering. The lease expires on June 30, 1998 and provides for an annual rental of \$120,000. Additionally, Tri-City provides liability insurance on the property and is responsible for any increases in real property taxes due to its improvement of the leased property. Tri-City has entered into an agreement with a limited liability corporation owned by Mr. Nothum, Jr. and his father to lease office, operations and warehouse facilities which are being constructed, for a ten year term at annual rental of \$530,100. The Company believes that the rent for these properties does not and will not exceed fair market value.

Lawrence leases its office space and fabrication facility in Jackson, Tennessee from the father of Mr. Samuel M. Lawrence III, who is Lawrence's Chief Executive Officer and a director of the Company. The lease expires on October 31, 1997 and provides for an annual rental of \$110,400. Additionally, Lawrence provides liability insurance on the property and pays its proportionate share of ad valorem taxes, utilities and maintenance costs. The Company believes that the rent for this property does not exceed fair market value.



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

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

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

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

Quality leases its warehouse facility in Grand Rapids, Michigan from Mr. Powers, who is a director of the Company. Construction of the warehouse facility was financed with the proceeds of a public bond issue. The lease expires on April 30, 2005, and provides for an annual rental of the greater of \$216,000 or Mr. Powers' costs for the leased warehouse, including bond debt service or mortgage payments, utilities, insurance, ad valorem taxes, maintenance and repairs. Quality has an option to renew the lease for one additional three-year term on the same terms. The Company believes that the rent for such property does not exceed fair market value. Quality has guaranteed the payment of two series of public bonds issued in 1985 and 1990, respectively, by the Michigan Strategic Fund on behalf of two real property development entities owned by Mr. Powers, the proceeds of which were used to fund the construction of Quality's leased warehouse facility and a second adjacent warehouse. After the IPO, these bonds were repaid.

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

#### OTHER TRANSACTIONS

Prior to the IPO, Atlas owed \$78,000 to Sid Atlas, the father of Brian and Michael Atlas, payable in monthly installments of \$5,500, including interest at the rate of 10%, through March 1998. Atlas was also

the obligor on two promissory notes payable to Brian S. Atlas and Michael Atlas in the outstanding principal amount of \$63,537 to each, providing for aggregate monthly installments of \$4,812, including interest at the rate of 10%, through June 1999. Shortly after the IPO the Company paid and retired all such indebtedness.

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

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

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

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

On January 2, 1996, Standard loaned Mr. Kime \$480,000 under a promissory note at an interest rate of 7.67%. Mr. Kime has repaid the balance of this note. The note was formerly secured by a pledge of his shares of stock in Standard; however, Standard released its security interest in such stock on March 6, 1997 in anticipation of consummation of the Mergers.

The Company has paid an aggregate of \$150,000 of the legal fees of the owners of the Founding Companies.

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

#### COMPANY POLICY

Any future transactions with directors, officers, employees or affiliates of the Company or its subsidiaries are anticipated to be minimal and will be approved in advance by a majority of disinterested members of the Board of Directors.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of the Common Stock, after giving effect to the Mergers and the IPO, by (i) each person known to own beneficially more than 5% of the outstanding shares of Common Stock; (ii) each Company director and person who has consented to be named as a director ("named directors"); (iii) each named executive officer; and (iv) all executive officers, directors and named directors as a group. All persons listed have an address c/o the Company's principal executive offices and have sole voting and investment power with respect to their shares unless otherwise indicated.

NAME	SHARES BENEFICIALLY OWNED(1)	
	NUMBER	PERCENT
Notre Capital Ventures II, L.L.C.....	2,969,912	12.8%
Steven S. Harter(2).....	2,979,912	12.8
Robert J. Powers.....	1,461,915	6.3
Michael Nothum, Jr.(3).....	778,981	3.4
Robert R. Cook.....	717,408	3.1
Brian S. Atlas.....	716,000	3.1
Thomas J. Beaty.....	564,537	2.4
Fred M. Ferreira.....	479,535	2.1
John C. Phillips.....	403,305	1.7
Samuel M. Lawrence III.....	317,307	1.4
Alfred J. Giardenelli, Jr.....	304,216	1.3
Charles W. Klapperich.....	255,401	1.1
J. Gordon Beittenmiller.....	116,000	*
Reagan S. Busbee.....	116,000	*
William George, III.....	75,000	*
Larry Martin(4)(5).....	27,692	*
John Mercadante, Jr.(4)(5).....	27,692	*
All executive officers, directors and named directors as a group (16 persons).....	9,340,901	40.2

\* Less than 1%.

- (1) Shares shown do not include shares that could be acquired upon exercise of options which do not vest within 60 days.
- (2) Includes 10,000 shares of Common Stock issuable upon exercise of options granted under the Directors' Plan and 2,969,912 shares of Common Stock issued to Notre. Mr. Harter is the President of Notre.
- (3) Includes an aggregate of 18,694 shares which are held in irrevocable trusts for Mr. Nothum's minor children and of which he is trustee.
- (4) Includes 10,000 shares of Common Stock issuable upon exercise of options granted under the Directors' Plan.
- (5) Includes 7,692 shares of Common Stock issuable on conversion of a convertible note issued by Notre which is convertible into Common Stock of the Company owned by Notre.

## DESCRIPTION OF CAPITAL STOCK

### GENERAL

The authorized capital stock of the Company consists of 57,969,912 shares of capital stock, consisting of 50,000,000 shares of Common Stock, 2,969,912 shares of Restricted Common Stock and 5,000,000 shares of Preferred Stock. The Company has outstanding 23,226,223 shares of Common Stock, which includes 2,742,912 shares of Restricted Common Stock and no shares of Preferred Stock. The following discussion is qualified in its entirety by reference to the Restated Certificate of Incorporation of Comfort Systems, which is included as an exhibit to the Registration Statement of which this Prospectus is a part.

### COMMON STOCK AND RESTRICTED COMMON STOCK

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

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

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

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

## PREFERRED STOCK

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

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

## STATUTORY BUSINESS COMBINATION PROVISION

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

## CERTAIN PROVISIONS OF THE CERTIFICATE OF INCORPORATION AND BYLAWS

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

Additionally, the Certificate of Incorporation of the Company provides that directors and officers of the Company shall be, and at the discretion of the Board of Directors non-officer employees and agents may be, indemnified by the Company to the fullest extent authorized by Delaware law, as it now exists or may in

the future be amended, against all expenses and liabilities actually and reasonably incurred in connection with service for or on behalf of the Company, and further permits the advancing of expenses incurred in defense of claims.

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

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

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

#### TRANSFER AGENT AND REGISTRAR

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

## SHARES ELIGIBLE FOR FUTURE SALE

The Company has outstanding 23,226,223 shares of Common Stock. The 7,015,000 shares sold in the IPO, 34,496 shares issued in acquisitions and 583,878 shares registered hereunder will be freely tradeable without restriction unless acquired by affiliates of the Company. The remaining outstanding shares of Common Stock or Restricted Common Stock either have not been registered under the Securities Act, which means that they may be resold publicly only upon registration under the Securities Act or in compliance with an exemption from the registration requirements of the Securities Act, including the exemption provided by Rule 144 thereunder, or are otherwise subject to contractual restrictions on transfer.

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

The Company and its officers, directors and certain stockholders, who beneficially own 4,239,947 shares in the aggregate, have agreed not to sell or otherwise dispose of any shares of Common Stock or Restricted Common Stock for a period of 180 days after the date of this Prospectus without the prior written consent of Alex. Brown & Sons Incorporated, except that the Company may issue Common Stock in connection with acquisitions, in connection with its 1997 Long-Term Incentive Plan and its 1997 Non-Employee Directors' Stock Plan (the "Plans") or upon conversion of shares of the Restricted Common Stock. See "Underwriting." In addition, all of the stockholders of the Founding Companies, the Company's officers and directors and certain stockholders, holding in the aggregate 13,960,874 shares of Common Stock, have agreed with the Company that they will not sell any of their shares for a period of one year after the closing of the IPO. These stockholders, however, have the right, in the event the Company proposes to register under the Securities Act any Common Stock for its own account or for the account of others, subject to certain exceptions, to require the Company to include their shares in the registration, subject to the right of the Company to exclude some or all of the shares in the offering upon the advice of the managing underwriter. In addition, certain of such stockholders have certain limited demand registration rights to require the Company to register shares held by them following the first anniversary of the closing of the IPO. In addition, 1,452,833 shares issued in acquisitions since the IPO will become tradeable on the first anniversaries of such acquisitions late in the third quarter and early in the fourth quarter of 1998, and 179,242 of such shares will become tradeable during the same period in 1999.

The Company registered 8,000,000 shares of its Common Stock under the Securities Act for use by the Company in connection with future acquisitions. After the effective date of such registration, any such shares that may be issued will generally be freely tradeable, unless acquired by persons who become affiliates of the Company. In some instances, however, the Company may contractually restrict the sale of shares issued in connection with future acquisitions. As of October 13, 1997, 7,807,374 shares remained available for use in future acquisitions under such shelf. The piggyback registration rights described above do not apply to the registration statement relating to these 8,000,000 shares or to this registration statement.

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

#### LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed on for the Company by Bracewell & Patterson, L.L.P., Houston, Texas.

#### EXPERTS

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

#### ADDITIONAL INFORMATION

The Company has filed with the SEC a Registration Statement (which term shall encompass any and all amendments thereto) on Form S-1 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Stock offered hereby. This Prospectus, which is part of the Registration Statement, does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto, certain items of which are omitted in accordance with the rules and regulations of the SEC. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is hereby made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference. For further information with respect to the Company, reference is hereby made to the Registration Statement and such exhibits and schedules filed as a part thereof, which may be inspected, without charge, at the Public Reference Section of the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC located at Seven World Trade Center, 13th Floor, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. The SEC maintains a web site that contains reports, proxy and information statements regarding registrants that file electronically with the SEC. The address of this web site is (<http://www.sec.gov>). Copies of all or any portion of the Registration Statement may be obtained from the Public Reference Section of the SEC, upon payment of the prescribed fees.

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



INDEX TO FINANCIAL STATEMENTS

	PAGE
	-----
COMFORT SYSTEMS USA, INC. (UNAUDITED)	
PRO FORMA COMBINED FINANCIAL STATEMENTS	
Introduction to Unaudited Pro Forma Combined Financial Statements.....	F-3
Unaudited Pro Forma Combined Balance Sheet.....	F-4
Unaudited Pro Forma Combined Statements of Operations.....	F-5
Notes to Unaudited Pro Forma Combined Financial Statements.....	F-7
COMFORT SYSTEMS USA, INC.	
Report of Independent Public Accountants.....	F-11
Balance Sheets.....	F-12
Statement of Operations.....	F-13
Statement of Stockholders' Equity.....	F-14
Statement of Cash Flows.....	F-15
Notes to Financial Statements...	F-16
FOUNDING COMPANIES	
QUALITY AIR HEATING & COOLING, INC.	
Report of Independent Public Accountants.....	F-19
Balance Sheets.....	F-20
Statements of Operations.....	F-21
Statements of Shareholders' Equity.....	F-22
Statements of Cash Flows.....	F-23
Notes to Financial Statements...	F-24
ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY	
Report of Independent Public Accountants.....	F-29
Consolidated Balance Sheets....	F-30
Consolidated Statements of Operations.....	F-31
Consolidated Statements of Shareholders' Equity.....	F-32
Consolidated Statements of Cash Flows.....	F-33
Notes to Consolidated Financial Statements.....	F-34
TRI-CITY MECHANICAL, INC.	
Report of Independent Public Accountants.....	F-42
Balance Sheets.....	F-43
Statements of Operations.....	F-44
Statements of Shareholders' Equity.....	F-45
Statements of Cash Flows.....	F-46
Notes to Financial Statements...	F-47
S.M. LAWRENCE INC. AND RELATED COMPANY	
Report of Independent Public Accountants.....	F-52
Combined Balance Sheets.....	F-53
Combined Statements of Operations.....	F-54
Combined Statements of Shareholders' Equity.....	F-55
Combined Statements of Cash Flows.....	F-56
Notes to Combined Financial Statements.....	F-57

ACCURATE AIR SYSTEMS, INC.	
Report of Independent Public Accountants.....	F-63
Balance Sheets.....	F-64
Statements of Operations.....	F-65
Statements of Shareholder's Equity.....	F-66
Statements of Cash Flows.....	F-67
Notes to Financial Statements...	F-68
EASTERN HEATING AND COOLING, INC.	
Report of Independent Public Accountants.....	F-75
Balance Sheets.....	F-76
Statements of Operations.....	F-77
Statements of Shareholder's Equity.....	F-78
Statements of Cash Flows.....	F-79
Notes to Financial Statements...	F-80
CONTRACT SERVICE, INC.	
Report of Independent Public Accountants.....	F-85
Balance Sheets.....	F-86
Statements of Operations.....	F-87
Statements of Shareholders' Equity.....	F-88
Statements of Cash Flows.....	F-89
Notes to Financial Statements...	F-90
TECH HEATING AND AIR CONDITIONING, INC. AND RELATED COMPANY	
Report of Independent Public Accountants.....	F-95
Combined Balance Sheets.....	F-96
Combined Statements of Operations.....	F-97
Combined Statements of Shareholders' Equity.....	F-98
Combined Statements of Cash Flows.....	F-99
Notes to Combined Financial Statements.....	F-100
SEASONAIR, INC.	
Report of Independent Public Accountants.....	F-105
Balance Sheets.....	F-106
Statements of Operations.....	F-107
Statements of Shareholders' Equity.....	F-108
Statements of Cash Flows.....	F-109
Notes to Financial Statements...	F-110
WESTERN BUILDING SERVICES, INC.	
Report of Independent Public Accountants.....	F-115
Balance Sheets.....	F-116
Statements of Operations.....	F-117
Statements of Shareholders' Equity.....	F-118
Statements of Cash Flows.....	F-119
Notes to Financial Statements...	F-120

COMFORT SYSTEMS USA, INC. AND FOUNDING COMPANIES  
UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS  
BASIS OF PRESENTATION

The following unaudited pro forma combined financial statements give effect to the acquisitions by Comfort Systems USA, Inc. ("Comfort Systems") of the outstanding capital stock of Quality, Atlas, Tri-City, Lawrence, Accurate, Eastern, CSI/Bonneville, Seasonair, Tech, Western, Freeway and Standard (together, the "Founding Companies"). These acquisitions (the "Mergers") occurred concurrently with the closing of Comfort Systems' initial public offering (the "IPO") and were accounted for using the purchase method of accounting. Comfort Systems has been identified as the accounting acquirer for financial statement presentation purposes.

The unaudited pro forma combined balance sheet gives effect to the Mergers and the IPO as if they had occurred on June 30, 1997. The unaudited pro forma combined statements of operations give effect to these transactions as if they had occurred on January 1, 1996.

Comfort Systems has preliminarily analyzed the savings that it expects to be realized from reductions in salaries and certain benefits to the owners. To the extent the owners of the Founding Companies have agreed prospectively to reductions in salary, bonuses and benefits, these reductions have been reflected in the pro forma combined statements of operations. With respect to other potential cost savings, Comfort Systems has not and cannot quantify these savings until completion of the combination of the Founding Companies. It is anticipated that these savings will be offset by costs related to Comfort Systems' new corporate management and by the costs associated with being a public company. However, because these costs cannot be accurately quantified at this time, they have not been included in the pro forma financial information of Comfort Systems.

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

COMFORT SYSTEMS USA, INC.  
 UNAUDITED PRO FORMA COMBINED BALANCE SHEET  
 JUNE 30, 1997  
 (AMOUNTS IN THOUSANDS)

	QUALITY	ATLAS	TRI-CITY	LAWRENCE	ACCURATE	EASTERN	CSI/ BONNEVILLE	TECH
ASSETS								
Cash and cash equivalents.....	\$ 550	\$ 144	\$ 497	\$ 162	\$ 208	\$ 485	\$ 264	\$ 405
Restricted cash and investments.....	--	--	--	--	--	--	--	--
Accounts receivable.....	6,130	4,554	6,140	3,350	2,525	1,305	772	1,796
Less allowance.....	80	100	30	--	28	26	20	20
Accounts receivable, net.....	6,050	4,454	6,110	3,350	2,497	1,279	752	1,776
Other receivables.....	6	67	88	--	40	--	--	58
Inventories.....	617	2,045	273	211	141	113	486	228
Prepaid expenses and other.....	43	184	2	157	0	100	4	22
Costs in excess of billings.....	808	952	1,097	278	330	450	158	50
Other.....	1,427	154	88	35	12	81	15	31
Total current assets.....	9,501	8,000	8,155	4,193	3,228	2,508	1,679	2,570
Property and equipment, net.....	670	654	627	743	497	638	676	323
Goodwill, net.....	--	22	--	--	--	--	--	--
Other noncurrent assets.....	--	88	--	207	--	132	23	--
Total assets.....	\$10,171	\$8,764	\$8,782	\$5,143	\$3,725	\$3,278	\$2,378	\$2,893
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current maturities of long-term debt.....	\$ --	\$ 140	\$--	\$--	\$--	\$--	\$ 1	\$ --
Accounts payable and accrued expenses.....	2,046	2,956	4,322	1,959	1,514	1,527	749	939
Payable to shareholder/affiliate.....	127	--	--	--	(8)	--	--	--
Billings in excess of costs and earnings.....	732	281	830	724	150	98	235	--
Deferred income taxes.....	--	1,143	--	--	--	--	--	--
Other.....	405	--	--	--	--	--	--	--
Total current liabilities.....	3,310	4,520	5,152	2,683	1,656	1,625	985	939
Deferred income taxes.....	--	--	--	--	--	--	--	--
Long-term debt, net of current maturities.....	7,389	1,636	3,112	300	993	1,138	855	1,906
Payable to shareholder/affiliate.....	--	--	388	--	--	465	529	--
Total liabilities.....	10,699	6,156	8,652	2,983	2,649	3,228	2,369	2,845
Commitments and contingencies.....	--	--	--	--	--	--	--	--
Stockholders' equity:								
Common stock.....	22	1	25	161	1	50	9	1
Additional paid-in-capital.....	6	--	105	--	--	--	--	--
Retained earnings.....	342	2,607	--	2,014	1,075	--	--	50
Treasury stock.....	(898)	--	--	(15)	--	--	--	(3)
Total stockholders' equity.....	(528)	2,608	130	2,160	1,076	50	9	48
Total liabilities and stockholders' equity.....	\$10,171	\$8,764	\$8,782	\$5,143	\$3,725	\$3,278	\$2,378	\$2,893

	SEASONAIR	WESTERN	OTHER FOUNDING COMPANIES	COMFORT SYSTEMS	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED	POST MERGER ADJUSTMENTS	AS ADJUSTED
ASSETS								
Cash and cash equivalents.....	\$ 125	\$ 52	\$ 116	\$ 42	\$ --	\$ 3,050	\$ 34,952	\$38,002
Restricted cash and investments.....	--	--	--	--	--	--	--	--
Accounts receivable.....	1,040	783	1,715	--	--	30,110	--	30,110
Less allowance.....	--	--	71	--	--	375	--	375
Accounts receivable, net.....	1,040	783	1,644	--	--	29,735	--	29,735
Other receivables.....	--	5	12	--	--	276	--	276
Inventories.....	186	82	608	--	--	4,990	--	4,990
Prepaid expenses and other.....	72	14	42	--	--	640	--	640
Costs in excess of billings.....	99	137	59	--	--	4,418	--	4,418
Other.....	147	8	476	4,556	--	7,030	(4,936)	2,094
Total current assets.....	1,669	1,081	2,957	4,598	--	50,139	30,016	80,155
Property and equipment, net.....	56	183	234	--	--	5,301	--	5,301

Goodwill, net.....	--	--	--	--	139,239	139,261	--	139,261
Other noncurrent assets.....	115	122	6	--	--	693	--	693
Total assets.....	<u>\$ 1,840</u>	<u>\$1,386</u>	<u>\$ 3,197</u>	<u>\$ 4,598</u>	<u>\$ 139,239</u>	<u>\$195,394</u>	<u>\$ 30,016</u>	<u>\$225,410</u>
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current maturities of long-term debt.....	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 141	\$ --	\$ 141
Accounts payable and accrued expenses.....	725	514	1,471	4,556	--	23,278	(4,556)	18,722
Payable to shareholder/affiliate.....	--	--	32	--	45,303	45,454	(45,303)	151
Billings in excess of costs and earnings.....	122	21	6	--	--	3,199	--	3,199
Deferred income taxes.....	132	--	107	--	--	1,382	--	1,382
Other.....	--	--	154	--	--	559	--	559
Total current liabilities.....	<u>979</u>	<u>535</u>	<u>1,770</u>	<u>4,556</u>	<u>45,303</u>	<u>74,013</u>	<u>(49,859)</u>	<u>24,154</u>
Deferred income taxes.....	17	--	--	--	--	17	--	17
Long-term debt, net of current maturities.....	86	460	604	--	--	18,479	--	18,479
Payable to shareholder/affiliate.....	68	317	--	--	--	1,767	--	1,767
Total liabilities.....	<u>1,150</u>	<u>1,312</u>	<u>2,374</u>	<u>4,556</u>	<u>45,303</u>	<u>94,276</u>	<u>(49,859)</u>	<u>44,417</u>
Commitments and contingencies.....	--	--	--	--	--	--	--	--
Stockholders' equity:								
Common stock.....	78	1	42	42	(293)	140	70	210
Additional paid-in-capital.....	1	62	1	11,556	89,247	100,978	79,805	180,783
Retained earnings.....	846	11	830	(11,556)	3,781	--	--	--
Treasury stock.....	(235)	--	(50)	--	1,201	--	--	--
Total stockholders' equity.....	<u>690</u>	<u>74</u>	<u>823</u>	<u>42</u>	<u>93,936</u>	<u>101,118</u>	<u>79,875</u>	<u>180,993</u>
Total liabilities and stockholders' equity.....	<u>\$ 1,840</u>	<u>\$1,386</u>	<u>\$ 3,197</u>	<u>\$ 4,598</u>	<u>\$ 139,239</u>	<u>\$195,394</u>	<u>\$ 30,016</u>	<u>\$225,410</u>

COMFORT SYSTEMS USA, INC.  
 UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS  
 YEAR ENDED DECEMBER 31, 1996  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	QUALITY	ATLAS	TRI-CITY	LAWRENCE	ACCURATE	EASTERN	CSI/BONNEVILLE
REVENUES.....	\$29,597	\$ 30,030	\$24,237	\$17,163	\$16,806	\$7,944	\$ 7,842
COST OF SERVICES.....	18,467	25,071	18,561	12,211	13,270	5,276	5,201
Gross profit.....	11,130	4,959	5,676	4,952	3,536	2,668	2,641
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	6,640	2,858	3,903	4,885	3,037	2,237	1,660
GOODWILL AMORTIZATION.....	--	--	--	--	--	--	--
INCOME FROM OPERATIONS.....	4,490	2,101	1,773	67	499	431	981
OTHER INCOME (EXPENSE):							
Interest income.....	--	--	152	47	--	--	--
Interest expense.....	(154 )	(292)	--	--	(80)	(87 )	(29)
Other.....	97	65	89	8	14	40	51
INCOME BEFORE INCOME TAXES.....	4,433	1,874	2,014	122	433	384	1,003
PROVISION FOR INCOME TAXES.....	--	750	--	60	--	--	--
NET INCOME.....	\$ 4,433	\$ 1,124	\$ 2,014	\$ 62	\$ 433	\$ 384	\$ 1,003
NET INCOME PER SHARE.....							
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1).....							

  

	TECH	SEASONAIR	WESTERN	OTHER FOUNDING COMPANIES	COMFORT SYSTEMS	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
REVENUES.....	\$ 7,537	\$6,737	\$6,494	\$ 13,138	\$--	\$ --	\$ 167,525
COST OF SERVICES.....	3,996	4,006	4,662	8,991	--	--	119,712
Gross profit.....	3,541	2,731	1,832	4,147	--	--	47,813
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,861	2,597	1,088	3,616	--	(6,568)	27,814
GOODWILL AMORTIZATION.....	--	--	--	--	--	3,495	3,495
INCOME FROM OPERATIONS.....	1,680	134	744	531	--	3,073	16,504
OTHER INCOME (EXPENSE):							
Interest income.....	--	--	--	17	--	--	216
Interest expense.....	(18)	(21)	(51)	--	--	(772)	(1,504 )
Other.....	31	82	(21)	34	--	--	490
INCOME BEFORE INCOME TAXES.....	1,693	195	672	582	--	2,301	15,706
PROVISION FOR INCOME TAXES.....	--	69	--	49	--	6,752	7,680
NET INCOME.....	\$ 1,693	\$ 126	\$ 672	\$ 533	\$--	\$ (4,451)	\$ 8,026
NET INCOME PER SHARE.....							\$ 0.44
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1).....							18,252,311

(1) Includes (i) 2,969,912 shares issued to Notre, (ii) 1,269,935 shares issued to management of and consultants to Comfort Systems, (iii) 9,720,927 shares issued to owners of the Founding Companies and (iv) 4,291,537 of the 7,015,000 shares sold in the IPO necessary to pay the cash portion of the Merger consideration and expenses of the IPO. The 2,723,463 shares excluded reflects 1,808,463 shares for the net cash proceeds to Comfort Systems from the IPO, and 915,000 shares purchased by the underwriters pursuant to an overallotment option.

COMFORT SYSTEMS USA, INC.  
 UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS  
 SIX MONTHS ENDED JUNE 30, 1997  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	QUALITY	ATLAS	TRI-CITY	LAWRENCE	ACCURATE	EASTERN	CSI/BONNEVILLE
REVENUES.....	\$16,747	\$ 13,962	\$17,016	\$ 9,042	\$ 6,204	\$3,465	\$ 3,828
COST OF SERVICES.....	9,854	11,166	14,528	6,386	4,776	2,112	2,535
Gross profit.....	6,893	2,796	2,488	2,656	1,428	1,353	1,293
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	3,879	1,740	1,346	2,915	1,200	1,144	865
GOODWILL AMORTIZATION.....	--	--	--	--	--	--	--
INCOME FROM OPERATIONS.....	3,014	1,056	1,142	(259)	228	209	428
OTHER INCOME (EXPENSE):							
Interest income.....	59	14	70	2	--	2	4
Interest expense.....	(72 )	(105)	--	--	(65)	(43 )	(43)
Other.....	(35 )	53	3	128	7	32	12
INCOME BEFORE INCOME TAXES.....	2,966	1,018	1,215	(129)	170	200	401
PROVISION FOR INCOME TAXES.....	--	402	--	52	--	--	--
NET INCOME (LOSS).....	\$ 2,966	\$ 616	\$ 1,215	\$ (181)	\$ 170	\$ 200	\$ 401
NET INCOME PER SHARE.....							
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1).....							
				OTHER FOUNDING COMPANIES	COMFORT SYSTEMS	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
REVENUES.....	\$ 3,904	\$3,767	\$2,174	\$ 6,791	\$ --	\$ --	\$ 86,900
COST OF SERVICES.....	2,229	2,339	1,641	4,829	--	--	62,395
Gross profit.....	1,675	1,428	533	1,962	--	--	24,505
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,059	1,244	457	1,581	11,556	(13,589)	15,397
GOODWILL AMORTIZATION.....	--	--	--	--	--	1,748	1,748
INCOME FROM OPERATIONS.....	616	184	76	381	(11,556 )	11,841	7,360
OTHER INCOME (EXPENSE):							
Interest income.....	--	--	--	16	--	--	167
Interest expense.....	(29)	(6)	(22)	(18)	--	(386)	(789 )
Other.....	(19)	30	(13)	29	--	(135)	92
INCOME BEFORE INCOME TAXES.....	568	208	41	408	(11,556 )	11,320	6,830
PROVISION FOR INCOME TAXES.....	--	83	--	--	--	2,672	3,209
NET INCOME (LOSS).....	\$ 568	\$ 125	\$ 41	\$ 408	\$(11,556)	\$ 8,648	\$ 3,621
NET INCOME PER SHARE.....							\$ 0.20
SHARES USED IN COMPUTING PRO FORMA NET INCOME PER SHARE(1).....							18,252,311

(1) Includes (i) 2,969,912 shares issued to Notre, (ii) 1,269,935 shares issued to management of and consultants to Comfort Systems, (iii) 9,720,927 shares issued to owners of the Founding Companies and (iv) 4,291,537 of the 7,015,000 shares sold in the IPO necessary to pay the cash portion of the Merger consideration and expenses of the IPO. The 2,723,463 shares excluded reflects 1,808,463 shares for the net cash proceeds to Comfort Systems from the IPO, and 915,000 shares purchased by the underwriters pursuant to an overallotment option.

COMFORT SYSTEMS USA, INC. AND FOUNDING COMPANIES  
NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

1. GENERAL:

Comfort Systems USA, Inc. ("Comfort Systems") was founded to become a leading national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation services as well as maintenance, repair and replacement of HVAC systems, focusing primarily on commercial and industrial markets. Comfort Systems conducted no operations prior to the IPO and acquired the Founding Companies concurrently with and as a condition to the closing of the Offering.

The historical financial statements reflect the financial position and results of operations of the Founding Companies and were derived from the respective Founding Companies' financial statements where indicated. The periods included in these financial statements for the individual Founding Companies are as of and for the six months ended June 30, 1997 and for the year ended December 31, 1996, with the exception of Lawrence for which the period is as of and for the fiscal year ended October 31, 1996. The audited historical financial statements included elsewhere herein have been included in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 80.

2. ACQUISITION OF FOUNDING COMPANIES:

Concurrently with and as a condition to the closing of the IPO, Comfort Systems acquired all of the outstanding capital stock of the Founding Companies. The acquisitions were accounted for using the purchase method of accounting with Comfort Systems being treated as the accounting acquirer.

The following table sets forth the consideration paid (a) in cash and (b) in shares of Common Stock to the common stockholders of each of the Founding Companies. For purposes of computing the estimated purchase price for accounting purposes, the value of the shares was determined using an estimated fair value of \$10.40 per share (or \$101.1 million), which represents a discount of twenty percent from the initial public offering price of \$13.00 due to restrictions on the sale and transferability of the shares issued. The total estimated purchase price of \$146.4 million for the acquisitions is based upon preliminary estimates and is subject to certain purchase price adjustments at and following closing. The table does not reflect the distributions totaling \$20.9 million as of June 30, 1997 constituting substantially all of the Founding Companies undistributed earnings previously taxed to their stockholders ("S Corporation Distributions").

	CASH	SHARES OF COMMON STOCK
	-----	-----
	(DOLLARS IN THOUSANDS)	
Quality.....	\$ 10,082	2,207,158
Atlas.....	6,864	1,432,000
Tri-City.....	8,680	1,557,962
Lawrence.....	4,500	1,197,796
Accurate.....	3,145	564,537
Eastern.....	698	304,216
CSI/Bonneville.....	1,813	493,672
Tech.....	3,997	717,408
Seasonair.....	1,516	272,084
Western.....	2,022	362,939
Freeway.....	1,039	319,698
Standard.....	947	291,457
	-----	-----
Total.....	\$ 45,303	9,720,927
	=====	=====



3. UNAUDITED PRO FORMA COMBINED BALANCE SHEET ADJUSTMENTS:

- (a) Records the liability for the cash portion of the consideration paid to the stockholders of the Founding Companies in connection with the Mergers.
- (b) Records the purchase of the Founding Companies by Comfort System consisting of \$45.3 million in cash and 9,720,927 shares of Common Stock valued at \$10.40 per share (or \$101.1 million) for a total purchase price of \$146.4 million resulting in excess purchase price of \$139.8 million over the net assets acquired of \$6.6 million. See Note 2.
- (c) Records the cash proceeds of \$79.3 million from the issuance of shares of Comfort Systems Common Stock net of offering costs of \$10.5 million (includes the payment of deferred offering costs of \$4.9 million). Offering costs primarily consist of underwriting discounts and commissions, accounting fees, legal fees and printing expenses.
- (d) Records the cash portion of the consideration to be paid to the stockholders of the Founding Companies in connection with the Mergers.
- (e) Records the cash proceeds of \$11.9 million from the purchase of 915,000 shares of Comfort Systems Common Stock by the underwriters pursuant to an overallotment option net of offering costs of \$0.8 million. Offering costs primarily consist of underwriting discounts and commissions.

The following table summarizes unaudited pro forma combined balance sheet adjustments (in thousands):

	ADJUSTMENT		PRO FORMA ADJUSTMENTS	
	(A)	(B)		
ASSETS				
Cash and cash equivalents.....	\$ --	\$ --	\$ --	
Total current assets.....	--	--	--	
Goodwill, net.....	--	139,239	139,239	
Total assets.....	\$ --	\$ 139,239	\$ 139,239	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Payable to shareholder/affiliate.....	\$ 45,303	\$ --	\$ 45,303	
Total current liabilities.....	45,303	--	45,303	
Long-term debt, net of current maturities.....	--	--	--	
Total liabilities.....	45,303	--	45,303	
Stockholders' equity:				
Common stock.....	--	(293)	(293)	
Additional paid-in capital.....	(45,303)	134,550	89,247	
Retained earnings.....	--	3,781	3,781	
Treasury stock.....	--	1,201	1,201	
Total stockholders' equity.....	(45,303)	139,239	93,936	
Total liabilities and stockholders' equity.....	\$ --	\$ 139,239	\$ 139,239	
	(C)	(D)	(E)	POST MERGER ADJUSTMENTS
ASSETS				
Cash and cash equivalents.....	\$ 69,193	\$ (45,303)	\$ 11,062	\$ 34,952
Other.....	(4,936)	--	--	(4,936)
Total current assets.....	64,257	(45,303)	11,062	30,016
Total assets.....	\$ 64,257	\$ (45,303)	\$ 11,062	\$ 30,016
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable and accrued expenses...	\$ (4,556)	\$ --	\$ --	\$ (4,556)
Payable to shareholder/affiliate.....	--	(45,303)	--	(45,303)
Total current liabilities.....	(4,556)	(45,303)	--	(49,859)
Total liabilities.....	(4,556)	(45,303)	--	(49,859)
Stockholders' equity:				
Common stock.....	61	--	9	70
Additional paid-in capital.....	68,752	--	11,053	79,805
Retained earnings.....	--	--	--	--
Treasury stock.....	--	--	--	--

Total stockholders' equity.....	68,813	--	11,062	79,875
	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 64,257	\$ (45,303)	\$ 11,062	\$ 30,016
	=====	=====	=====	=====

4. UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS ADJUSTMENTS:

YEAR ENDED DECEMBER 31, 1996

- (a) Reflects the reduction in salaries, bonuses and benefits from an aggregate total of \$9.0 million to \$2.4 million to the owners of the Founding Companies to which they have agreed prospectively. These reductions in salaries, bonuses and benefits are in accordance with the terms of the employment agreements. Such employment agreements are primarily for 5 years, contain restrictions related to competition and provide severance for termination of employment in certain circumstances.
- (b) Reflects the amortization of goodwill to be recorded as a result of these Mergers over a 40-year estimated life.
- (c) Reflects the interest expense on borrowings of \$11.0 million necessary to fund the S Corporation Distributions.
- (d) Reflects the incremental provision for federal and state income taxes relating to the other statements of operations adjustments and for income taxes on S Corporation income.

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

	ADJUSTMENT				PRO FORMA ADJUSTMENTS
	(A)	(B)	(C)	(D)	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	\$ (6,568)	\$ --	\$ --	\$ --	\$(6,568)
GOODWILL AMORTIZATION.....	--	3,495	--	--	3,495
INCOME (LOSS) FROM OPERATIONS.....	6,568	(3,495)	--	--	3,073
OTHER INCOME (EXPENSE):					
Interest expense.....	--	--	(772)	--	(772)
INCOME (LOSS) BEFORE INCOME TAXES....	6,568	(3,495)	(772)	--	2,301
PROVISION FOR INCOME TAXES.....	--	--	--	6,752	6,752
NET INCOME (LOSS).....	\$ 6,568	\$ (3,495)	\$ (772)	\$ (6,752)	\$(4,451)

SIX MONTHS ENDED JUNE 30, 1997

- (a) Reflects the reduction in salaries, bonuses and benefits to the owners of the Founding Companies to which they have agreed prospectively. These reductions in salaries, bonuses and benefits are in accordance with the terms of the employment agreements. Such employment agreements are primarily for 5 years, contain restrictions related to competition and provide severance for termination of employment in certain circumstances.
- (b) Reflects the amortization of goodwill to be recorded as a result of these Mergers over a 40-year estimated life.
- (c) Reflects the interest expense on borrowings of \$11.0 million necessary to fund the S Corporation Distributions.
- (d) Reflects the incremental provision for federal and state income taxes relating to the other statements of operations adjustments and for income taxes on S Corporation income.
- (e) Reflects the reduction in compensation expense related to the non-recurring, non-cash compensation charge of \$11.6 million recorded by Comfort in the first quarter of 1997 related to Common Stock issued to management of and consultants to the Company offset by the increase in compensation expense related to the on-going salaries of the management of Comfort Systems of \$0.4 million in the first six months of 1997. The issuances of Common Stock were made in contemplation of the Mergers and the IPO, and no future issuances of this nature are anticipated.
- (f) Reflects the reversal of gains from sales of fixed assets.

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

	ADJUSTMENT						PRO FORMA ADJUSTMENTS
	(A)	(B)	(C)	(D)	(E)	(F)	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	\$ (2,463)	\$ --	\$ --	\$ --	\$ (11,126)	\$ --	\$ (13,589)
GOODWILL AMORTIZATION.....	--	1,748	--	--	--	--	1,748
INCOME (LOSS) FROM OPERATIONS.....	2,463	(1,748)	--	--	11,126	--	11,841
OTHER INCOME (EXPENSE):							
Interest expense.....	--	--	(386)	--	--	--	(386)
Other.....	--	--	--	--	--	(135)	(135)
INCOME (LOSS) BEFORE INCOME TAXES....	2,463	(1,748)	(386)	--	11,126	(135)	11,320
PROVISION FOR INCOME TAXES.....	--	--	--	2,672	--	--	2,672
NET INCOME (LOSS).....	\$ 2,463	\$ (1,748)	\$ (386)	\$ (2,672)	\$ 11,126	\$ (135)	\$ 8,648

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Comfort Systems USA, Inc.:

We have audited the accompanying balance sheet of Comfort Systems USA, Inc. as of December 31, 1996. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Comfort Systems USA, Inc. as of December 31, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
March 25, 1997

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

	DECEMBER 31, 1996	JUNE 30, 1997
	-----	-----
		(UNAUDITED)
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS.....	\$ 1	\$ 42
DEFERRED OFFERING COSTS.....	177	4,556
	-----	-----
Total assets.....	\$ 178	\$ 4,598
	=====	=====
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
ACCRUED LIABILITIES AND AMOUNTS DUE TO STOCKHOLDER.....	\$ 177	\$ 4,556
STOCKHOLDER'S EQUITY:		
Preferred stock, \$.01 par, 5,000,000 authorized, none issued and outstanding.....	--	--
Common stock, \$.01 par, 52,969,912 shares authorized, 121,139 and 4,239,847 shares issued and outstanding, respectively.....	1	42
Additional paid in capital.....	--	11,556
Retained deficit.....	--	(11,556)
	-----	-----
Total stockholder's equity....	1	42
	-----	-----
Total liabilities and stockholder's equity.....	\$ 178	\$ 4,598
	=====	=====

Reflects a 121.1387-for-one stock split effective on March 19, 1997.  
The accompanying notes are an integral part of these financial statements.

COMFORT SYSTEMS USA, INC.  
STATEMENT OF OPERATIONS  
SIX MONTHS ENDED JUNE 30, 1997 (UNAUDITED)  
(IN THOUSANDS)

REVENUES.....	\$	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....		11,556
		-----
LOSS BEFORE INCOME TAXES.....		(11,556)
INCOME TAX BENEFIT.....		--
		-----
NET LOSS.....	\$	(11,556)
		=====

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

COMFORT SYSTEMS USA, INC.  
STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE PERIOD FROM INCEPTION (DECEMBER 12, 1996)  
THROUGH JUNE 30, 1997  
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT			
Initial Capitalization.....	121,139	\$ 1	\$ --	\$ --	\$ 1
BALANCE, December 31, 1996.....	121,139	1	--	--	1
Issuance of Management Shares (unaudited).....	4,118,708	41	11,556	--	11,597
Net loss (unaudited).....	--	--	--	(11,556)	(11,556)
BALANCE, June 30, 1997 (unaudited)...	4,239,847	\$ 42	\$ 11,556	\$(11,556)	\$ 42

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



COMFORT SYSTEMS USA, INC.  
STATEMENT OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30, 1997 (UNAUDITED)  
(IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Loss.....	\$ (11,556)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities --	
Compensation expense related to issuance of management shares...	11,556
Changes in assets and liabilities --	
Increase in deferred offering costs.....	(4,556)
Increase in accrued liabilities and amounts due to stockholder.....	4,556
	-----
Net cash provided by operating activities.....	--
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of stock.....	41
	-----
Net cash provided by financing activities.....	41
	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	
	41
CASH AND CASH EQUIVALENTS, beginning of period.....	1
	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$ 42
	=====

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

1. BUSINESS AND ORGANIZATION:

Comfort Systems USA, Inc., a Delaware corporation, ("Comfort Systems" or the "Company") was founded in December 1996 to become a national provider of comprehensive HVAC installation services and maintenance, repair and replacement of HVAC systems, focusing primarily on the commercial and industrial markets. Comfort intends to acquire 12 U.S. businesses (the "Mergers"), complete an initial public offering (the "Offering") of its common stock and, subsequent to the Offering, continue to acquire through merger or purchase, similar companies to expand its national operations.

Comfort Systems has not conducted any operations, and all activities to date have related to the Offering and the Mergers. The Company's cash balances were generated from the initial capitalization of the Company (see Note 3). All other expenditures to date have been funded by the primary stockholder, Notre Capital Ventures II, L.L.C. ("Notre"), on behalf of the Company. Since there were no revenues, expenses or cash flows from Inception (December 12, 1996) through December 31, 1996, statements of operations and cash flows have been omitted for this period. Notre has committed to fund the organization expenses and offering costs. As of December 31, 1996 and June 30, 1997, costs of approximately \$177,000 and \$4,936,000 (unaudited), respectively have been incurred by Notre in connection with the Offering. Comfort Systems has treated these costs as deferred offering costs.

2. INTERIM FINANCIAL INFORMATION:

The interim financial statements as of June 30, 1997, and for the six months then ended are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim period is not necessarily indicative of the results for the entire fiscal year.

3. STOCKHOLDER'S EQUITY:

COMMON STOCK AND PREFERRED STOCK

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

In connection with the organization and initial capitalization of Comfort Systems, the Company issued 121,139 shares of common stock at \$.01 per share to Notre. In January 1997, the Company issued 2,848,773 additional shares to Notre for \$.01 per share.

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

RESTRICTED COMMON STOCK

In March 1997, the primary stockholder exchanged its 2,742,912 shares of Common Stock for an equal number of shares of restricted voting common stock ("Restricted Common Stock"). The holder of Restricted Common Stock is entitled to elect one member of the Company's Board of Directors and to 0.55

of one vote for each share on all other matters on which they are entitled to vote. Holders of Restricted Common Stock are not entitled to vote on the election of any other directors.

Each share of Restricted Common Stock will automatically convert to Common Stock on a share-for-share basis (i) in the event of a disposition of such share of Restricted Common Stock by the holder thereof (other than a distribution 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 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 Common Stock into shares of Common Stock in the event 80% or more of the originally outstanding shares of Restricted Common Stock have been previously converted into shares of Common Stock.

#### LONG-TERM INCENTIVE PLAN

In March 1997, the Company's stockholders approved the Company's 1997 Long-Term Incentive Plan (the "Plan"), which provides for the granting or awarding of incentive or non-qualified stock options, stock appreciation rights, restricted or deferred stock, dividend equivalents and other incentive awards to directors, officers, key employees and consultants to the Company. The number of shares authorized and reserved for issuance under the Plan is the greater of 2,500,000 shares or 13% of the aggregate number of shares of Common Stock outstanding. The terms of the option awards will be established by the Compensation Committee of the Company's Board of Directors. The Company intends to file a registration statement on Form S-8 under the Securities Act registering the issuance of shares upon exercise of options granted under this Plan. The Company expects to grant non-qualified stock options to purchase a total of 675,000 shares of Common Stock to key employees of the Company at the initial public offering price upon consummation of the Offering. In addition, the Company expects to grant options to purchase a total of 1,271,953 shares of Common Stock to certain employees of the Founding Companies at the initial public offering price per share. These options will vest at the rate of 20% per year, commencing on the first anniversary of the IPO and will expire seven years from the date of grant or three months following termination of employment.

#### NON-EMPLOYEE DIRECTORS STOCK PLAN

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

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

Options will be granted to each of two future and one current member of the board of directors to purchase 10,000 shares of Common Stock at the initial Offering price per share effective upon the consummation of this Offering. These options will expire the earlier of 10 years from the date of grant or one year after termination of service as a director.

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

4. STOCK BASED COMPENSATION:

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," allows entities to choose between a new fair value based method of accounting for employee stock options or similar equity instruments and the current intrinsic, value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"). Entities electing to remain with the accounting in APB Opinion No. 25 must make pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. The Company will provide pro forma disclosure of net income and earnings per share, as applicable, in the notes to future consolidated financial statements.

5. EVENTS SUBSEQUENT TO THE DATE OF AUDITORS' REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS (UNAUDITED):

Wholly-owned subsidiaries of Comfort Systems have acquired by merger or share exchange 12 companies ("Founding Companies"). The companies are Accurate Air Systems, Inc., Atlas Comfort Services USA, Inc. and Subsidiary, Contract Service, Inc., Eastern Heating and Cooling, Inc., Freeway Heating and Air Conditioning, Inc., Quality Air Heating & Cooling, Inc., Seasonair, Inc., S.M. Lawrence Inc. and Related Company, Standard Heating and Air Conditioning Company, Tech Heating and Air Conditioning, Inc. and Related Company, Tri-City Mechanical, Inc. and Western Building Services, Inc. The aggregate consideration paid by Comfort Systems to acquire the Founding Companies was approximately \$45.3 million in cash and 9,720,927 shares of Common Stock.

On June 27, 1997, Comfort Systems completed the Offering, which involved the sale by Comfort Systems of 6,100,000 shares of Common Stock at a price to the public of \$13.00 per share. The net proceeds to Comfort Systems from the Offering (after deducting underwriting discounts and commissions and offering expenses) were approximately \$69.7 million. Of this amount, \$45.3 million was used to pay the cash portion of the purchase prices relating to the acquisitions for the Founding Companies. On July 9, 1997, Comfort Systems sold an additional 915,000 shares of Common Stock at \$13.00 per share (which represents net proceeds to the Company of \$11.1 million after underwriting discounts and commissions) pursuant to an overallotment option granted by Comfort Systems to the underwriters in connection with the Offering. See "Risk Factors" included elsewhere herein.

The Company has obtained a revolving line of credit of \$75.0 million. The facility is intended to be used for acquisitions, capital expenditures, refinancing of debt not paid out of the proceeds of the Offering and for general corporate purposes. The credit facility requires the Company to comply with various loan covenants including (i) maintenance of certain financial ratios, (ii) restrictions on additional indebtedness, and (iii) restrictions on liens, guarantees, advances and dividends. The line of credit is subject to customary drawing conditions. As of October 13, 1997, borrowings under the line of credit were \$18.9 million which was used to repay existing indebtedness of the Founding Companies.

The Company also has outstanding options to purchase up to a total of 2,258,653 shares of Common Stock. Each of these options has an exercise price equal to the stock price on the date of grant and will vest at the rate of 20% per year, commencing on the first anniversary of the date of grant and will expire at the earlier of seven years from the date of grant or three months following termination of employment.

Since the IPO, and through October 13, 1997, the Company has acquired eleven additional mechanical contracting companies engaged principally in the HVAC business. The Company paid approximately \$1.6 million in cash and 2,250,449 shares of Common Stock. The Company will account for seven of these acquisitions as pooling-of-interests transactions and the remaining four acquisitions will be accounted for as purchase transactions. Annualized revenues for these acquisitions were approximately \$70 million.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Quality Air Heating & Cooling, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	MARCH 31,		DECEMBER 31,	JUNE 30,
	1995	1996	1996	1997
				(UNAUDITED)
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents.....	\$ 1,669	\$ 4,191	\$ 2,651	\$ 550
Accounts receivable --				
Trade, net of allowance of				
\$87, \$80, \$80 and \$80,				
respectively.....	4,510	4,188	5,260	5,487
Retainage.....	457	464	453	563
Other receivables.....	14	12	5	6
Inventories.....	445	480	541	617
Costs and estimated earnings in				
excess of billings on				
uncompleted contracts.....	1,192	964	1,312	808
Prepaid expenses and other				
current assets.....	92	63	17	70
Federal income tax deposit.....	506	654	691	1,400
Total current				
assets.....	8,885	11,016	10,930	9,501
PROPERTY AND EQUIPMENT, net.....	771	708	758	670
Total assets.....	\$ 9,656	\$ 11,724	\$ 11,688	\$ 10,171
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Current maturities of long-term				
debt.....	\$ 470	\$ 613	\$ 675	\$ --
Accounts payable and accrued				
expenses.....	2,786	2,734	2,178	2,046
Dividends payable to				
shareholder.....	1,538	3,314	1,519	127
Billings in excess of costs and				
estimated earnings on				
uncompleted contracts.....	897	604	1,254	732
Unearned revenue.....	335	362	372	405
Total current				
liabilities.....	6,026	7,627	5,998	3,310
LONG-TERM DEBT, net of current				
maturities.....	2,444	1,392	646	7,389
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>SHAREHOLDERS' EQUITY:</b>				
Common stock, no par value;				
250,000 shares authorized and				
issued, 183,993 shares				
outstanding.....	22	22	22	22
Additional paid-in capital.....	6	6	6	6
Retained earnings.....	2,056	3,575	5,914	342
Treasury stock, 66,007 shares,				
at cost.....	(898)	(898)	(898)	(898)
Total shareholders'				
equity.....	1,186	2,705	5,044	(528)
Total liabilities and				
shareholders'				
equity.....	\$ 9,656	\$ 11,724	\$ 11,688	\$ 10,171

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

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

	YEARS ENDED MARCH 31,		NINE MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30,	
	----- 1995	1996 -----			----- 1996	----- 1996
	(UNAUDITED)					
REVENUES.....	\$ 24,434	\$ 32,594	\$ 23,282	\$ 29,597	\$ 15,396	\$ 16,747
COST OF SERVICES.....	15,634	20,850	14,176	18,467	9,819	9,854
Gross profit.....	8,800	11,744	9,106	11,130	5,577	6,893
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	6,646	6,791	5,032	6,640	3,186	3,879
Income from operations.....	2,154	4,953	4,074	4,490	2,391	3,014
OTHER INCOME (EXPENSE):						
Interest expense.....	(36)	(218)	(101)	(154)	(86)	(72)
Other.....	53	98	60	97	70	24
NET INCOME.....	\$ 2,171	\$ 4,833	\$ 4,033	\$ 4,433	\$ 2,375	\$ 2,966
	=====	=====	=====	=====	=====	=====

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

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

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

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



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

	YEARS ENDED MARCH 31		NINE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	SIX MONTHS ENDED JUNE 30,	
	----- 1995	1996	1996	1996	1996	1997
	-----	-----	-----	-----	-----	-----
	(UNAUDITED)					
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income.....	\$ 2,171	\$ 4,833	\$ 4,033	\$ 4,433	\$ 2,375	\$ 2,966
Adjustments to reconcile net income to net cash provided by (used in) operating activities --						
Depreciation and amortization...	359	371	242	370	34	200
Loss (gain) on sale of property and equipment.....	7	--	25	25	--	--
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable.....	(1,334)	317	(1,054)	335	(2,137)	(338)
Inventories.....	(6)	(35)	(61)	(76)	(58)	(76)
Costs and estimated earnings in excess of billings on uncompleted contracts.....	(804)	228	(348)	(253)	399	504
Prepaid expenses and other current assets.....	(15)	29	46	(3)	(35)	(53)
Federal income tax deposit.....	50	(148)	(37)	(185)	(148)	(709)
Increase (decrease) in --						
Accounts payable and accrued expenses.....	470	(52)	(556)	(481)	586	(132)
Billings in excess of costs and estimated earnings on uncompleted contracts.....	477	(293)	650	269	(332)	(522)
Unearned revenue.....	(15)	27	10	26	36	33
	-----	-----	-----	-----	-----	-----
Net cash provided by operating activities.....	1,360	5,277	2,950	4,460	720	1,873
	-----	-----	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Sale (purchase) of property and equipment, net.....	(446)	(308)	(317)	(441)	(70)	(197)
	-----	-----	-----	-----	-----	-----
Net cash used in investing activities.....	(446)	(308)	(317)	(441)	(70)	(197)
	-----	-----	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Borrowings of long-term debt.....	3,000	--	--	--	--	6,068
Payments of long-term debt.....	(226)	(909)	(684)	(903)	(392)	--
Distributions to shareholders.....	(3,088)	(1,538)	(3,489)	(3,488)	(2,674)	(9,845)
Purchase of treasury stock.....	(898)	--	--	--	--	--
	-----	-----	-----	-----	-----	-----
Net cash used in financing activities.....	(1,212)	(2,447)	(4,173)	(4,391)	(3,066)	(3,777)
	-----	-----	-----	-----	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>(298)</b>	<b>2,522</b>	<b>(1,540)</b>	<b>(372)</b>	<b>(2,416)</b>	<b>(2,101)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period.....</b>	<b>1,967</b>	<b>1,669</b>	<b>4,191</b>	<b>3,023</b>	<b>3,023</b>	<b>2,651</b>
	-----	-----	-----	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS, end of period.....</b>	<b>\$ 1,669</b>	<b>\$ 4,191</b>	<b>\$ 2,651</b>	<b>\$ 2,651</b>	<b>\$ 607</b>	<b>\$ 550</b>
	=====	=====	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid for --						
Interest.....	\$ 44	\$ 201	\$ 107	\$ 152	\$ 86	\$ 55

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

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

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

REVENUE RECOGNITION

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

QUALITY AIR HEATING & COOLING, INC.  
 NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

WARRANTY COSTS

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

INCOME TAXES

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

USE OF ESTIMATES

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

NEW ACCOUNTING PRONOUNCEMENT

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

3. PROPERTY AND EQUIPMENT:

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

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

QUALITY AIR HEATING & COOLING, INC.  
 NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

Accounts payable and accrued expenses consist of the following:

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

Installation contracts in progress are as follows:

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

5. LONG-TERM DEBT:

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

QUALITY AIR HEATING & COOLING, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

Year ending December 31,	
1997.....	\$ 675
1998.....	646
	-----
	\$ 1,321
	=====

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

6. LEASES:

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

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

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

7. RELATED-PARTY TRANSACTIONS:

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

8. EMPLOYEE BENEFIT PLAN:

The Company has a defined contribution profit sharing plan. The plan provides for the Company to match one-half of the first 4 percent contributed by each employee. Total contributions by the Company under the plan were approximately \$104,000, \$110,000 and \$125,000 for the years ending March 31, 1995 and 1996, and December 31, 1996, respectively. The Company may also make discretionary contributions. The Company made discretionary contributions of \$200,000 and \$300,000 for the years ended March 31,

1995 and 1996, and had accrued approximately \$169,000 at December 31, 1996, for contributions to be funded in 1997.

#### 9. FINANCIAL INSTRUMENTS

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

#### 10. COMMITMENTS AND CONTINGENCIES:

##### LITIGATION

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

##### INSURANCE

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

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

##### ROYALTY AGREEMENT

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

#### 11. SHAREHOLDERS' EQUITY:

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

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

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Atlas Comfort Services USA, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	JUNE 30,		DECEMBER 31,	JUNE 30,
	1995	1996	1996	1997
	(UNAUDITED)			
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents.....	\$ 427	\$ 391	\$ 101	\$ 144
Accounts receivable --				
Trade, net of allowance of				
\$60, \$60, \$100 and \$100,				
respectively.....	2,920	3,953	2,604	3,205
Retainage.....	904	1,327	1,208	1,249
Officers, employees and				
other receivables.....	114	172	159	67
Inventories.....	1,685	2,000	1,770	2,045
Costs and estimated earnings in				
excess of billings on				
uncompleted contracts.....	1,050	681	676	952
Current deferred income taxes...	155	164	145	145
Prepaid expenses and other				
current assets.....	40	27	82	193
	-----	-----	-----	-----
Total current				
assets.....	7,295	8,715	6,745	8,000
PROPERTY AND EQUIPMENT, net.....	231	484	499	654
<b>OTHER ASSETS:</b>				
Goodwill, net.....	24	23	22	22
Deferred income tax.....	167	105	88	88
	-----	-----	-----	-----
Total assets.....	\$ 7,717	\$ 9,327	\$ 7,354	\$ 8,764
	=====	=====	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Line of credit.....	\$ 500	\$ 600	\$ --	\$ --
Current maturities of notes				
payable to affiliates.....	200	102	107	--
Current obligations under				
capital leases.....	32	92	101	140
Current maturities of long-term				
debt.....	9	348	356	--
Accounts payable and accrued				
expenses.....	3,522	3,295	2,246	2,956
Income tax payable.....	363	390	752	1,143
Billings in excess of costs and				
estimated earnings on				
uncompleted contracts.....	1,115	1,947	523	281
	-----	-----	-----	-----
Total current				
liabilities.....	5,741	6,774	4,085	4,520
NOTES PAYABLE TO AFFILIATES, net of				
current portion.....	1,271	149	98	--
OBLIGATIONS UNDER CAPITAL LEASES, net				
of current portion.....	44	133	121	236
LONG-TERM DEBT, net of current				
portion.....	21	1,225	1,058	1,400
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>SHAREHOLDERS' EQUITY:</b>				
Common stock, no par value;				
5,000 shares authorized,				
1,000 issued and				
outstanding.....	1	1	1	1
Retained earnings.....	639	1,045	1,991	2,607
	-----	-----	-----	-----
Total shareholders'				
equity.....	640	1,046	1,992	2,608
	-----	-----	-----	-----
Total liabilities and				
shareholders'				
equity.....	\$ 7,717	\$ 9,327	\$ 7,354	\$ 8,764
	=====	=====	=====	=====

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



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

	YEAR ENDED JUNE 30,			SIX MONTHS ENDED DECEMBER 31,	SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1996	1997
	-----					
	(UNAUDITED)					
REVENUES.....	\$ 21,848	\$ 22,444	\$ 29,174	\$ 15,545	\$ 14,485	\$ 13,962
COST OF SERVICES.....	19,657	19,635	25,449	12,508	12,562	11,166
	-----					
Gross profit.....	2,191	2,809	3,725	3,037	1,923	2,796
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,086	2,166	2,843	1,432	1,426	1,740
	-----					
Income from operations.....	105	643	882	1,605	497	1,056
OTHER INCOME (EXPENSE):						
Interest expense.....	(156)	(168)	(185)	(107)	(185)	(105)
Other.....	2	28	(11)	78	(13)	67
	-----					
Income (loss) before income taxes, extraordinary item, and cumulative effect of a change in accounting principle.....	(49)	503	686	1,576	299	1,018
Provision for income taxes (benefit).....	(2)	199	280	630	121	402
	-----					
Income (loss) before extraordinary item and cumulative effect of a change in accounting principle.....	(47)	304	406	946	178	616
Extraordinary item -- gain on extinguishment of debt, net of deferred taxes of \$167,000 (Note 5).....	273	--	--	--	--	--
	-----					
Income before cumulative effect of a change in accounting principle.....	226	304	406	946	178	616
Cumulative effect on prior years of a change in accounting for income taxes (Note 7).....	141	--	--	--	--	--
	-----					
NET INCOME.....	\$ 367	\$ 304	\$ 406	\$ 946	\$ 178	\$ 616
	=====	=====	=====	=====	=====	=====

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

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

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

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

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

	YEAR ENDED JUNE 30,			SIX MONTHS ENDED DECEMBER 31,	SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1996	1997
					(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income.....	\$ 367	\$ 304	\$ 406	\$ 946	\$ 178	\$ 616
Adjustments to reconcile net income to net cash provided by (used in) operating activities --						
Depreciation and amortization.....	104	124	92	84	37	71
Cumulative effect of a change in accounting principle.....	(141)	--	--	--	--	--
Extraordinary gain on extinguishment of debt....	(440)	--	--	--	--	--
Deferred income tax provision.....	167	(196)	54	36	--	--
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable.....	(1,672)	148	(1,514)	1,481	(245)	(550)
Inventories.....	(264)	(554)	(315)	230	(39)	(275)
Costs and estimated earnings in excess of billings on uncompleted contracts....	(145)	(266)	369	5	(65)	(276)
Prepaid expenses and other current assets.....	121	(14)	13	(55)	20	(111)
Increase (decrease) in --						
Accounts payable and accrued expenses.....	1,320	(417)	(227)	(1,049)	1,213	710
Income tax payable.....	--	363	27	362	51	391
Billings in excess of costs and estimated earnings on uncompleted contracts....	585	437	834	(1,424)	(86)	(242)
Net cash provided by (used in) operating activities.....	2	(71)	(261)	616	1,064	334
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Sale (purchase) of property and equipment, net.....	(139)	(67)	(121)	(50)	(275)	(226)
Net cash used in investing activities.....	(139)	(67)	(121)	(50)	(275)	(226)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Net borrowings on line of credit.....	400	100	100	(600)	--	--
Principal payments on notes payable to affiliates.....	(38)	(261)	(1,219)	(50)	--	(205)
Borrowings on notes payable to affiliates.....	1,202	100	--	3	--	--
Principal payments on long-term debt.....	(1,067)	(14)	(150)	(176)	(177)	--
Borrowings on long-term debt....	41	--	1,689	15	--	126
Additions to (principal payments on) capital lease obligations.....	(29)	(37)	(74)	(48)	385	14
Cash paid for dividends.....	--	--	--	--	(312)	--
Net cash provided by (used in) financing activities.....	509	(112)	346	(856)	(104)	(65)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>372</b>	<b>(250)</b>	<b>(36)</b>	<b>(290)</b>	<b>685</b>	<b>43</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period.....</b>	<b>305</b>	<b>677</b>	<b>427</b>	<b>391</b>	<b>(294)</b>	<b>101</b>
<b>CASH AND CASH EQUIVALENTS, end of period.....</b>	<b>\$ 677</b>	<b>\$ 427</b>	<b>\$ 391</b>	<b>\$ 101</b>	<b>\$ 391</b>	<b>\$ 144</b>
	=====	=====	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid for --						
Interest.....	\$ --	\$ --	\$ --	\$ --	\$ 53	\$ 105
Income Taxes.....	\$ --	\$ 30	\$ 200	\$ 224	\$ --	\$ --

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

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

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

INTERIM FINANCIAL INFORMATION

The interim consolidated financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the consolidated interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

#### REVENUE RECOGNITION

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

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

#### WARRANTY COSTS

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

#### INCOME TAXES

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

#### USE OF ESTIMATES

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

#### GOODWILL

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

#### NEW ACCOUNTING PRONOUNCEMENTS

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

3. PROPERTY AND EQUIPMENT:

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

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

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

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

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

Accounts payable and accrued expenses consist of the following:

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

ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Installation contracts in progress are as follows:

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

5. DEBT:

LINE OF CREDIT

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

NOTES PAYABLE TO FINANCIAL INSTITUTIONS

Long-term debt is summarized as follows:

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

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

ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

NOTES PAYABLE TO AFFILIATES

Notes payable to affiliates are summarized as follows:

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

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

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

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



6. LEASES:

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

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

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

7. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

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

ATLAS COMFORT SERVICES USA, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

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

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

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

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

8. RELATED-PARTY TRANSACTIONS:

Two shareholders lease to the Company the main office facility. Total payments made under this lease agreement amounted to \$90,000 for each of the years ended June 30, 1994, 1995 and 1996, respectively, and \$45,000 for the six months ended December 31, 1996. The Company is in the process of entering into

an agreement with these shareholders to lease land on which a new facility will be built. This lease agreement is anticipated to have a twenty year term.

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

10. EMPLOYEE BENEFIT PLAN

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

11. FINANCIAL INSTRUMENTS:

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

12. SIGNIFICANT CUSTOMERS AND VENDORS:

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

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

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

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Tri-City Mechanical, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	DECEMBER 31,		JUNE 30,
	1995	1996	1997
			(UNAUDITED)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 2,551	\$1,958	\$ 497
Restricted cash.....	383	325	--
Investments.....	--	493	--
Accounts Receivable --			
Trade, net of allowance of			
\$130, \$30 and \$30,			
respectively.....	4,495	3,734	4,981
Retainage.....	831	756	1,129
Other receivables.....	2	11	88
Inventories.....	1,183	762	273
Costs and estimated earnings in			
excess of billings on			
uncompleted contracts.....	306	288	1,097
Prepaid expenses and other			
current assets.....	1	12	90
	-----	-----	-----
Total current assets.....	9,752	8,339	8,155
PROPERTY AND EQUIPMENT, net.....	508	656	627
	-----	-----	-----
Total assets.....	\$ 10,260	\$8,995	\$8,782
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued			
expenses.....	\$ 2,683	\$2,179	\$4,322
Billings in excess of costs and			
estimated earnings on			
uncompleted contracts.....	2,207	667	830
	-----	-----	-----
Total current			
liabilities.....	4,890	2,846	5,152
PAYABLE TO SHAREHOLDER.....	--	--	388
LONG-TERM DEBT, net of current			
maturities.....	--	--	3,112
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, \$10 par 2,500			
shares authorized, 2,500			
issued and outstanding.....	25	25	25
Additional paid-in capital.....	105	105	105
Retained earnings.....	5,240	6,019	--
	-----	-----	-----
Total shareholders'			
equity.....	5,370	6,149	130
	-----	-----	-----
Total liabilities and			
shareholders' equity....	\$ 10,260	\$8,995	\$8,782
	=====	=====	=====

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

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

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
				(UNAUDITED)	
REVENUES.....	\$ 16,883	\$ 25,030	\$ 24,237	\$ 11,199	\$ 17,016
COST OF SERVICES.....	14,271	19,298	18,561	8,417	14,528
Gross profit.....	2,612	5,732	5,676	2,782	2,488
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,219	3,193	3,903	1,982	1,346
Income from operations.....	393	2,539	1,773	800	1,142
OTHER INCOME (EXPENSE):					
Interest expense.....	(2)	(1)	--	--	--
Interest income.....	50	132	152	83	70
Other.....	24	81	89	30	3
NET INCOME.....	\$ 465	\$ 2,751	\$ 2,014	\$ 913	\$ 1,215

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

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

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT			
BALANCE, December 31, 1993.....	2,500	\$ 25	\$ 105	\$ 2,577	\$ 2,707
Distributions to shareholders...	--	--	--	(338)	(338)
Net income.....	--	--	--	465	465
BALANCE, December 31, 1994.....	2,500	25	105	2,704	2,834
Distributions to shareholders...	--	--	--	(215)	(215)
Net income.....	--	--	--	2,751	2,751
BALANCE, December 31, 1995.....	2,500	25	105	5,240	5,370
Distributions to shareholders...	--	--	--	(1,235)	(1,235)
Net income.....	--	--	--	2,014	2,014
BALANCE, December 31, 1996.....	2,500	25	105	6,019	6,149
Distributions to shareholders (unaudited).....	--	--	--	(7,234)	(7,234)
Net income (unaudited).....	--	--	--	1,215	1,215
BALANCE, June 30, 1997 (unaudited)...	2,500	\$ 25	\$ 105	\$ --	\$ 130

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

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

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
	(UNAUDITED)				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income.....	\$ 465	\$ 2,751	\$ 2,014	\$ 913	\$ 1,215
Adjustments to reconcile net income to net cash provided by (used in) operating activities --					
Depreciation.....	131	134	102	60	52
Deferred income taxes.....	(218)	--	--	--	--
Loss (gain) on sale of property and equipment.....	--	1	(10)	--	--
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Restricted cash.....	(73)	(75)	58	(92)	325
Accounts receivable.....	(231)	(1,306)	827	2,521	(1,697)
Inventories.....	(329)	(801)	421	1,028	489
Costs in excess of billings and estimated earnings on uncompleted contracts.....	17	(90)	18	16	(809)
Prepaid expenses and other current assets.....	(14)	28	(11)	(58)	(78)
Increase (decrease) in --					
Accounts payable and accrued expenses.....	864	519	(504)	(1,221)	2,143
Billings in excess of costs and estimated earnings on uncompleted contracts.....	1,360	508	(1,540)	(1,313)	163
Net cash provided by operating activities.....	1,972	1,669	1,375	1,854	1,803
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Sales (purchase) of property and equipment, net.....	(311)	139	(240)	(47)	(23)
Purchase (sale) of investment, net.....	--	--	(493)	(487)	493
Net cash (used in) provided by investing activities.....	(311)	(139)	(733)	(534)	470
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Increase (decrease) in payable to shareholders.....	(210)	--	--	--	--
Borrowings on line of credit.....	19	1	--	--	3,112
Payments on line of credit.....	(17)	(15)	--	(181)	--
Distributions to shareholders.....	(338)	(215)	(1,235)	(265)	(6,846)
Net cash used in financing activities.....	(546)	(229)	(1,235)	(446)	(3,734)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>1,115</b>	<b>1,301</b>	<b>(593)</b>	<b>874</b>	<b>(1,461)</b>
CASH AND CASH EQUIVALENTS, beginning of period.....	135	1,250	2,551	2,551	1,958
CASH AND CASH EQUIVALENTS, end of period.....	\$ 1,250	\$ 2,551	\$ 1,958	\$ 3,425	\$ 497
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid for --					
Interest.....	\$ 2	\$ 1	\$ --	\$ --	\$ --

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



TRI-CITY MECHANICAL, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

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

INVENTORIES

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

INVESTMENTS

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

PROPERTY AND EQUIPMENT

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

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

#### REVENUE RECOGNITION

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

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

#### WARRANTY COSTS

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

#### INCOME TAXES

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

#### USE OF ESTIMATES

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

#### NEW ACCOUNTING PRONOUNCEMENT

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

TRI-CITY MECHANICAL, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

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

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

TRI-CITY MECHANICAL, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

5. LONG-TERM DEBT:

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

6. LEASES:

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

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

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

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

7. EMPLOYEE BENEFIT PLANS:

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

8. RELATED-PARTY TRANSACTIONS:

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

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

10. FINANCIAL INSTRUMENTS:

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

11. SALES TO SIGNIFICANT CUSTOMER:

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

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

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

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

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To S. M. Lawrence Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	OCTOBER 31,		JUNE 30,
	1995	1996	1997
			(UNAUDITED)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents.....	\$ 680	\$ 327	\$ 162
Accounts receivable --			
Trade.....	1,457	2,493	2,344
Retainage.....	454	896	1,006
Other receivables.....	1	1	--
Note receivable from shareholder...	50	75	--
Inventories.....	215	253	211
Costs and estimated earnings in excess of billings on uncompleted contracts.....	66	358	278
Prepaid expenses and other current assets.....	39	61	192
	2,962	4,464	4,193
PROPERTY AND EQUIPMENT, net.....	459	644	743
OTHER NONCURRENT ASSETS.....	138	132	207
	\$ 3,559	\$ 5,240	\$ 5,143
	=====	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Line of credit.....	\$ 10	\$ --	\$ --
Note payable to affiliate.....	--	--	--
Accounts payable and accrued expenses.....	1,153	2,737	1,959
Income tax payable.....	--	--	--
Billings in excess of costs and estimated earnings on uncompleted contracts.....	299	344	724
	1,462	3,081	2,683
LONG-TERM DEBT, net of current maturities.....	--	--	300
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock, no par value, 3,000 shares authorized, 1,480 shares issued and outstanding.....	161	161	161
Treasury stock, at cost.....	(15)	(15)	(15)
Retained earnings.....	1,951	2,013	2,014
	2,097	2,159	2,160
	\$ 3,559	\$ 5,240	\$ 5,143
	=====	=====	=====

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

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

	YEARS ENDED OCTOBER 31,			EIGHT MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
	(UNAUDITED)				
REVENUES.....	\$ 12,758	\$ 12,568	\$ 17,163	\$ 9,775	\$ 11,575
COST OF SERVICES.....	9,797	9,142	12,211	7,200	8,156
Gross profit.....	2,961	3,426	4,952	2,575	3,419
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,849	3,477	4,885	2,890	3,460
Income (loss) from operations.....	112	(51)	67	(315)	(41)
OTHER INCOME (EXPENSE):					
Interest income, net.....	32	55	47	--	3
Other.....	(41)	34	8	22	39
INCOME (LOSS) BEFORE INCOME TAXES.....	103	38	122	(293)	1
PROVISION (BENEFIT) FOR INCOME TAXES....	50	30	60	(117)	--
NET INCOME (LOSS).....	\$ 53	\$ 8	\$ 62	\$ (176)	\$ 1

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



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

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

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

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

	YEARS ENDED OCTOBER 31,			EIGHT MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
	(UNAUDITED)				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income (loss).....	\$ 53	\$ 8	\$ 62	\$ (176)	\$ 1
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization...	263	121	200	32	152
Gain on sale of property and equipment.....	--	--	--	--	(128)
Changes in operating assets and liabilities					
(Increase) decrease in --					
Accounts receivable.....	262	203	(1,502)	(1,231)	115
Inventories.....	(18)	(26)	(38)	66	42
Costs and estimated earnings in excess of billings on uncompleted contracts.....	42	26	(292)	(122)	80
Prepaid expenses and other assets.....	46	(13)	3	(91)	(206)
Increase (decrease) in --					
Accounts payable and accrued expenses.....	(156)	143	1,584	1,093	(778)
Billings in excess of costs on uncompleted contracts.....	33	(171)	45	726	380
Net cash provided by (used in) operating activities.....	525	291	62	297	(342)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Payments of (additions to) cash surrender value of insurance....	(38)	(45)	(19)	3	--
Sales (purchases) of property and equipment, net.....	(74)	(380)	(386)	(188)	(123)
Net cash used in investing activities.....	(112)	(425)	(405)	(185)	(123)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Payments on note receivable from shareholder.....	--	(2)	(10)	(10)	--
Proceeds received on note from shareholder.....	--	12	--	--	--
Payments on note payable to shareholder.....	(181)	--	--	--	--
Borrowings on long-term debt.....	--	--	--	--	300
Net cash provided by (used in) financing activities.....	(181)	10	(10)	(10)	300
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>232</b>	<b>(124)</b>	<b>(353)</b>	<b>102</b>	<b>(165)</b>
CASH AND CASH EQUIVALENTS, beginning of period.....	572	804	680	680	327
CASH AND CASH EQUIVALENTS, end of period.....	\$ 804	\$ 680	\$ 327	\$ 782	\$ 162
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid for --					
Interest.....	\$ 14	\$ --	\$ 5	\$ --	\$ --
Income taxes.....	--	16	14	--	--

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

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

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

INTERIM FINANCIAL INFORMATION

The interim combined financial statements as of June 30, 1997, and for the eight months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the combined interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-

completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

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

#### WARRANTY COSTS

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

#### INCOME TAXES

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

#### USE OF ESTIMATES

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

#### NEW ACCOUNTING PRONOUNCEMENT

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

S.M. LAWRENCE INC. AND RELATED COMPANY  
 NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

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

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

5. LINE OF CREDIT:

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

S.M. LAWRENCE INC. AND RELATED COMPANY  
 NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

6. LEASES:

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

7. INCOME TAXES:

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

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

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

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

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

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

S.M. LAWRENCE INC. AND RELATED COMPANY  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

8. RELATED-PARTY TRANSACTIONS:

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

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

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

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

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

10. EMPLOYEE BENEFIT PLANS:

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

11. FINANCIAL INSTRUMENTS:

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

12. SALES TO SIGNIFICANT CUSTOMER:

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

13. SUBSEQUENT EVENT:

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

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

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

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

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



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Accurate Air Systems, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	JUNE 30, 1995	DECEMBER 31, 1995	DECEMBER 31, 1996	JUNE 30, 1997
				(UNAUDITED)
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents.....	\$ 50	\$ 33	\$ 79	\$ 208
Accounts receivable --				
Trade, net of allowance of \$70, \$70, \$33 and \$28, respectively.....	1,385	1,671	1,778	2,306
Retainage.....	550	321	725	191
Other receivables.....	8	16	18	40
Inventories.....	122	129	104	141
Costs and estimated earnings in excess of billings on uncompleted contracts.....	275	212	231	330
Prepaid expenses and other current assets.....	181	81	--	12
	2,571	2,463	2,935	3,228
PROPERTY AND EQUIPMENT, net.....	804	1,014	925	497
DEFERRED TAX ASSET.....	14	--	--	--
	\$3,389	\$3,477	\$3,860	\$3,725
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY				
CURRENT LIABILITIES:				
Current maturities of long-term debt.....	\$ 88	\$ 109	\$ 42	\$ --
Accounts payable and accrued expenses.....	1,707	1,355	1,236	1,514
Line of credit.....	374	600	500	--
Note payable -- shareholder.....	--	--	630	(8)
Billings in excess of costs and estimated earnings on uncompleted contracts.....	229	206	312	150
	2,398	2,270	2,720	1,656
LONG-TERM DEBT, net of current maturities.....	56	175	133	993
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDER'S EQUITY:				
Common stock \$1 par, 250,000 shares authorized, 1,000 shares issued and outstanding.....	1	1	1	1
Retained earnings.....	934	1,031	1,006	1,075
	935	1,032	1,007	1,076
	\$3,389	\$3,477	\$3,860	\$3,725
	=====	=====	=====	=====

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

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

	YEARS ENDED JUNE 30,		SIX MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	SIX MONTHS ENDED JUNE 30,	
	----- 1994	1995	1995	1996	----- 1996	1997
	----- (UNAUDITED) -----					
REVENUES.....	\$9,763	\$ 12,171	\$5,585	\$ 16,806	\$ 7,416	\$ 6,204
COSTS OF SERVICES.....	7,204	8,998	4,312	13,270	5,707	4,776
Gross profit.....	----- 2,559	----- 3,173	----- 1,273	----- 3,536	----- 1,709	----- 1,428
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,681	2,960	1,131	3,037	1,376	1,200
Income (Loss) from operations.....	----- (122)	----- 213	----- 142	----- 499	----- 333	----- 228
OTHER INCOME/(EXPENSE):						
Interest expense.....	(21)	(48)	(41)	(80)	(44)	(65)
Other.....	(9)	(9)	(4)	14	26	7
INCOME (LOSS) BEFORE INCOME TAXES....	----- (152)	----- 156	----- 97	----- 433	----- 315	----- 170
PROVISION (BENEFIT) FOR INCOME TAXES.....	(54)	60	--	--	--	--
NET INCOME (LOSS).....	----- \$ (98)	----- \$ 96	----- \$ 97	----- \$ 433	----- \$ 315	----- \$ 170
	=====	=====	=====	=====	=====	=====

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

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

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

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

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

	YEAR ENDED JUNE 30,		SIX MONTHS ENDED	YEAR ENDED	SIX MONTHS ENDED	
	----- 1994	1995	DECEMBER 31, 1995	DECEMBER 31, 1996	----- JUNE 30, 1996	----- 1997
	-----					
	(UNAUDITED)					
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income (loss).....	\$ (98)	\$ 96	\$ 97	\$ 433	\$ 315	\$ 170
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --						
Depreciation and amortization...	128	124	85	186	91	110
Deferred income tax provision...	(150)	(70)	81	--	--	--
Changes in operating assets and liabilities --						
(Increase) decrease in --						
Accounts receivable.....	127	(395)	(66)	(513)	(1,180)	(16)
Costs and estimated earnings in excess of billings on uncompleted contracts.....	(90)	(58)	63	(19)	(177)	(99)
Prepaid expenses and other current assets.....	(1)	(44)	31	81	81	(12)
Inventories.....	(22)	(16)	(7)	25	19	(37)
Increase (decrease) in --						
Accounts payable and accrued expenses.....	365	419	(350)	(119)	248	278
Billings in excess of costs and estimated earnings on uncompleted contracts.....	64	119	(22)	106	470	(162)
	-----	-----	-----	-----	-----	-----
Net cash provided by (used in) operating activities.....	323	175	(88)	180	(133)	232
	-----	-----	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Sales (purchase) of property and equipment.....	(100)	(347)	(295)	(97)	(18)	(52)
	-----	-----	-----	-----	-----	-----
Net cash provided by (used in) investing activities.....	(100)	(347)	(295)	(97)	(18)	(52)
	-----	-----	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Borrowings of long-term debt.....	--	183	192	--	--	239
Payments of long-term debt.....	(186)	(39)	(52)	(109)	(66)	--
Borrowings of short-term debt.....	--	--	--	630	--	--
Borrowings on line of credit.....	50	--	226	--	--	--
Payments on line of credit.....	--	(76)	--	(100)	--	--
Distributions to shareholder.....	--	(5)	--	(458)	426	(290)
	-----	-----	-----	-----	-----	-----
Net cash provided by (used in) financing activities.....	(136)	63	366	(37)	360	(51)
	-----	-----	-----	-----	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>87</b>	<b>(109)</b>	<b>(17)</b>	<b>46</b>	<b>209</b>	<b>129</b>
CASH AND CASH EQUIVALENTS, beginning of period.....	72	159	50	33	33	79
	-----	-----	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$ 159	\$ 50	\$ 33	\$ 79	\$ 242	\$ 208
	=====	=====	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid for --						
Interest.....	\$ 21	\$ 48	\$ 41	\$ 79	\$ 44	\$ 66
Income taxes.....	53	34	--	--	--	--

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

ACCURATE AIR SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CHANGE IN FISCAL YEAR END

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

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

REVENUE RECOGNITION

The Company recognizes revenue when services are performed except when work is being performed under a construction contract. Revenues from construction contracts are recognized on the percentage-of-

completion method measured by the percentage of costs incurred to total estimated costs for each contract. Provisions for the total estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined.

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

#### WARRANTY COSTS

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

#### INCOME TAXES

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

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

#### USE OF ESTIMATES

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

#### NEW ACCOUNTING PRONOUNCEMENT

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

3. PROPERTY AND EQUIPMENT:

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

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

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

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

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

Accounts payable and accrued expenses consist of the following:

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

Installation contracts in progress are as follows:

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



5. SHORT-TERM DEBT:

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

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

6. LONG-TERM DEBT:

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

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

1997.....	\$ 42
1998.....	133
	-----
	\$ 175
	=====

7. LEASES:

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

ACCURATE AIR SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

	DECEMBER 31, 1996
Year Ended	-----
1997.....	\$ 197
1998.....	60
1999.....	15
	-----
	\$ 272
	=====

8. INCOME TAXES (IN THOUSANDS):

Federal and state income taxes are as follows:

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

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

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

ACCURATE AIR SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

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

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

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

10. EMPLOYEE BENEFIT PLANS:

The Company has adopted a 401(k) plan which provides for 10 percent matching contributions by the Company, up to a maximum of 6 percent of each participating employee's annual compensation. The Company has the right to make additional discretionary contributions. Employees become 100 percent vested in the employer's contribution after 7 years of service. Total contributions by the Company under

ACCURATE AIR SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

this plan to provide contributions and pay expenses were approximately \$118,000, \$131,000, \$12,000 and \$199,000 during the years ended June 30, 1994 and 1995, the six months ended December 31, 1995 and the year ended December 31, 1996, respectively. Amounts due to this plan were approximately \$109,000, \$-- and \$173,000 for the year ended June 30, 1995, the six months ended December 31, 1995 and the year ended December 31, 1996, respectively.

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

11. FINANCIAL INSTRUMENTS:

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

12. CAPITAL STOCK:

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

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

13. SALES TO SIGNIFICANT CUSTOMERS:

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

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

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

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

Concurrently with the merger, the Company entered into new agreements with a company partially owned by the shareholder to lease land and buildings owned by such party used in the Company's operations for a negotiated amount and term.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Eastern Heating and Cooling, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	DECEMBER 31, 1996	JUNE 30, 1997
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 83	\$ 485
Accounts receivable -- Trade, net of allowance of \$25 and \$26, respectively.....	1,214	1,197
Retainage.....	43	82
Other receivables.....	13	--
Inventories.....	100	113
Costs and estimated earnings in excess of billings on uncompleted contracts.....	66	450
Prepaid expenses and other current assets.....	--	181
	-----	-----
Total current assets.....	1,519	2,508
PROPERTY AND EQUIPMENT, net.....	604	638
OTHER NONCURRENT ASSETS.....	144	132
	-----	-----
Total assets.....	\$2,267	\$3,278
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt.....	\$ 302	\$--
Accounts payable and accrued expenses.....	826	1,527
Line of credit.....	140	--
Billings in excess of costs and estimated earnings on uncompleted contracts.....	102	98
	-----	-----
Total current liabilities.....	1,370	1,625
PAYABLE TO SHAREHOLDER.....	--	465
LONG-TERM DEBT, net of current maturities.....	431	1,138
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Common stock, no par value, 200 shares authorized, 100 shares issued and outstanding.....	50	50
Retained earnings.....	416	--
	-----	-----
Total shareholder's equity.....	466	50
	-----	-----
Total liabilities and shareholder's equity.....	\$2,267	\$3,278
	=====	=====

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

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

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30,	
	----- -----	1996	1997
		----- (UNAUDITED) -----	
REVENUES.....	\$ 7,944	\$ 4,047	\$ 3,465
COST OF SERVICES.....	5,276	2,714	2,112
	-----	-----	-----
Gross profit.....	2,668	1,333	1,353
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,237	1,084	1,144
	-----	-----	-----
Income from operations.....	431	249	209
OTHER INCOME (EXPENSE):			
Interest expense.....	(87)	(46)	(43)
Other.....	40	2	34
	-----	-----	-----
NET INCOME.....	\$ 384	\$ 205	\$ 200
	=====	=====	=====

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

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

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

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



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

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30,	
	----- ----- -----	----- 1996	----- 1997 -----
	(UNAUDITED)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income .....	\$ 384	\$ 205	\$ 200
Adjustments to reconcile net income to net cash provided by operating activities --			
Depreciation and amortization....	144	60	79
Gain on sale of property and equipment.....	(31)	--	13
Changes in operating assets and liabilities --			
(Increase) decrease in --			
Accounts receivable.....	(434)	(493)	3
Inventories.....	4	(14)	(13)
Costs and estimated earnings in excess of billings on uncompleted contracts....	123	33	(384)
Other noncurrent assets....	80	(71)	(181)
Increase (decrease) in --			
Accounts payable and accrued expenses.....	246	286	701
Billings in excess of costs and estimated earnings on uncompleted contracts....	10	99	(4)
	-----	-----	-----
Net cash provided by operating activities.....	526	105	414
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sale (purchase) of property and equipment, net.....	(224)	(9)	(126)
	-----	-----	-----
Net cash used in investing activities.....	(224)	(9)	(126)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings of long-term debt.....	208	139	265
Borrowings from shareholder.....	--	--	465
Payments of long-term debt.....	(280)	--	--
Borrowings on line of credit.....	140	--	--
Distributions to shareholder.....	(325)	(205)	(616)
	-----	-----	-----
Net cash provided by (used in) financing activities.....	(257)	(66)	114
	-----	-----	-----
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS.....</b>	<b>45</b>	<b>30</b>	<b>402</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period.....</b>	<b>38</b>	<b>38</b>	<b>83</b>
	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS, end of period.....</b>	<b>\$ 83</b>	<b>\$ 68</b>	<b>\$ 485</b>
	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for --			
Interest.....	\$ 52	\$ 46	\$ 43

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

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

REVENUE RECOGNITION

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

EASTERN HEATING AND COOLING, INC.  
 NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

WARRANTY COSTS

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

INCOME TAXES

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

USE OF ESTIMATES

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

NEW ACCOUNTING PRONOUNCEMENT

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

3. PROPERTY AND EQUIPMENT:

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

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

EASTERN HEATING AND COOLING, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

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

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

5. LONG-TERM DEBT:

Long-term debt consists of the following:

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

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

The Company has a note payable to its former owner with an outstanding balance of \$288,444 at December 31, 1996. The note payable was calculated using an implied interest rate of 9 percent. The note

EASTERN HEATING AND COOLING, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

payable is due in installments of \$159,385 on January 1, 1997 and \$168,948 on January 1, 1998, including interest.

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

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

6. LINE OF CREDIT:

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

7. LEASES:

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

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

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

8. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

9. FINANCIAL INSTRUMENTS:

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

10. SALES TO SIGNIFICANT CUSTOMER:

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

11. SUBSEQUENT EVENT:

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

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

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

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

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Contract Service, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	DECEMBER 31,		JUNE 30,
	1995	1996	1997
	(UNAUDITED)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 116	\$ 207	\$ 264
Accounts receivable --			
Trade, net of allowance of			
\$11, \$22 and \$20,			
respectively.....	651	680	732
Retainage.....	10	26	20
Other.....	--	--	4
Inventories.....	306	362	486
Costs and estimated earnings in			
excess of billings on uncompleted			
contracts.....	104	110	158
Prepaid expenses and other current			
assets.....	11	4	15
	1,198	1,389	1,679
PROPERTY AND EQUIPMENT, net.....	549	642	676
OTHER NONCURRENT ASSETS.....	14	16	23
	\$ 1,761	\$ 2,047	\$ 2,378
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term			
debt.....	\$ 100	\$ 100	\$ 1
Accounts payable and accrued			
expenses.....	576	691	749
Billings in excess of costs and			
estimated earnings on uncompleted			
contracts.....	149	136	235
	825	927	985
PAYABLE TO SHAREHOLDERS.....	--	--	529
LONG-TERM DEBT, net of current			
maturities.....	263	429	855
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, \$1 par value, 20,000			
shares authorized, 8,946 shares			
issued and outstanding.....	9	9	9
Retained earnings.....	664	682	--
	673	691	9
	-----	-----	-----
Total liabilities and			
shareholders' equity.....	\$ 1,761	\$ 2,047	\$ 2,378
	=====	=====	=====

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



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

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
	----- (UNAUDITED) -----				
REVENUES.....	\$ 6,502	\$ 6,361	\$ 7,842	\$ 3,509	\$ 3,828
COST OF SERVICES.....	4,393	4,413	5,201	2,354	2,535
Gross profit.....	2,109	1,948	2,641	1,155	1,293
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,228	1,500	1,660	723	865
Income from operations...	881	448	981	432	428
OTHER INCOME (EXPENSE):					
Interest expense.....	(5)	(9)	(29)	(24)	(43)
Other.....	29	38	51	31	16
NET INCOME.....	\$ 905	\$ 477	\$ 1,003	\$ 439	\$ 401
	=====	=====	=====	=====	=====

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

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

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

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

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

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
	(UNAUDITED)				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net income.....	\$ 905	\$ 477	\$ 1,003	\$ 439	\$ 401
Adjustments to reconcile net income to net cash provided by (used in) operating activities --					
Depreciation.....	97	120	138	57	66
Gain (loss) on sale of property and equipment.....	8	(5)	--	--	--
Changes in operating assets and liabilities --					
(Increase) decrease in --					
Accounts receivable.....	(219)	(96)	(45)	(142)	(50)
Inventories.....	20	(49)	(57)	(136)	(124)
Costs and estimated earnings in excess of billings on uncompleted contracts.....	(44)	35	(6)	(36)	(48)
Prepaid expenses and other current assets.....	(9)	(2)	7	3	(7)
Other noncurrent assets.....	(8)	5	(2)	--	(11)
Increase (decrease) in --					
Accounts payable and accrued expenses.....	(27)	(3)	115	245	58
Billings in excess of costs and estimated earnings on uncompleted contracts.....	12	17	(13)	69	99
Net cash provided by operating activities.....	735	499	1,140	499	384
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Sale (purchase) of property and equipment.....	(138)	(193)	(230)	(189)	(100)
Net cash used in investing activities.....	(138)	(193)	(230)	(189)	(100)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Borrowings from shareholders.....	--	--	--	--	529
Borrowings of long-term debt.....	102	201	166	--	327
Distributions to shareholders.....	(911)	(467)	(985)	(125)	(1,083)
Collections of advances to officers and shareholders.....	86	--	--	--	--
Net cash (used in) financing activities.....	(723)	(266)	(819)	(125)	(227)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(126)	40	91	185	57
CASH AND CASH EQUIVALENTS, beginning of period.....	202	76	116	116	207
CASH AND CASH EQUIVALENTS, end of period.....	\$ 76	\$ 116	\$ 207	\$ 301	\$ 264
=====					
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid for --					
Interest.....	\$ 6	\$ 30	\$ 41	\$ 24	\$ 41

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

CONTRACT SERVICE, INC.  
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

REVENUE RECOGNITION

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

CONTRACT SERVICE, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

WARRANTY COSTS

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

INCOME TAXES

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

USE OF ESTIMATES

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

NEW ACCOUNTING PRONOUNCEMENT

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

3. PROPERTY AND EQUIPMENT:

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

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

CONTRACT SERVICE, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

	DECEMBER 31,	
	1995	1996
Accounts payable, trade.....	\$ 242	\$ 256
Accrued compensation.....	219	312
Other accrued expenses.....	115	123
	<u>\$ 576</u>	<u>\$ 691</u>

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

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

5. LONG-TERM DEBT:

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

CONTRACT SERVICE, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

Year ending December 31,

1997.....	\$ 100
1998.....	--
1999.....	--
2000.....	--
2001.....	--
Thereafter.....	429
	-----
	\$ 529
	=====

6. LEASES:

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

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

Year ending December 31,	
1997.....	\$ 120
1998.....	120
1999.....	120
2000.....	120
2001.....	120
	-----
	\$ 600
	=====

7. RELATED-PARTY TRANSACTIONS:

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

8. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

9. EMPLOYEE BENEFIT PLAN:

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

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

10. FINANCIAL INSTRUMENTS:

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

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

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

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

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



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Tech Heating and Air Conditioning, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	DECEMBER 31,		JUNE 30,
	1995	1996	1997
			(UNAUDITED)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 313	\$ 611	\$ 405
Accounts receivable --			
Trade, net of allowance of			
\$45, \$40 and \$20,			
respectively.....	1,244	1,723	1,701
Retainage.....	92	48	75
Other receivables.....	--	7	58
Inventories.....	67	208	228
Prepaid expenses and other current			
assets.....	7	33	53
Costs and estimated earnings in			
excess of billings on uncompleted			
contracts.....	--	--	50
Total current assets....	1,723	2,630	2,570
PROPERTY AND EQUIPMENT, net.....	368	500	323
Total assets.....	\$ 2,091	\$ 3,130	\$ 2,893
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term			
debt.....	\$ --	\$ 62	\$ --
Accounts payable and accrued			
expenses.....	1,048	757	939
Line of credit.....	88	190	--
Total current			
liabilities.....	1,136	1,009	939
LONG-TERM DEBT, net of current			
maturities.....	48	60	1,906
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock, no par value, 1,000			
shares authorized, 500 shares			
issued.....	1	1	1
Treasury stock.....	(3)	(3)	(3)
Retained earnings.....	909	2,063	50
Total shareholders'			
equity.....	907	2,061	48
Total liabilities and			
shareholders' equity...	\$ 2,091	\$ 3,130	\$ 2,893

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

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

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1996	1997
	----- (UNAUDITED) -----			
REVENUES.....	\$ 6,960	\$ 7,537	\$ 3,395	\$ 3,904
COST OF SERVICES.....	4,212	3,996	2,004	2,229
	-----			
Gross profit.....	2,748	3,541	1,391	1,675
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,800	1,861	957	1,059
	-----			
Income from operations.....	948	1,680	434	616
OTHER INCOME (EXPENSE):				
Interest expense.....	(12)	(18)	(6)	(29)
Other.....	20	31	17	(19)
	-----			
NET INCOME.....	\$ 956	\$ 1,693	\$ 445	\$ 568
	=====	=====	=====	=====

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

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

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

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

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

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1996	1997
	----- (UNAUDITED) -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income.....	\$ 956	\$ 1,693	\$ 445	\$ 568
Adjustments to reconcile net income to net cash provided by (used in) operating activities --				
Depreciation.....	89	142	95	71
Changes in operating assets and liabilities --				
(Increase) decrease in --				
Accounts receivable.....	581	(442)	(632)	2
Inventories.....	(42)	(141)	20	(20)
Prepaid expenses and other current assets.....	7	(26)	(21)	(20)
Costs and estimated earnings in excess of billings on uncompleted contracts.....	--	--	--	(50)
Increase (decrease) in --				
Accounts payable and accrued expenses.....	(513)	(291)	(291)	182
Net cash provided by (used in) operating activities.....	1,078	935	(384)	733
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Sale (purchase) of property and equipment.....	(127)	(274)	(120)	106
Net cash provided by (used in) investing activities.....	(127)	(274)	(120)	106
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Borrowings on line of credit.....	76	102	--	--
Borrowings on long-term debt.....	--	205	191	1,594
Payments on long-term debt.....	(100)	(131)	--	--
Distributions to shareholders.....	(622)	(539)	--	(2,639)
Net cash provided by (used in) financing activities.....	(646)	(363)	191	(1,045)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>305</b>	<b>298</b>	<b>(313)</b>	<b>(206)</b>
CASH AND CASH EQUIVALENTS, beginning of period.....	8	313	313	611
CASH AND CASH EQUIVALENTS, end of period.....	\$ 313	\$ 611	\$ --	\$ 405
	=====	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash paid for --				
Interest.....	\$ 12	\$ 18	\$ 3	\$ 37

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

TECH HEATING AND AIR CONDITIONING, INC.  
AND RELATED COMPANY  
NOTES TO COMBINED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

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

INTERIM FINANCIAL INFORMATION

The interim combined financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the combined interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

TECH HEATING AND AIR CONDITIONING, INC.  
AND RELATED COMPANY  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

REVENUE RECOGNITION

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

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

WARRANTY COSTS

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

INCOME TAXES

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

USE OF ESTIMATES

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

NEW ACCOUNTING PRONOUNCEMENT

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

TECH HEATING AND AIR CONDITIONING, INC.  
AND RELATED COMPANY  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

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

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

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



TECH HEATING AND AIR CONDITIONING, INC.  
AND RELATED COMPANY  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

5. LONG-TERM DEBT AND NOTES PAYABLE:

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

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

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

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

6. LEASES:

The Company leases facilities from a company which is partially owned by one of the shareholders. The lease expires in April of 2000. The rent paid under this related-party lease was approximately \$84,000 for the year ended December 31, 1996. The lease requires the Company to pay taxes, maintenance, insurance and certain other operating costs of the leased property. The lease contains renewal provisions.

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

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

Year ending December 31		
1997.....	\$	100
1998.....		91
1999.....		86
2000.....		28
		-----
	\$	305
		=====

7. EMPLOYEE BENEFIT PLANS:

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

8. FINANCIAL INSTRUMENTS:

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

TECH HEATING AND AIR CONDITIONING, INC.  
AND RELATED COMPANY  
NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

9. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

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

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

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Seasonair, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	DECEMBER 31, 1996	JUNE 30, 1997
	-----	-----
		(UNAUDITED)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 69	\$ 125
Accounts receivable --		
Trade, net of allowance of \$		
-- and \$--, respectively...	961	982
Retainage.....	17	58
Other receivables.....	--	--
Inventories.....	190	186
Costs on uncompleted contracts in excess of billings.....	75	99
Deferred tax asset.....	104	110
Prepaid expenses and other current assets.....	96	109
	-----	-----
Total current assets.....	1,512	1,669
PROPERTY AND EQUIPMENT, net.....	63	56
OTHER NONCURRENT ASSETS.....	83	115
	-----	-----
Total assets.....	\$1,658	\$1,840
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt.....	34	--
Accounts payable and accrued expenses.....	810	857
Billings in excess of costs and estimated earnings on uncompleted contracts.....	156	122
	-----	-----
Total current liabilities.....	1,000	979
LONG-TERM DEBT, net of current maturities.....	76	154
DEFERRED TAX LIABILITY.....	17	17
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, no par value, 2,000,000 shares authorized, 1,244,000 shares issued and outstanding.....	78	78
Additional paid-in capital.....	1	1
Retained earnings.....	721	846
Treasury stock.....	(235)	(235)
	-----	-----
Total shareholders' equity.....	565	690
	-----	-----
Total liabilities and shareholders' equity.....	\$1,658	\$1,840
	=====	=====

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

SEASONAIR, INC.  
STATEMENTS OF OPERATIONS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30,	
		1996	1997
		(UNAUDITED)	
REVENUES.....	\$ 6,737	\$ 3,203	\$ 3,767
COST OF SERVICES.....	4,006	1,803	2,339
Gross profit.....	2,731	1,400	1,428
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,597	1,253	1,244
Income from operations.....	134	147	184
OTHER INCOME (EXPENSE):			
Interest expense.....	(21)	(9)	(6)
Other.....	82	18	30
INCOME BEFORE INCOME TAXES.....	195	156	208
PROVISION FOR INCOME TAXES.....	69	62	83
NET INCOME.....	\$ 126	\$ 94	\$ 125

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

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

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

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

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

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED JUNE 30, ----- 1996      1997 -----	
		(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss).....	\$ 126	\$ 94	\$ 125
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation.....	28	14	11
Gain on sale of property and equipment.....	(4)	--	--
Changes in operating assets and liabilities -- (Increase) decrease in --			
Accounts receivable.....	49	(164)	(62)
Inventories.....	(35)	(22)	4
Prepaid expenses and other current assets.....	(171)	(97)	(13)
Costs of uncompleted contracts in excess of billings.....	58	87	(24)
Other noncurrent assets....	(71)	--	(32)
Increase (decrease) in --			
Accounts payable and accrued expenses.....	(74)	135	47
Billings in excess of costs on uncompleted contracts.....	(23)	(48)	(34)
Deferred tax liability.....	30	--	(6)
	-----	-----	-----
Net cash provided by (used in) operating activities.....	(87)	(1)	16
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sale (purchase) of property and equipment, net.....	(11)	(18)	(4)
	-----	-----	-----
Net cash provided by (used in) investing activities.....	(11)	(18)	(4)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings on line of credit....	--	--	--
Borrowings of long-term debt....	--	--	44
Payments of long-term debt.....	(105)	(19)	--
Distributions to shareholders...	(37)	(38)	--
Cash received for sale of treasury shares.....	34	--	--
	-----	-----	-----
Net cash provided by (used in) financing activities.....	(108)	(57)	44
	-----	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>(206)</b>	<b>(76)</b>	<b>56</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period.....</b>	<b>275</b>	<b>275</b>	<b>69</b>
	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS, end of period.....</b>	<b>\$ 69</b>	<b>\$ 199</b>	<b>\$ 125</b>
	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for --			
Interest.....	\$ 22	\$ 9	\$ 43
Income taxes.....	163	67	--

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

1. BUSINESS AND ORGANIZATION:

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

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

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

REVENUE RECOGNITION

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



SEASONAIR, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

WARRANTY COSTS

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

INCOME TAXES

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

USE OF ESTIMATES

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

NEW ACCOUNTING PRONOUNCEMENT

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

3. PROPERTY AND EQUIPMENT:

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

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

SEASONAIR, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

5. LONG-TERM DEBT:

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

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

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

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

6. LEASES:

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

The Company leases vehicles for operations. The payments under these vehicle leases were approximately \$189,000 for the year ended December 31, 1996.

SEASONAIR, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

7. INCOME TAXES:

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

Federal --	
Current.....	\$ 50
Deferred.....	7
State --	
Current.....	11
Deferred.....	1
	-----
	\$ 69
	=====

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

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

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

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

SEASONAIR, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

8. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

9. EMPLOYEE BENEFIT PLAN:

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

10. FINANCIAL INSTRUMENTS:

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

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

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

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Western Building Services, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas  
March 7, 1997

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

	DECEMBER 31,		JUNE 30,
	1995	1996	1997
			(UNAUDITED)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents.....	\$ --	\$ 177	\$ 52
Accounts receivable --			
Trade.....	726	661	662
Retainage on uncompleted contracts.....	78	183	121
Other receivables.....	133	3	5
Inventories.....	71	86	82
Costs and estimated earnings in excess of billings on uncompleted contracts.....	65	26	137
Prepaid expenses and other current assets.....	31	30	22
	1,104	1,166	1,081
PROPERTY AND EQUIPMENT, net.....	150	191	183
OTHER NONCURRENT ASSETS.....	22	129	122
	\$ 1,276	\$ 1,486	\$ 1,386
	\$ 1,276	\$ 1,486	\$ 1,386
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Line of credit.....	\$ 231	\$ --	\$ --
Notes payable.....	--	6	--
Current maturities of long-term debt.....	86	73	--
Current portion of capital leases.....	17	21	--
Accounts payable and accrued expenses.....	732	556	514
Billings in excess of costs and estimated earnings on uncompleted contracts.....	76	151	21
	1,142	807	535
PAYABLE TO SHAREHOLDERS.....	--	--	317
LONG-TERM DEBT, net of current maturities.....	179	261	460
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common Stock, \$.10 par value, 4,000,000 shares authorized, 2,600 and 2,700 shares issued and outstanding.....	1	1	1
Additional paid-in capital.....	61	62	62
Retained earnings (deficit).....	(107)	355	11
	(45)	418	74
	\$ 1,276	\$ 1,486	\$ 1,386
	\$ 1,276	\$ 1,486	\$ 1,386

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

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

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1996	1997
	(UNAUDITED)			
REVENUES.....	\$ 4,112	\$ 6,494	\$ 2,844	\$ 2,174
COST OF SERVICES.....	3,408	4,662	2,038	1,641
	Gross profit.....			
	704	1,832	806	533
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	855	1,088	575	457
	Income (loss) from operations..			
	(151)	744	231	76
OTHER INCOME (EXPENSE):				
Interest expense.....	(35)	(51)	(28)	(22)
Other.....	6	(21)	(3)	(13)
	NET INCOME (LOSS).....			
	\$ (180)	\$ 672	\$ 200	\$ 41
	=====	=====	=====	=====

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

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

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

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



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

	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1995	1996	1996	1997
			(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss).....	\$ (180)	\$ 672	\$ 200	\$ 41
Adjustments to reconcile net income to net cash provided by (used in) operating activities --.....				
Depreciation and amortization...	51	51	22	50
Gain on sale of assets.....	--	--	--	(1)
Changes in operating assets and liabilities --.....				
(Increase) decrease in --.....				
Accounts receivable.....	(179)	91	(439)	59
Inventories.....	(35)	(15)	--	4
Costs and estimated earnings in excess of billings on uncompleted contracts.....	(5)	39	(57)	(111)
Prepaid expenses and other current assets.....	5	1	(43)	8
Other noncurrent assets....	(15)	(106)	--	7
Increase (decrease) in --.....				
Accounts payable and accrued expenses.....	186	(177)	395	(42)
Billings in excess of costs and estimated earnings on uncompleted contracts.....	17	74	10	(130)
Net cash provided by (used in) operating activities.....	(155)	630	88	(115)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Sale (purchases) of property and equipment, net.....	--	20	--	--
Additions of property and equipment.....	(40)	(113)	(54)	(41)
Net cash used in investing activities.....	(40)	(93)	(54)	(41)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from sale of common stock.....	--	1	1	--
Borrowings of long-term debt.....	206	175	--	99
Payments of long-term debt.....	(259)	(96)	(24)	--
Net borrowings in line of credit...	230	(230)	--	--
Distributions to shareholders.....	--	(210)	--	(68)
Net cash provided by (used in) financing activities.....	177	(360)	(23)	31
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>	<b>(18)</b>	<b>177</b>	<b>11</b>	<b>(125)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period.....</b>	<b>18</b>	<b>--</b>	<b>--</b>	<b>177</b>
<b>CASH AND CASH EQUIVALENTS, end of period.....</b>	<b>\$ --</b>	<b>\$ 177</b>	<b>\$ 11</b>	<b>\$ 52</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash paid for --				
Interest.....	\$ 35	\$ 51	\$ 25	\$ 19

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

1. BUSINESS AND ORGANIZATION:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 1997, and for the six months ended June 30, 1996 and 1997, are unaudited, and certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been omitted. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the financial position, results of operations and cash flows with respect to the interim financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

REVENUE RECOGNITION

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

WESTERN BUILDING SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

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

Revenues of approximately \$783,000 and \$2,291,000 with gross profits of \$339,000 and \$874,000 were recognized by the Company in 1995 and 1996, respectively, for energy conversions and new installations related to an incentive program developed by the Public Service Company of Colorado (PSC). The Demand Side Management program provided incentives for PSC customers to convert from electric heat to gas/steam heat in order to reduce peak demand for electricity. This program ended November 1996.

#### WARRANTY COSTS

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

#### INCOME TAXES

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

#### USE OF ESTIMATES

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

#### NEW ACCOUNTING PRONOUNCEMENT

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

WESTERN BUILDING SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

3. PROPERTY AND EQUIPMENT:

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

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

4. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS:

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

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

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

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

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

WESTERN BUILDING SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

5. LONG-TERM DEBT:

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

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

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

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

Year ending December 31	
1997.....	\$ 85
1998.....	89
1999.....	98
2000.....	89
	-----
	\$ 361
	=====

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

6. LEASES:

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

WESTERN BUILDING SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

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

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

Year ending December 31	
1997.....	\$ 144
1998.....	132
1999.....	19
	-----
	\$ 295
	=====

7. EMPLOYEE BENEFIT PLANS:

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

8. FINANCIAL INSTRUMENTS:

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

9. RELATED-PARTY TRANSACTIONS:

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

10. COMMITMENTS AND CONTINGENCIES:

LITIGATION

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

INSURANCE

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

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

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

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

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

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

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TABLE OF CONTENTS

	PAGE
Prospectus Summary.....	3
Risk Factors.....	9
Price Range of Common Stock.....	12
The Company.....	13
Use of Proceeds.....	13
Selling Stockholders.....	13
Plan of Distribution.....	14
Dividend Policy.....	15
Capitalization.....	16
Selected Financial Data.....	17
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	19
Business.....	38
Management.....	46
Certain Transactions.....	51
Principal Stockholders.....	55
Description of Capital Stock.....	56
Shares Eligible for Future Sale.....	59
Legal Matters.....	60
Experts.....	60
Additional Information.....	60
Index to Financial Statements.....	F-1

583,878 SHARES

[LOGO]  
COMFORT SYSTEMS USA, INC.  
COMMON STOCK

-----  
PROSPECTUS  
-----

, 1997

PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

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

	AMOUNT TO BE PAID
SEC registration fee.....	\$ 3,329
Printing expenses.....	\$10,000
Legal fees and expenses.....	\$10,000
Accounting fees and expenses.....	\$20,000
Transfer Agent's and Registrar's fees...	\$ 1,000
Miscellaneous.....	\$ 5,671
	-----
TOTAL.....	\$50,000
	=====

ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

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

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

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

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



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

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

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

On January 6, 1997, Comfort Systems issued and sold shares of Common Stock to the following parties in the amounts and for the consideration indicated. These sales were exempt from registration under Section 4(2) of the Securities Act: Notre -- 23,516.623 shares for a consideration of \$28,699.12; Fred M. Ferreira -- 3957.7359 shares for a consideration of \$4,794.35; J. Gordon Beittenmiller -- 825.5 shares for a consideration of \$1,000.00; Reagan S. Busbee -- 825.5 shares for a consideration of \$1,000.00; S. Craig Lemmon -- 825.5 shares for a consideration of \$1,000.00; Milburn E. Honeycutt -- 412.75 shares for a consideration of \$500.00; Brian J. Vensel -- 412.75 shares for a consideration of \$500.00; Emmett E. Moore -- 412.75 shares for a consideration of \$500.00; John W. Bouloubasis -- 412.75 shares for a consideration of \$500.00; Stephen R. Baur -- 330.2 shares for a consideration of \$400.00; Shellie LePori -- 206.375 shares for a consideration of \$250.00; Constance Drew -- 288.925 shares for a consideration of \$350.00; John Mercandante, Jr. -- 82.55 shares for a consideration of \$100.00; Larry Martin -- 82.55 shares for a consideration of \$100.00; Norton Family Trust -- 61.9125 shares for a consideration of \$75.00; Larry E. Jacobs -- 61.9125 shares for a consideration of \$75.00; Richard T. Howell -- 41.275 shares for a consideration of \$50.00; Rod Crosby -- 41.275 shares for a consideration of \$50.00; Jennifer Summerford -- 24.765 shares for a consideration of \$30.00; Infoscope Partners, Inc. -- 8.255 shares for a consideration of \$10.00; Melinda Malik -- 4.1275 shares for a consideration of \$5.00; and Steven T. Zellers -- 16.51 shares for a consideration of \$20.00.

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

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

Effective March 20, 1997, Comfort Systems issued and sold 2,742,912 shares of Restricted Voting Common Stock to Notre in exchange for 2,742,912 shares of Common Stock. This sale was exempt from registration under Section 4(2) of the Securities Act, no public offering being involved.

On July 2, 1997, the Company issued 9,720,927 shares of its Common Stock in connection with the Mergers of the Founding Companies. Each of these transactions was completed without registration under the Securities Act in reliance upon the exemption provided by Section 4(2) of the Securities Act.

Since September 1, 1997, the Company issued 2,057,823 unregistered shares of its Common Stock in connection with acquisitions of HVAC businesses, none of which was individually material. Of such shares, 583,878 are being registered hereby. See "Summary -- Recent Developments." Each of these transactions was completed without registration under the Securities Act in reliance upon the exemption provided by Section 4(2) of the Securities Act or involved the issuance of registered shares under the Company's shelf registration (Commission File No. 333-32595).

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) EXHIBITS

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

INCORPORATED BY  
REFERENCE TO THE  
EXHIBIT INDICATED  
BELOW AND TO THE  
FILING WITH THE  
COMMISSION  
INDICATED BELOW

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS	EXHIBIT NUMBER	FILE NUMBER
2.1	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Accurate Acquisition Corp., Accurate Air Systems, Inc. and the Stockholder named therein	2.1	333-24021
2.2	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Atlas Air Acquisition I Corp., Atlas Comfort Services USA, Inc. and the Stockholders named therein	2.2	333-24021
2.3	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Contract Acquisition Corp., Contract Service, Inc. and the Stockholders named therein	2.3	333-24021
2.4	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Eastern Acquisition Corp., Eastern II Acquisition Corp., Eastern Heating & Cooling, Inc., Eastern Refrigeration Co., Inc. and the Stockholder named therein	2.4	333-24021
2.5	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Freeway Acquisition Corp., Freeway Heating & Air Conditioning, Inc. and the Stockholders named therein	2.5	333-24021
2.6	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Quality Acquisition Corp., Quality Air Heating & Cooling, Inc. and the Stockholders named therein	2.6	333-24021
2.7	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., S. M. Lawrence Acquisition Corp., S. M. Lawrence II Acquisition Corp., S. M. Lawrence Company, Inc., Lawrence Service, Inc. and the Stockholders named therein	2.7	333-24021
2.8	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Seasonair, Inc. and the Stockholders named therein	2.8	333-24021
2.9	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Standard Acquisition Corp., Standard Heating & Air Conditioning Company and the Stockholders named therein	2.9	333-24021
2.10	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Tech I Acquisition Corp., Tech II Acquisition Corp., Tech Heating and Air Conditioning, Inc., Tech Mechanical, Inc. and the Stockholder named therein	2.10	333-24021
2.11	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Tri-City Acquisition Corp., Tri-City Mechanical, Inc. and the Stockholders named therein	2.11	333-24021
2.12	-- Agreement and Plan of Organization, dated as of March 18, 1997, by and among Comfort Systems USA, Inc., Western Building Acquisition Corp., Western Building Services, Inc. and the Stockholders named therein	2.12	333-24021
3.1	-- Second Amended and Restated Certificate of Incorporation of Comfort Systems USA, Inc.	3.1	333-24021

3.2	--	Bylaws of Comfort Systems USA, Inc., as amended	3.2	333-24021
4.1	--	Form of certificate evidencing ownership of Common Stock of Comfort Systems USA, Inc.	4.1	333-24021
5.1*	--	Opinion of Bracewell & Patterson, L.L.P.		Filed herewith
10.1	--	Comfort Systems USA, Inc. 1997 Long-Term Incentive Plan	10.1	333-24021
10.2	--	Comfort Systems USA, Inc. 1997 Non-Employee Directors' Stock Plan	10.2	333-24021
10.3	--	Form of Employment Agreement between Comfort Systems USA, Inc. and Fred M. Ferreira.	10.3	333-24021
10.4	--	Form of Employment Agreement between Comfort Systems USA, Inc. and J. Gordon Beittenmiller.	10.4	333-24021
10.5	--	Form of Employment Agreement between Comfort Systems USA, Inc. and William George, III.	10.5	333-24021
10.6	--	Form of Employment Agreement between Comfort Systems USA, Inc. and Reagan S. Busbee.	10.6	333-24021
10.7	--	Form of Employment Agreement between Comfort Systems USA, Inc., Accurate Air Systems, Inc. and Thomas J. Beaty.	10.7	333-24021
10.8	--	Form of Employment Agreement between Comfort Systems USA, Inc., Atlas Comfort Services USA, Inc. and Brian S. Atlas.	10.8	333-24021
10.9	--	Form of Employment Agreement between Comfort Systems USA, Inc., Contract Service, Inc. and John C. Phillips.	10.9	333-24021
10.10	--	Form of Employment Agreement between Comfort Systems USA, Inc., Eastern Heating & Cooling, Inc. and Alfred J. Giardenelli, Jr.	10.10	333-24021
10.11	--	Form of Employment Agreement between Comfort Systems USA, Inc., Quality Air Heating & Cooling, Inc. and Robert J. Powers.	10.11	333-24021
10.12	--	Form of Employment Agreement between Comfort Systems USA, Inc., S. M. Lawrence Company, Inc. and Samuel M. Lawrence III.	10.12	333-24021
10.13	--	Form of Employment Agreement between Comfort Systems USA, Inc., Tech Heating and Air Conditioning, Inc. and Robert R. Cook.	10.13	333-24021
10.14	--	Form of Employment Agreement between Comfort Systems USA, Inc., Tri-City Mechanical, Inc. and Michael Nothum, Jr.	10.14	333-24021
10.15	--	Form of Employment Agreement between Comfort Systems USA, Inc., Western Building Services, Inc. and Charles W. Klapperich.	10.15	333-24021
10.16	--	Form of Agreement among certain stockholders	10.16	333-24021
10.17	--	Lease between M & B Interests, Inc. and Atlas Air Conditioning Company, Inc. dated October 1, 1994.	10.17	333-32595
10.18	--	Lease between Thomas J. and Bonnie J. Beaty and Accurate Air Systems, Inc. dated July 1, 1997.	10.18	333-32595
10.19	--	Amended and Restated Agreement of Lease between Thomas J. and Bonnie J. Beaty and Accurate Air Systems, Inc. dated July 1, 1997.	10.19	333-32595
10.20	--	Lease between Nothum Development, L.L.C. and Tri-City Mechanical, Inc. dated July 1, 1997.	10.20	333-32595
10.21	--	Lease between Samuel Matthews Lawrence, Jr. and S.M. Lawrence Company, Incorporated dated November 1, 1996.	10.21	333-32595
10.22	--	Lease between K and P Warehouse #1 and Quality Trane Heating and Cooling, Inc. (n/k/a/ Quality Air Heating and Cooling, Inc.) dated April 1, 1986, together with amendments thereto.	10.22	333-32595
10.23	--	Lease between J&J Investments and Contract Service, Inc. dated March 1, 1997.	10.23	333-32595
10.24	--	Lease by Tech Heating and Air Conditioning, Inc. dated April 2, 1995 as amended by Amendment between Cook Properties, Inc. and Tech Heating and Air Conditioning, Inc. on March 13, 1997.	10.24	333-32595
10.25*	--	First Amended and Restated Credit Agreement among the Company and its subsidiaries, Bank One, Texas, N.A., as agent and the banks listed therein dated September 22, 1997.		Filed herewith

10.26	--	Form of Indemnity Agreement entered into by the Company with each of the following persons: Fred M. Ferreira, J. Gordon Beittenmiller, Reagan S. Busbee, William George, III, Steven S. Harter, Robert J. Powers, Michael Nothum, Jr., Robert R. Cook, Brian S. Atlas, Thomas J. Beaty, John C. Phillips, Samuel M. Lawrence III, Alfred J. Giardenelli, Jr., Charles W. Klapperich, Larry Martin and John Mercadante, Jr. on June 27, 1997.	10.26	333-32595
10.27	--	Indemnity Agreement between the Company and Notre Capital Ventures II, L.L.C.	10.27	333-32595
10.28*	--	Comfort Systems USA, Inc. 1998 Employee Stock Purchase Plan.		Filed herewith
21.1*	--	List of subsidiaries of Comfort Systems USA, Inc.		Filed herewith
23.1*	--	Consent of Arthur Andersen LLP		Filed herewith
23.2	--	Consent of Bracewell & Patterson, L.L.P. (contained in Exhibit 5.1).		Filed herewith
23.3	--	Consent of Fred M. Ferreira to be named as a director.	23.3	333-24021
23.4	--	Consent of J. Gordon Beittenmiller to be named as a director.	23.4	333-24021
23.5	--	Consent of Brian S. Atlas to be named as a director.	23.5	333-24021
23.6	--	Consent of Thomas J. Beaty to be named as a director.	23.6	333-24021
23.7	--	Consent of Robert R. Cook to be named as a director.	23.7	333-24021
23.8	--	Consent of Alfred J. Giardenelli, Jr. to be named as a director.	23.8	333-24021
23.9	--	Consent of Charles W. Klapperich to be named as a director.	23.9	333-24021
23.10	--	Consent of Samuel M. Lawrence III to be named as a director.	23.10	333-24021
23.11	--	Consent of Michael Nothum, Jr. to be named as a director.	23.11	333-24021
23.12	--	Consent of John C. Phillips to be named as a director.	23.12	333-24021
23.13	--	Consent of Robert J. Powers to be named as a director.	23.13	333-24021
23.14	--	Consent of Steven S. Harter to be named as a director.	23.14	333-24021
23.15	--	Consent of Larry Martin to be named as a director.	23.15	333-24021
23.16	--	Consent of John Mercadante, Jr. to be named as a director.	23.16	333-24021
24.1	--	Power of Attorney (included herein on Signature Page)		Filed herewith

\* Filed herewith.

(b) FINANCIAL STATEMENT SCHEDULES

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

ITEM 17. UNDERTAKINGS.

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

(b) The undersigned registrant hereby undertakes:

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

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

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

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

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

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

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, COMFORT SYSTEMS USA, INC. HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON, STATE OF TEXAS, ON OCTOBER 15, 1997.

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

POWER OF ATTORNEY

Each person whose signature appears below on this Registration Statement hereby constitutes and appoints Fred M. Ferreira, J. Gordon Beittenmiller and William George, III, each with full power to act without the other, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities (until revoked in writing) to sign any and all amendments (including post-effective amendments and amendments thereto) to this Registration Statement, and to file the name, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing he or she might do or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT OR AMENDMENT THERE TO HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE INDICATED CAPACITIES ON OCTOBER 15, 1997.

SIGNATURE	TITLE
/s/FRED M. FERREIRA FRED M. FERREIRA	Chairman of the Board, Chief Executive Officer and President
/s/J. GORDON BEITTENMILLER J. GORDON BEITTENMILLER	Senior Vice President, Chief Financial Officer and Director (PRINCIPAL ACCOUNTING OFFICER)
/s/STEVEN S. HARTER STEVEN S. HARTER	Director
/s/MICHAEL NOTHUM, JR. MICHAEL NOTHUM, JR.	Director
/s/BRIAN S. ATLAS BRIAN S. ATLAS	Director
/s/THOMAS J. BEATY THOMAS J. BEATY	Director

SIGNATURES -- (CONTINUED)

/s/ROBERT R. COOK  
ROBERT R. COOK Director

/s/ALFRED J. GIARDENELLI  
ALFRED J. GIARDENELLI Director

/s/CHARLES W. KLAPPERICH  
CHARLES W. KLAPPERICH Director

Director

---

SAMUEL M. LAWRENCE III

/s/JOHN C. PHILLIPS  
JOHN C. PHILLIPS Director

/s/ROBERT J. POWERS  
ROBERT J. POWERS Director

Director

---

LARRY MARTIN

/s/JOHN MERCADANTE, JR.  
JOHN MERCADANTE, JR. Director

October 15, 1997

Comfort Systems USA, Inc.  
Three Riverway, Suite 200  
Houston, Texas 77056

Gentlemen:

We have acted as counsel to Comfort Systems USA, Inc., a Delaware corporation (the "Company"), in connection with the preparation of its Registration Statement on Form S-1 (the "Registration Statement"), filed by the Company under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the offering and sale by the Company of up to 583,878 shares of its common stock, par value \$.01 per share (the "Common Stock").

We have examined originals or copies of (i) the Second Amended and Restated Certificate of Incorporation of the Company; (ii) the Bylaws of the Company, as amended; (iii) certain resolutions of the Board of Directors of the Company; and (iv) such other documents and records as we have deemed necessary and relevant for purposes hereof. We have relied upon certificates of public officials and of officers of the Company as to certain matters of fact relating to this opinion and have made such investigations of law as we have deemed necessary and relevant as a basis hereof. We have not independently verified any factual matter relating to this opinion.

We have assumed the genuineness of all signatures, the authenticity of all documents, certificates and records submitted to us as copies, and the conformity to original documents, certificates and records of all documents, certificates and records submitted to us as copies.

Comfort Systems USA, Inc.  
October 15, 1997  
Page 2

Based upon the foregoing, and subject to the limitations and assumptions set forth herein, and having due regard for such legal considerations as we deem relevant, we are of the opinion that:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware.

2. The issuance of the Common Stock has been duly authorized, and when issued and delivered by the Company against payment therefor as described in the Registration Statement, such shares will be validly issued, fully paid and nonassessable.

The foregoing opinion is based on and is limited to the laws of the State of Delaware and the relevant law of the United States of America, and we render no opinion with respect to the law of any other jurisdiction.

We hereby consent to the filing of this opinion with the Securities and Exchange Commission as Exhibit 5.1 to the Registration Statement and to the reference to this firm as having passed on the validity of the issuance of the Common Stock under the caption "Legal Matters" in the prospectus contained in the Registration Statement. By giving such consent, we do not admit that we are included within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations issued thereunder.

Very truly yours,

Bracewell & Patterson, L.L.P.



FIRST AMENDED AND RESTATED  
CREDIT AGREEMENT

\$75,000,000.00 REVOLVING CREDIT LOAN

AMONG

COMFORT SYSTEMS USA, INC.  
AS THE COMPANY,

THE SUBSIDIARIES OF THE COMPANY  
LISTED AS GUARANTORS HEREIN

AND

BANK ONE, TEXAS, N.A.,  
AS THE AGENT

AND

THE BANKS NAMED HEREIN

DATED AS OF SEPTEMBER 22, 1997

TABLE OF CONTENTS

PAGE

ARTICLE I	DEFINITIONS; ACCOUNTING TERMS; INTERPRETATION.....	1
SECTION 1.01.	DEFINITIONS.....	1
SECTION 1.02.	TYPES OF ADVANCES.....	14
SECTION 1.03.	ACCOUNTING TERMS.....	14
SECTION 1.04.	SCHEDULES.....	14
ARTICLE II	THE LOANS.....	14
SECTION 2.01.	THE LOANS.....	14
SECTION 2.02.	THE NOTES.....	14
SECTION 2.03.	NOTICE OF ADVANCE.....	14
SECTION 2.04.	DISBURSEMENT OF FUNDS FOR LOANS.....	15
SECTION 2.05.	CONVERSIONS AND CONTINUANCES.....	15
SECTION 2.06.	VOLUNTARY PREPAYMENTS.....	16
SECTION 2.07.	MANDATORY REPAYMENTS.....	16
SECTION 2.08.	METHOD AND PLACE OF PAYMENT.....	16
SECTION 2.09.	PRO RATA ADVANCES.....	16
SECTION 2.10.	INTEREST.....	17
SECTION 2.11.	INTEREST PERIODS.....	18
SECTION 2.12.	INTEREST RATE NOT ASCERTAINABLE.....	19
SECTION 2.13.	CHANGE IN LEGALITY.....	19
SECTION 2.14.	INCREASED COSTS, TAXES OR CAPITAL ADEQUACY REQUIREMENTS.....	20
SECTION 2.15.	EURODOLLAR ADVANCE PREPAYMENT AND DEFAULT PENALTIES.....	21
SECTION 2.16.	VOLUNTARY REDUCTION OF COMMITMENT.....	22
SECTION 2.17.	TAX FORMS.....	22
ARTICLE III	LETTERS OF CREDIT.....	22
SECTION 3.01.	LETTERS OF CREDIT.....	22
SECTION 3.02.	LETTER OF CREDIT REQUESTS.....	23
SECTION 3.03.	LETTER OF CREDIT PARTICIPATIONS.....	23
SECTION 3.04.	INCREASED COSTS.....	25
SECTION 3.05.	CONFLICT BETWEEN APPLICATIONS AND AGREEMENT.....	26
ARTICLE IV	FEES.....	26
SECTION 4.01.	FEES.....	26
ARTICLE V	CONDITIONS PRECEDENT.....	27
SECTION 5.01.	CONDITIONS PRECEDENT TO THE INITIAL ADVANCE.....	27
SECTION 5.02.	CONDITIONS PRECEDENT TO ALL CREDIT EVENTS.....	28
SECTION 5.03.	DELIVERY OF DOCUMENTS.....	28

ARTICLE VI	REPRESENTATIONS AND WARRANTIES.....	29
SECTION	6.01. ORGANIZATION AND QUALIFICATION.....	29
SECTION	6.02. AUTHORIZATION AND VALIDITY.....	29
SECTION	6.03. GOVERNMENTAL CONSENTS.....	29
SECTION	6.04. CONFLICTING OR ADVERSE AGREEMENTS OR RESTRICTIONS...	29
SECTION	6.05. TITLE TO ASSETS.....	30
SECTION	6.06. LITIGATION.....	30
SECTION	6.07. FINANCIAL STATEMENTS.....	30
SECTION	6.08. DEFAULT.....	30
SECTION	6.09. INVESTMENT COMPANY ACT.....	30
SECTION	6.10. PUBLIC UTILITY HOLDING COMPANY ACT.....	31
SECTION	6.11. ERISA.....	31
SECTION	6.12. TAX RETURNS AND PAYMENTS.....	31
SECTION	6.13. ENVIRONMENTAL MATTERS.....	31
SECTION	6.14. PURPOSE OF LOANS.....	32
SECTION	6.15. FRANCHISES AND OTHER RIGHTS.....	32
SECTION	6.16. SUBSIDIARIES AND ASSETS.....	32
SECTION	6.17. SOLVENCY.....	32
SECTION	6.18. PAYMENT OF CERTAIN INDEBTEDNESS.....	32
ARTICLE VII	AFFIRMATIVE COVENANTS.....	33
SECTION	7.01. INFORMATION COVENANTS.....	33
SECTION	7.02. BOOKS, RECORDS AND INSPECTIONS.....	34
SECTION	7.03. INSURANCE AND MAINTENANCE OF PROPERTIES.....	35
SECTION	7.04. PAYMENT OF TAXES.....	35
SECTION	7.05. CORPORATE EXISTENCE.....	35
SECTION	7.06. COMPLIANCE WITH STATUTES.....	35
SECTION	7.07. ERISA.....	36
SECTION	7.08. ADDITIONAL SUBSIDIARIES.....	36
ARTICLE VIII	NEGATIVE COVENANTS.....	36
SECTION	8.01. CHANGE IN BUSINESS.....	36
SECTION	8.02. CONSOLIDATION, MERGER OR SALE OF ASSETS.....	36
SECTION	8.03. INDEBTEDNESS.....	37
SECTION	8.04. LIENS.....	38
SECTION	8.05. INVESTMENTS.....	38
SECTION	8.06. RESTRICTED PAYMENTS.....	39
SECTION	8.07. CHANGE IN ACCOUNTING.....	39
SECTION	8.08. CHANGE OF CERTAIN INDEBTEDNESS.....	39
SECTION	8.09. TRANSACTIONS WITH AFFILIATES.....	39
SECTION	8.10. CURRENT RATIO.....	40
SECTION	8.11. FUNDED DEBT TO EBITDA RATIO.....	40
SECTION	8.12. FUNDED DEBT TO CONSOLIDATED TANGIBLE NET WORTH RATIO	40
SECTION	8.13. CAPITAL EXPENDITURES.....	40
SECTION	8.14. INTEREST COVERAGE RATIO.....	40

ARTICLE IX	GUARANTY.....	40
SECTION	9.01. GUARANTY.....	40
SECTION	9.02. CONTINUING GUARANTY.....	41
SECTION	9.03. EFFECT OF DEBTOR RELIEF LAWS.....	42
SECTION	9.04. WAIVER OF SUBROGATION.....	42
SECTION	9.05. SUBORDINATION.....	43
SECTION	9.06. WAIVER.....	43
SECTION	9.07. FULL FORCE AND EFFECT.....	44
ARTICLE X	EVENTS OF DEFAULT AND REMEDIES.....	44
SECTION	10.01. EVENTS OF DEFAULT.....	44
SECTION	10.02. PRIMARY REMEDIES.....	45
SECTION	10.03. OTHER REMEDIES.....	46
ARTICLE XI	THE AGENT.....	46
SECTION	11.01. AUTHORIZATION AND ACTION.....	46
SECTION	11.02. AGENT'S RELIANCE.....	47
SECTION	11.03. AGENT AND AFFILIATES; BOT AND AFFILIATES.....	47
SECTION	11.04. BANK CREDIT DECISION.....	48
SECTION	11.05. AGENT'S INDEMNITY.....	48
SECTION	11.06. SUCCESSOR AGENT.....	49
SECTION	11.07. NOTICE OF DEFAULT.....	49
ARTICLE XII	MISCELLANEOUS.....	49
SECTION	12.01. AMENDMENTS.....	49
SECTION	12.02. NOTICES.....	50
SECTION	12.03. NO WAIVER; REMEDIES.....	51
SECTION	12.04. COSTS, EXPENSES AND TAXES.....	51
SECTION	12.05. INDEMNITY.....	52
SECTION	12.06. RIGHT OF SETOFF.....	52
SECTION	12.07. GOVERNING LAW.....	52
SECTION	12.08. INTEREST.....	53
SECTION	12.09. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.....	54
SECTION	12.10. SUCCESSORS AND ASSIGNS; PARTICIPATIONS.....	54
SECTION	12.11. CONFIDENTIALITY.....	55
SECTION	12.12. PRO RATA TREATMENT.....	55
SECTION	12.13. SEPARABILITY.....	56
SECTION	12.14. EXECUTION IN COUNTERPARTS.....	56
SECTION	12.15. INTERPRETATION.....	56
SECTION	12.16. SUBMISSION TO JURISDICTION.....	57
SECTION	12.17. WAIVER OF JURY TRIAL.....	58
SECTION	12.18. FINAL AGREEMENT OF THE PARTIES.....	58

Exhibits and Schedules:

Exhibit 1.01A	Administrative Questionnaire
Exhibit 1.01B	Subordination Terms
Exhibit 2.02(a)	Form of Note
Exhibit 2.03	Form of Notice of Advance
Exhibit 2.05	Form of Notice of Conversion
Exhibit 3.02	Form of Letter of Credit Request
Exhibit 7.01(d)	Form of Compliance Certificate
Exhibit 12.10(c)	Form of Assignment and Acceptance
Schedule 6.04	Agreements
Schedule 6.06	Litigation
Schedule 6.13	Exceptions to Environmental Matters
Schedule 6.16	Subsidiaries
Schedule 8.03(b)(i)	Existing Indebtedness
Schedule 8.03(b)(ii)	Existing Indebtedness to be Retired
Schedule 8.04(a)	Existing Liens
Schedule 8.05(b)	Investments

FIRST AMENDED AND RESTATED CREDIT AGREEMENT

This FIRST AMENDED AND RESTATED CREDIT AGREEMENT dated as of September 22, 1997 (this "AGREEMENT") is among COMFORT SYSTEMS USA, INC., a Delaware corporation (the "COMPANY"), the Subsidiaries of the Company listed on the signature pages hereto as Guarantors (together with each other person who subsequently becomes a Guarantor, collectively the "GUARANTORS"), the banks and other financial institutions listed on the signature pages hereto under the caption "Banks" (together with each other person who becomes a Bank, collectively the "BANKS") and BANK ONE, TEXAS, N.A., individually as a Bank ("BOT") and as agent for the other Banks (in such capacity together with any other Person who becomes the agent, the "AGENT").

The Company, Guarantors, BOT and the Agent are parties to that certain Credit Agreement dated as of July 2, 1997 (the "Credit Agreement"), which Credit Agreement provides for a revolving credit facility pursuant to which BOT will commit to make loans of up to \$75,000,000.00 including a letter of credit facility not to exceed \$5,000,000.00 to the Company for general corporate purposes, including working capital, financing permitted acquisitions and the issuance of letters of credit.

The Company has requested to further amend the Credit Agreement to modify certain terms and conditions thereof, all as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants set forth herein, the Company, the Agent, the Guarantors, and the Banks agree as follows:

ARTICLE I  
DEFINITIONS; ACCOUNTING TERMS; INTERPRETATION

SECTION 1.01. DEFINITIONS. As used in this Agreement, the following terms shall have the following meanings:

"ADMINISTRATIVE QUESTIONNAIRE" means the questionnaire attached hereto as EXHIBIT 1.01(A) to be completed by each Bank and returned to the Agent.

"ADVANCE" means an advance, pursuant to a Notice of Advance, comprised of a single Type of Loans from all the Banks (or resulting from a conversion or conversions on the same date having, in the case of Eurodollar Rate Advances, the same Interest Period (except as otherwise provided in this Agreement)), made by all of the Banks concurrently to the Company.

"ADVANCE DATE" means, with respect to each Advance, the Business Day upon which the proceeds of such Advance are to be made available to the Company.

"AFFILIATE" means any other Person directly or indirectly controlling (including all directors and officers of such Person), controlled by, or under direct or indirect common control with such Person.

"AGENT" has the meaning specified in the introduction to this Agreement.

"AGREEMENT" has the meaning specified in the introduction to this Agreement.

"ALTERNATE BASE RATE" means, for any date, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1% and (b) the Prime Rate in effect on such day. For purposes hereof, the term "PRIME RATE" means, as of a particular date, the prime rate of BOT most recently announced by BOT and in effect on such date, automatically fluctuating upward or downward, as the case may be, with and at the time of each change therein without notice to the Company or any other Person, which prime rate may not necessarily represent the lowest or best rate actually charged to a customer. "FEDERAL FUNDS EFFECTIVE RATE" means, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three federal funds brokers of recognized standing selected by it. If, for any reason, the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the terms hereof, the Alternate Base Rate shall be determined without regard to clause (a) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"ALTERNATE BASE RATE ADVANCE" means any Advance bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of ARTICLE II.

"APPLICABLE LENDING OFFICE" means, with respect to each Bank, such Bank's Domestic Lending Office in the case of an Alternate Base Rate Advance and such Bank's Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

"APPLICATION FOR LETTER OF CREDIT" means a letter of credit application in a form satisfactory to the Issuing Bank.

"ASSETS" (whether or not capitalized) means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"ASSIGNMENT AND ACCEPTANCE" has the meaning specified in SECTION 12.10 (C).

"BANK" has the meaning provided in the introduction to this Agreement.

"BANKRUPTCY CODE" has the meaning specified in SECTION 10.01(E).

"BOARD" means the Board of Governors of the Federal Reserve System of the United States (or any successor).

"BOT" means Bank One, Texas, N.A., 910 Travis, 7th Floor, Houston, Texas 77002.

"BUSINESS DAY" means any day (other than a day which is a Saturday, Sunday or legal holiday in the State of Texas) on which most banks are open for business in Houston, Texas.

"CAPITALIZED LEASE OBLIGATIONS" means all lease or rental obligations which, pursuant to GAAP, are capitalized for balance sheet purposes.

"CERCLA" means the comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, state and local analogs, and all rules and regulations and requirements thereunder in each case as now or hereafter in effect.

"CHANGE OF CONTROL" means any of (i) the acquisition by any Person (other than the shareholders on the Credit Agreement Effective Date), or two or more Persons acting in concert, after the Credit Agreement Effective Date of beneficial ownership of 50% or more of the outstanding shares of voting stock of the Company, (ii) during any period of 24 consecutive months, beginning on the Credit Agreement Effective Date, the ceasing of those individuals (the "CONTINUING DIRECTORS") who (a) were directors of the Company on the first day of each such period or (b) subsequently became directors of the Company and whose initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Company, to constitute a majority of the board of directors of the Company at any time during such period, (iii) all or substantially all of the assets of the Company and its Subsidiaries are sold in a single transaction or series of related transactions to any Persons or (iv) the Company merges or consolidates with or into any other Person except as permitted hereunder.

"CODE" means the Internal Revenue Code of 1986 and the regulations promulgated thereunder.

"COMMITMENT" and "COMMITMENTS" means the obligation of each of the Banks to enter into and perform this Agreement, to make available the Loans and to issue or participate in the Letters of Credit to the Company in the amounts shown on the signature page of each Bank hereto and all other duties and obligations of the Banks hereunder.

"COMMITMENT FEE" has the meaning specified in SECTION 4.01(A).

"COMPANY" has the meaning specified in the introduction to this Agreement.

"CONSOLIDATED TANGIBLE NET WORTH" means, at any date, an amount equal to the consolidated stockholders' equity of the Company and its subsidiaries LESS intangibles of such Persons determined in accordance with GAAP as of such date.

"CONVERSION" or "CONVERT" (in each case whether or not capitalized) means the changing of a Eurodollar Rate Advance to an Alternate Base Rate Advance or vice versa in accordance with the provisions hereof.

"CREDIT AGREEMENT EFFECTIVE DATE" means July 2, 1997.

"CREDIT EVENT" means the making of any Advance or the issuance or extension of any Letter of Credit.

"CURRENT ASSETS" and "CURRENT LIABILITIES" means, as to the Company and its Subsidiaries determined on a consolidated basis, at any time the aggregate current assets or current liabilities (other than the repayment of the Loans) of the Company, each as determined in accordance with GAAP.

"DEFAULT" means the occurrence of any event which with or without the giving of notice or the passage of time or both could become an Event of Default.

"DEFAULT RATE" means the lesser of (i) the Highest Lawful Rate and (ii) with respect to (a) Alternate Base Rate Advances, the rate per annum which would otherwise be applicable plus two percent (2%), and (b) Eurodollar Rate Advances, the rate per annum which would otherwise be applicable plus three percent (3%).

"DESIGNATED PAYMENT DATE" means March 31, June 30, September 30 and December 31 of each year; PROVIDED, HOWEVER, if a Designated Payment Date shall be a day which is not a Business Day, such Designated Payment Date shall be the next succeeding Business Day, and such extension of time shall be included in determining the amount to be paid on such date.



"DOMESTIC LENDING OFFICE" means, with respect to any Bank, the office of such Bank designated from time to time as its "Domestic Lending Office" hereunder.

"EBITDA" means, for any period, the consolidated pre-tax income for such period, plus the aggregate amount which was deducted for such period in determining such consolidated, pre-tax income in respect of interest expense (including amortization of debt discount, imputed interest and capitalized interest), plus depreciation and amortization, provided, the calculations of EBITDA after the acquisition of assets or entities permitted under Section 8.05(d) shall include pro forma adjustments consistent with the regulations and practices of the United States Securities and Exchange Commission (whether or not applicable) to account for such acquired entity's historical EBITDA for the relevant period or similar adjustments in the case of an asset acquisition.

"EFFECTIVE DATE" means the date on which all conditions to make an Advance set forth in SECTION 5.01 are first met or waived in accordance with SECTION 12.01 hereof.

"ELIGIBLE ASSIGNEE" means (a) any Bank; (b) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of \$250,000,000.00; (c) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or any successor organization, or a political subdivision of any such country, and having total assets in excess of \$1,000,000,000.00; PROVIDED that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the Organization for Economic Cooperation and Development or any successor organization; (d) the central bank of any country which is a member of the Organization for Economic Cooperation and Development or any successor organization; and (e) any other bank or similar financial institution approved by the Agent, the Majority Banks and the Company, which consent of the Company shall not be unreasonably withheld.

"ENVIRONMENTAL LAWS" means federal, state or local laws, rules or regulations, and any judicial or administrative interpretations thereof, including any judicial or administrative order, judgment, permit, approval, decision or determination pertaining to conservation or protection of the environment in effect at the time in question, including the Clean Air Act, CERCLA, the Federal Water Pollution Control Act, the Occupational Safety and Health Act, the Resource Conservation and Recovery Act, the Safe Drinking Water Act, the Toxic Substances Control Act, the Superfund Amendment and Reauthorization Act of 1986, the Hazardous Materials Transportation Act, and comparable state and local laws, and other environmental conservation and protection laws.

"ERISA" means the Employee Retirement Income Security Act of 1974 and the regulations promulgated thereunder.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) which is either a member of the same "controlled group" or under "common control," within the meaning of Section 414 of the Code and the regulations thereunder, with the Company and (b) any Subsidiary of the Company.

"EUROCURRENCY LIABILITIES" has the meaning specified in Regulation D as in effect from time to time.

"EURODOLLAR LENDING OFFICE" means, with respect to each Bank, the branches or affiliates of such Bank designated as its "Eurodollar Lending Office" from time to time hereunder.

"EURODOLLAR RATE" means, with respect to any Eurodollar Rate Advance, the rate (rounded to 1/16 of 1%) at which dollar deposits approximately equal in principal amount to the entire portion of such Advance and for a maturity equal to the applicable Interest Period are offered in immediately available funds to the Agent by prime banks in whatever Eurodollar interbank market may be selected by the Agent in its sole and absolute discretion at the time of determination and in accordance with the then usual practice in such market at approximately 10:00 a.m. (Houston, Texas time) two Business Days prior to the commencement of such Interest Period.

"EURODOLLAR RATE ADVANCE" means any Advance bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of ARTICLE II.

"EVENTS OF DEFAULT" has the meaning specified in SECTION 10.01.

"EXECUTION DATE" means the date upon which this Agreement shall have been executed by the Company, the Guarantors, the Banks, and the Agent.

"FEDERAL FUNDS EFFECTIVE RATE" has the meaning specified in the definition of the term "ALTERNATE BASE RATE."

"FEES" has the meaning specified in SECTION 4.01.

"FINANCIALS" has the meaning specified in SECTION 6.07.

"FUNDED DEBT" means all indebtedness for borrowed money evidenced by a written document and subject to required payments of interest and/or principal exclusive of Subordinated Debt.

"GAAP" means generally accepted accounting principles as in effect from time to time as set forth in the opinions, statements and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Financial Accounting Standards Board and such other Persons who shall be approved by a significant segment of the accounting profession and concurred in by the independent certified public accountants certifying any audited financial statements of the Company.

"GUARANTEED OBLIGATIONS" has the meaning specified in SECTION 9.01.

"GUARANTORS" has the meaning provided in the introduction to this Agreement.

"GUARANTY" means the obligations contained in ARTICLE IX hereof and in any document containing similar obligations executed by subsequent Guarantors.

"HAZARDOUS MATERIALS" means (a) hazardous waste as defined in the Resource Conservation and Recovery Act of 1976, or in any applicable federal, state or local law or regulation, (b) hazardous substances, as defined in CERCLA, or in any applicable state or local law or regulation, (c) gasoline, or any other petroleum product or by-product, (d) toxic substances, as defined in the Toxic Substances Control Act of 1976, or in any applicable federal, state or local law or regulation or (e) insecticides, fungicides, or rodenticides, as defined in the Federal Insecticide, Fungicide, and Rodenticide Act of 1975, or in any applicable federal, state or local law or regulation, as each such act, statute or regulation may be amended from time to time.

"HIGHEST LAWFUL RATE" means, as to any Bank, the maximum nonusurious rate of interest that, under applicable law, may be contracted for, taken, reserved, charged or received by such Bank on the Loans or under the Loan Documents at any time or from time to time. If the maximum rate of interest which, under applicable law, any of the Banks are permitted to charge the Company on the Loans shall change after the date hereof, to the extent permitted by applicable law, the Highest Lawful Rate shall be automatically increased or decreased, as the case may be, as of the effective time of such change without notice to the Company or any other Person.

"INDEBTEDNESS" means, without duplication, (a) all indebtedness for borrowed money (whether by loan or the issuance and sale of debt securities) or for the deferred purchase price of property or services, (b) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property, (c) all Capitalized Lease Obligations, (d) hedge or swap agreements; and (e) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of another Person of the kinds referred to in clauses (a) through (d) above.

"INTEREST EXPENSE" means, with respect to the Company and its Subsidiaries determined on a consolidated basis, for any period the total interest expense for such period determined in conformity with GAAP including any interest expense attributable to Capitalized Lease Obligations.

"INTEREST PERIOD" has the meaning specified in SECTION 2.11.

"INVESTMENT" means, as applied to any Person, any direct or indirect purchase or other acquisition by such Person of the assets, stock or other securities of any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person, and any other item which would be classified as an "investment" on a balance sheet of such Person in accordance with GAAP, including any direct or indirect contribution by such Person of property or assets to a joint venture, partnership or other business entity in which such Person retains an interest.

"ISSUING BANK" means, for each Letter of Credit, BOT.

"LETTER OF CREDIT" has the meaning specified in SECTION 3.01(A).

" LETTER OF CREDIT FEE" means the following computed on the undrawn face amount of each Letter of Credit (i) a 1/8% per annum fronting fee payable to the Issuing Bank and (ii) a fee payable to the Issuing Bank for the ratable benefit of the Banks equal to the greater of (a) \$500.00 or (b) a rate per annum determined in accordance with the grid set forth below as a function of the Funded Debt to EBITDA ratio:

FUNDED DEBT/EBITDA RATIO	LETTER OF CREDIT FEE
less than 1.00	.875%
greater than or equal to 1 but less than 1.50	1.125%
greater than or equal to 1.50 but less than 2.00	1.375%
greater than or equal to 2.00 but less than 2.50	1.875%

Any Letter of Credit Fees expressed as a rate per annum shall be calculated on the basis of a 365 day year.

"LETTER OF CREDIT OBLIGATIONS" means at any time the sum of (a) the aggregate then undrawn and unexpired amount of outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit not reimbursed pursuant to SECTION 3.03(C).

"LETTER OF CREDIT REQUEST" has the meaning specified in SECTION 3.02(A).

"LIEN" means, when used with respect to any Person, any mortgage, lien, charge, pledge, security interest or encumbrance of any kind (whether voluntary or involuntary and whether imposed or created by operation of law or otherwise) upon, or pledge of, any of its property or assets, whether now owned or hereafter acquired, or any lease intended as

security, any capital lease in the nature of the foregoing, any conditional sale agreement or other title retention agreement, in each case, for the purpose, or having the effect, of protecting a creditor against loss or securing the payment or performance of an obligation.

"LOAN" and "LOANS" has the meaning assigned thereto in SECTION 2.01.

"LOAN DOCUMENTS" means this Agreement and the other documents described in ARTICLE V hereof, the Notes, the Notice of Advance, and the corporate resolutions authorizing the Loan Documents.

"MAJORITY BANKS" means Banks holding at least 66 2/3% of the Advances outstanding under the Loans, or, if no Advances are outstanding, Banks holding such percentage of the Total Commitment (notwithstanding any reduction or termination of the Total Commitment) or if there are no Advances or Commitments outstanding, Banks holding such percentage of outstanding Letters of Credit.

"MARGIN" means with respect to any Advance, the percentage determined in accordance with the following table as a function of the Funded Debt to EBITDA ratio:

FUNDED DEBT/ EBITDA RATIO	EURODOLLAR RATE ADVANCE	ALTERNATE BASE RATE ADVANCE
less than 1.00	1.00%	0.00%
greater than or equal to 1 but less than 1.50	1.25%	0.00%
greater than or equal to 1.50 but less than 2.00	1.50%	0.00%
greater than or equal to 2.00 but less than 2.50	2.00%	0.25%

If sufficient information does not exist to calculate the Margin, Eurodollar Rate Advances shall not be available to the Company and the Margin for Alternate Base Rate Advances shall be deemed to be 0%.

"MARGIN PERIOD" means (a) the period from the Credit Agreement Effective Date through the date that the first quarterly financial statements are delivered pursuant to Section 7.01(a) and (b) thereafter, a period commencing on the date on which the quarterly or annual financial statements of the Company are required to be delivered pursuant to SECTION 7.01(A) or SECTION 7.01(B), as the case may be, and ending on the next date a financial statement is required to be so delivered.

"MATERIAL ADVERSE EFFECT" means, relative to any occurrence of whatever nature (including any adverse determination in any litigation, arbitration or governmental investigation or proceeding), (a) a material adverse effect on the financial condition, business or operations of the Company individually or the Company and its Subsidiaries taken as a whole or (b) a material impairment of the collective ability of the Company and its Subsidiaries to make payment hereunder or under any Note or the right of any Bank to enforce any of its remedies to collect any amounts owing under the Loan Documents.

"MATURITY DATE" means a date which is three years after the Credit Agreement Effective Date.

"MAXIMUM GUARANTEED AMOUNT" means for each Guarantor the maximum amount which any Guarantor could pay under the Guaranty without having such payment set aside as a fraudulent transfer or conveyance or similar action under the Bankruptcy Code or any applicable state or foreign law.

"MULTIEMPLOYER PLAN" means any plan which is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"NOTE" has the meaning specified in SECTION 2.02.

"NOTE" and "NOTES" have the meaning specified in SECTION 2.02.

"NOTICE OF ADVANCE" has the meaning provided in SECTION 2.03(A).

"NOTICE OF CONVERSION" has the meaning provided in SECTION 2.05.

"NOTICE OF DEFAULT" has the meaning specified in SECTION 10.02.

"OBLIGATIONS" means all the obligations of the Company now or hereafter existing under the Loan Documents, whether for principal, interest, Fees, expenses, indemnification or otherwise.

"OTHER ACTIVITIES" has the meaning specified in SECTION 11.03.

"OTHER FINANCINGS" has the meaning specified in SECTION 11.03.

"PAYMENT OFFICE" means the office of the Agent located at 1111 Fannin Street, Houston, Texas 77002, or such other office as the Agent may hereafter designate in writing as such to the other parties hereto.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to all or any of its functions under ERISA.

"PERMITTED INVESTMENTS" means, as to any Person:

(a) securities issued or directly and fully guaranteed or insured by the United States or any agency or instrumentality thereof (PROVIDED that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition thereof,

(b) time deposits and certificates of deposit with maturities of not more than twelve months from the date of acquisition by such Person which deposits or certificates are either: (a) fully insured by the Federal Deposit Insurance Corporation or (b) in any Bank or other commercial bank incorporated in the United States or any U.S. branch of any other commercial bank, in each case having capital, surplus and undivided profits aggregating \$100,000,000.00 or more with a long-term unsecured debt rating of at least A- from Standard & Poor's Ratings Group or A3 from Moody's Investors Service,

(c) commercial paper issued by any Person incorporated in the United States rated at least A2 or the equivalent thereof by Standard & Poor's Ratings Group or at least P2 or the equivalent thereof by Moody's Investors Service and, in each case, maturing not more than 270 days after the date of issuance,

(d) investments in money market mutual funds having assets in excess of \$2,000,000,000.00 substantially all of whose assets are comprised of securities of the types described in clauses (a) through (c) above, and

(e) repurchase or reverse purchase agreements respecting obligations with a term of not more than seven days for underlying securities of the types described in clause (a) above entered into with any bank listed in or meeting the qualifications specified in clause (b) above.

"PERMITTED LIENS" shall mean: (a) Liens for taxes, assessments, levies or other governmental charges not yet due or which are being contested in good faith by appropriate proceedings and for which adequate reserves are maintained in accordance with GAAP; (b) Liens in connection with worker's compensation, unemployment insurance or other social security, old age pension or public liability obligations not yet due or which are being contested in good faith by appropriate proceedings and for which adequate reserves are maintained in accordance with GAAP; (c) operator's, vendors', carriers', warehousemen's, repairmen's, mechanics', workers', materialmen's or other like Liens arising by operation of law in the ordinary course of business (or deposits to obtain the release of any such Lien) and securing amounts not yet due or which are being contested in good faith by appropriate proceedings and for which adequate reserves are maintained in accordance with GAAP; (d) deposits to secure insurance in the ordinary course of business; (e) deposits to secure the performance of bids, tenders, contracts (other than contracts for the payment of money or the

deferred purchase price of goods or services), leases, licenses, franchises, trade contracts, statutory obligations, surety and appeal bonds and performance bonds and other obligations of a like nature incurred in the ordinary course of business; (f) easements, rights of way, covenants, restrictions, reservations, exceptions, encroachments, zoning and similar restrictions and other similar encumbrances (other than to secure the payment of borrowed money or the deferred purchase price of goods or services) or title defects, in each case incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case singly or in the aggregate materially detract from the value or usefulness of the Property subject thereto for the business conducted by the Company and its Subsidiaries or materially interfere with the ordinary conduct of the business of the Company and its Subsidiaries; (g) bankers' liens arising by operation of law; (h) inchoate Liens arising under ERISA to secure contingent liabilities of the Company and its Subsidiaries; and (i) Liens on assets of Subsidiaries to secure indebtedness to the Company provided same are collaterally assigned to the Agent, provided further, such Liens may be incurred only to the extent the underlying Indebtedness is otherwise permitted under the terms of this Agreement.

"PERSON" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a foreign or domestic state or political subdivision thereof or any agency of such state or subdivision.

"PLAN" means any employee pension benefit plan (as defined in Section 3(2) of ERISA), subject to Title IV of ERISA or Section 412 of the Code, other than a Multiemployer Plan, with respect to which the Company or an ERISA Affiliate contributes or has an obligation or liability to contribute, including any such plan that may have been terminated.

"PRESCRIBED FORMS" shall mean such duly executed form(s) or statement(s), and in such number of copies, which may, from time to time, be prescribed by law and which, pursuant to applicable provisions of the Code or an income tax treaty between the United States and the country of residence of the Bank providing the form(s) or statement(s), permit each of the Company and the Agent to make payments hereunder for the account of such Bank free of deduction or withholding of income and other taxes.

"PRIME RATE" has the meaning set forth in the definition of Alternate Base Rate.

"PROPERTY" (whether or not capitalized) means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"REGULATIONS A, D, G, T, U AND X" means Regulations A, D, G, T, U and X of the Board as the same are from time to time in effect, and all official rulings and interpretations thereunder or thereof.



"RELEASE" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the environment (including the abandonment or discarding of barrels, containers and other closed receptacles).

"REPORTABLE EVENT" means an event described in Section 4043(b) of ERISA with respect to a Plan as to which the 30-day notice requirement has not been waived by the PBGC.

"REQUIREMENTS OF ENVIRONMENTAL LAWS" means, as to any Person, the requirements of any applicable Environmental Law relating to or affecting such Person or the condition or operation of such Person's business or its properties, both real and personal.

"RESERVE PERCENTAGE" means, for any Interest Period and for any Bank, the reserve percentage applicable during such Interest Period under regulations issued from time to time by the Board (or if more than one such percentage is so applicable, the daily average for such percentages for those days in such Interest Period during which any such percentage shall be so applicable) for determining the actual reserve requirement (including any marginal, supplemental or emergency reserves) for such Bank in respect of liabilities or assets consisting of or including Eurocurrency Liabilities.

"RESPONSIBLE OFFICER" means, with respect to the Company, the chairman of the board of directors, president, any vice president, chief executive officer, chief operating officer, treasurer or chief financial officer of the Company.

"SUBSIDIARY" means and includes, with respect to any Person, (a) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person, directly or indirectly and (b) any partnership, association, joint venture or other entity in which such Person, directly or indirectly, has greater than 50% of the equity interest. Unless otherwise provided or the context otherwise requires, the term "Subsidiary" or "Subsidiaries" shall mean a Subsidiary or Subsidiaries of the Company.

"SUBORDINATED DEBT" means any Indebtedness of the Company or any subsidiary of the Company which is expressly and validly subordinated to the obligations of the Company hereunder and under the Notes and other Loan Documents pursuant to terms and conditions substantially in the form of the attached EXHIBIT 1.01(B);

"TOTAL COMMITMENT" means the sum of the Commitments for each Bank totaling a maximum of \$75,000,000.00 for all Banks.

"UNUTILIZED COMMITMENT" means the Total Commitment less Letter of Credit Obligations less the outstanding Advances under the Loan, as same may be reduced pursuant to SECTION 2.16.

SECTION 1.02. TYPES OF ADVANCES. Advances hereunder are distinguished by "Type". The Type of an Advance refers to the determination whether such Advance is a Eurodollar Rate Advance or an Alternate Base Rate Advance.

SECTION 1.03. ACCOUNTING TERMS. All accounting terms not defined herein shall be construed in accordance with GAAP, as applicable, and all calculations required to be made hereunder and all financial information required to be provided hereunder shall be done or prepared in accordance with GAAP.

SECTION 1.04. SCHEDULES. Schedules hereto may be updated by the Company from time to time to reflect transactions and other matters not prohibited by the Loan Documents.

## ARTICLE II THE LOANS

SECTION 2.01. THE LOANS. Subject to the terms and conditions hereof, each Bank severally agrees at any time and from time to time on and after the Effective Date and prior to the Maturity Date, to make and maintain a loan or loans (together with any Advances under a Letter of Credit described in Article III, a "LOAN" and collectively, the "LOANS") to the Company not to exceed at any time outstanding the maximum amount of its Commitment, which Loans (i) shall, at the option of the Company, be made and maintained pursuant to one or more Advances comprised of Alternate Base Rate Advances or Eurodollar Rate Advances; PROVIDED that, except as otherwise specifically provided herein, all Advances made simultaneously under the Loan shall be of the same Type, (ii) in the case of Eurodollar Rate Advances, shall be made in the minimum amount of \$1,000,000.00 and integral multiples of \$100,000.00 and, in the case of Alternate Base Rate Advances, in the minimum amount of \$100,000.00 and integral multiples thereof, or, in either case, in the remaining balance of the Total Commitment, (iii) may be repaid and, so long as no Default or Event of Default exists hereunder, reborrowed, at the option of the Company in accordance with the provisions hereof, and (iv) shall, in the aggregate at any time outstanding and together with all Letter of Credit Obligations, not exceed the Total Commitment. There shall be no further Advances after the Maturity Date.

SECTION 2.02. THE NOTES. The Loans shall be evidenced by a Note in favor of each Bank (individually a "NOTE" and collectively, the "NOTES"), substantially in the form of EXHIBIT 2.02(A).

SECTION 2.03. NOTICE OF ADVANCE. (a) Whenever the Company desires an Advance, it shall give written notice thereof (a "NOTICE OF ADVANCE") (or telephonic notice promptly

confirmed in writing) to the Agent (i) in the case of an Alternate Base Rate Advance, not later than 10:00 a.m. (Houston, Texas time) on the date of such Advance and (ii) in the case of a Eurodollar Rate Advance, not later than noon (Houston, Texas time) three Business Days prior to the date of such Advance. Each Notice of Advance shall be irrevocable and shall be in the form of EXHIBIT 2.03 hereto, specifying (i) the aggregate principal amount of the Advance to be made, (ii) the date of such Advance (which shall be a Business Day), (iii) whether it is to be an Alternate Base Rate Advance or a Eurodollar Rate Advance and (iv) if the proposed Advance is to be a Eurodollar Rate Advance, the initial Interest Period to be applicable thereto.

(b) The Agent shall promptly give the Banks written notice or telephonic notice (promptly confirmed in writing) of each proposed Advance, of each Bank's proportionate share thereof and of the other matters covered by each Notice of Advance.

SECTION 2.04. DISBURSEMENT OF FUNDS FOR LOANS. (a) No later than 1:00 p.m. (Houston, Texas time) on any Advance Date for Loans, each Bank shall make available its pro rata portion of the amount of such Advance in U.S. dollars and in immediately available funds at the Payment Office. At such time, the Agent shall credit the amounts so received to the general deposit account of the Company maintained with the Agent in immediately available funds or as otherwise directed by the Company.

(b) Unless the Agent shall have been notified by any Bank prior to disbursement of the Advance by the Agent that such Bank does not intend to make available to the Agent such Bank's portion of the Advance to be made on such date, the Agent may assume that such Bank has made such amount available to the Agent on such Advance Date and the Agent may, in reliance upon such assumption, make available to the Company a corresponding amount. If such corresponding amount is not in fact made available to the Agent by such Bank and the Agent has made available same to the Company, the Agent shall be entitled to recover such corresponding amount on demand from such Bank. If such Bank does not pay such corresponding amount forthwith upon the Agent's demand therefor, the Agent shall promptly notify the Company, and the Company shall pay such corresponding amount to the Agent within two (2) Business Days after demand therefor. The Agent shall also be entitled to recover from such Bank or the Company, as the case may be, interest on such corresponding amount from the date such corresponding amount was made available by the Agent to the Company to the date such corresponding amount is recovered by the Agent, at a rate per annum equal to (i) as to the Company, the Alternate Base Rate or the Eurodollar Rate PLUS the applicable Margin, as appropriate or (ii) as to any Bank, the Federal Funds Effective Rate on the date of such Advance for a period of three (3) days and thereafter at the Alternate Base Rate or the Eurodollar Rate PLUS the applicable Margin, as appropriate. Nothing herein shall be deemed to relieve any Bank from its obligation to fulfill its Commitments hereunder or to prejudice any rights which the Company may have against any Bank as a result of any default by such Bank hereunder.

SECTION 2.05. CONVERSIONS AND CONTINUANCES. The Company shall have the option to convert or continue on any Business Day all or a portion of the outstanding principal

amount of one Type of Advance for any Loan into another Type of Advance, PROVIDED, no Advances may be converted into or continued as Eurodollar Rate Advances if a Default or Event of Default is in existence on the date of the conversion. Any continuation of an Advance as the same Type of Advance in the same amount shall be effected by the Company giving notice to the Agent, in writing, or by telephone promptly confirmed in writing, of its intention to continue such Advance as an Advance of the same Type. Each such conversion shall be effected by the Company giving the Agent written notice (each a "NOTICE OF CONVERSION"), substantially in the form of EXHIBIT 2.05 hereto, prior to noon (Houston, Texas time) at least (a) three (3) Business Days prior to the date of such conversion in the case of conversion into or continuance as Eurodollar Rate Advances and (b) prior to 10:00 a.m. (Houston, Texas time) one Business Day prior to the date of conversion in the case of a conversion into Alternate Base Rate Advances, specifying each Advance (or portions thereof) to be so converted and, if to be converted into or continued as Eurodollar Rate Advances, the Interest Period to be initially applicable thereto. The Agent shall thereafter promptly notify each Bank of such Notice of Conversion.

SECTION 2.06. VOLUNTARY PREPAYMENTS. The Company shall have the right to voluntarily prepay any Loan in whole or in part at any time on the following terms and conditions: (a) no Eurodollar Rate Advance may be prepaid prior to the last day of its Interest Period unless, simultaneously therewith, the Company pays to the Agent for the benefit of the Banks, all sums necessary to compensate the Banks for all costs and expenses resulting from such prepayment, as reasonably determined by the Banks, including but not limited to those costs described in SECTIONS 2.10(F), 2.14, and SECTION 2.15 hereof; and (b) each prepayment pursuant to this section shall be applied first, to the payment of accrued and unpaid interest, and then, to the outstanding principal of such Advances.

SECTION 2.07. MANDATORY REPAYMENTS.

The Company shall repay Loans on any day on which the aggregate outstanding principal amount of the Loans together with the outstanding Letter of Credit Obligations exceeds the Total Commitment, in the amount of such excess. The aggregate amount under the Notes (and all accrued, unpaid interest) shall be due and payable, and the Commitments shall terminate, on the Maturity Date.

SECTION 2.08. METHOD AND PLACE OF PAYMENT. Except as otherwise specifically provided herein, all payments under this Agreement due from the Company shall be made to the Agent for the benefit of the Banks not later than 11:00 a.m. (Houston, Texas time) on the date when due and shall be made in lawful money of the United States in immediately available funds at the Payment Office.

SECTION 2.09. PRO RATA ADVANCES. All Advances under this Agreement shall be incurred from the Banks pro rata, on the basis of their respective Commitments. It is understood that no Bank shall be responsible for any default by any other Bank in its obligation to make Loans

hereunder and that each Bank shall be obligated to make the Loans provided to be made by it hereunder, regardless of the failure of any other Bank to fulfill its commitments hereunder.

SECTION 2.10. INTEREST. (a) Subject to SECTION 12.08, the Company agrees to pay interest on the total outstanding principal balance of all Alternate Base Rate Advances from the date of each respective Advance to maturity (whether by acceleration or otherwise) at a rate per annum which shall at all times be equal to the lesser of (i) the Highest Lawful Rate and (ii) the Alternate Base Rate in effect from time to time plus the Margin for Alternate Base Rate Advances, which Margin shall be adjusted on the first day of each Margin Period. If the Alternate Base Rate is based on the Prime Rate, interest shall be computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be. If the Alternate Base Rate is based on the Federal Funds Effective Rate, interest shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

(b) Subject to SECTION 12.08, the Company agrees to pay interest on the total outstanding principal balance of all Eurodollar Rate Advances from the date of each respective Advance to maturity (whether by acceleration or otherwise) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) which shall, during each Interest Period applicable thereto, be equal to the lesser of (i) the Highest Lawful Rate and (ii) the applicable Eurodollar Rate for such Interest Period plus the Margin for Eurodollar Rate Advances. The applicable Eurodollar Rate shall be fixed for each Interest Period and shall not change during said Interest Period, but the applicable Margin, which is added to said Eurodollar Rate to determine the total interest payable to the Banks, shall be adjusted, if applicable under the definition of "Margin", effective on the first day of each Margin Period, whether or not said adjustment occurs at a time other than the beginning of an Interest Period.

(c) Subject to SECTION 12.08, overdue principal and, to the extent permitted by law, overdue interest in respect of any Advance and all other overdue amounts owing hereunder shall bear interest for each day that such amounts are overdue at a rate per annum equal to the Default Rate.

(d) Interest on each Advance shall accrue from and including the date of such Advance to but excluding the date of any repayment thereof and shall be payable (i) in respect of Eurodollar Rate Advances (A) on the last day of the Interest Period (as defined below) applicable thereto and on each Designated Payment Date during any Interest Period in excess of three (3) months and (B) on the date of any voluntary or mandatory repayment or any conversion or continuance, (ii) in respect of Alternate Base Rate Advances (A) on each Designated Payment Date, and (B) on the date of any voluntary or mandatory repayment of such Advances on the principal amount repaid and (iii) in respect of each Advance, at maturity (whether by acceleration or otherwise) and, after maturity, on demand.

(e) The Agent, upon determining the Eurodollar Rate for any Interest Period, shall notify the Company thereof. Each such determination shall, absent manifest error, be final and

conclusive and binding on all parties hereto. In addition, prior to the due date for the payment of interest on any Advances set forth in the immediately preceding paragraph, the Agent shall notify the Company of the amount of interest due by the Company on all outstanding Advances on the applicable due date, but any failure of the Agent to so notify the Company shall not reduce the Company's liability for the amount owed.

(f) The Company shall pay to the Agent for the account of each Bank, so long as such Bank shall be required under regulations of the Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of such Bank's share of each Eurodollar Rate Advance, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times during the Interest Period for such Advance to the lesser of (i) the Highest Lawful Rate and (ii) the remainder obtained by subtracting (A) the Eurodollar Rate for such Interest Period from (B) the rate obtained by dividing such Eurodollar Rate referred to in Clause (A) above by that percentage equal to 100% minus the Reserve Percentage of such Bank for such Interest Period. Such additional interest shall be determined by such Bank as incurred and shall be payable upon demand therefor by the Bank to the Company. Each determination by such Bank of additional interest due under this Section shall be conclusive and binding for all purposes in the absence of manifest error.

SECTION 2.11. INTEREST PERIODS. (a) At the time the Company gives any Notice of Advance or Notice of Conversion or provides notice of its intent to continue a loan as the same Type in respect of the making of, or conversion into, a Eurodollar Rate Advance, the Company shall have the right to elect, by giving the Agent on the dates and at the times specified in SECTION 2.03 or SECTION 2.05, as the case may be, notice of the interest period (each an "INTEREST PERIOD") applicable to such Eurodollar Rate Advance, which Interest Period shall be either a one, two, three or six month period; PROVIDED, that:

(i) the initial Interest Period for any Eurodollar Rate Advance shall commence on the date of such Eurodollar Rate Advance (including the date of any conversion thereto or continuance thereof pursuant to SECTION 2.05); each Interest Period occurring thereafter in respect of such Eurodollar Rate Advance shall commence on the expiration date of the immediately preceding Interest Period;

(ii) if any Interest Period relating to a Eurodollar Rate Advance begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, such Interest Period shall end on the last Business Day of such calendar month;

(iii) if any Interest Period would otherwise expire on a day which is not a Business Day, such Interest Period shall expire on the next succeeding Business Day, PROVIDED, that if there are no more Business Days in that month, the Interest Period shall expire on the preceding Business Day;

(iv) no Interest Period for Advances shall extend beyond the applicable Maturity Date; and

(v) the Company shall be entitled to have a maximum of ten (10) separate Eurodollar Rate Advances hereunder for all Loans outstanding at any one time.

(b) If, upon the expiration of any Interest Period applicable to a Eurodollar Rate Advance, the Company has failed to elect a new Interest Period to be applicable to such Advance as provided above, the Company shall be deemed to have elected to convert such Advance into an Alternate Base Rate Advance effective as of the expiration date of such current Interest Period.

SECTION 2.12. INTEREST RATE NOT ASCERTAINABLE. In the event that the Agent shall determine (which determination shall, absent manifest error, be final, conclusive and binding upon all parties) that on any date for determining the Eurodollar Rate for any Interest Period, by reason of any changes arising after the date of this Agreement affecting the Eurodollar interbank market or the Agent's position in such market, adequate and fair means do not exist for ascertaining the applicable interest rate on the basis provided for in the definition of Eurodollar Rate, then, and in any such event, the Agent shall forthwith give notice to the Company and to the Banks of such determination. Until the circumstances giving rise to the suspension described herein no longer exist, the obligations of the Banks to make Eurodollar Rate Advances shall be suspended.

SECTION 2.13. CHANGE IN LEGALITY. (a) Notwithstanding anything to the contrary herein contained, if any change in any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank or its Eurodollar Lending Office to make or maintain any Eurodollar Rate Advance or to give effect to its obligations as contemplated hereby, then, by prompt written notice to the Company, such Bank may:

(i) declare that Eurodollar Rate Advances will not thereafter be made by such Bank hereunder, whereupon the Company shall be prohibited from requesting Eurodollar Rate Advances from such Bank hereunder unless such declaration is subsequently withdrawn, PROVIDED, such request for a Eurodollar Rate Advance shall, if the Company so indicates, be automatically converted (as to such Bank) into a request for an Alternate Base Rate Advance and the affected Bank or Banks shall respond thereto as provided herein; and

(ii) require that all outstanding Eurodollar Rate Advances made by such Bank be converted to Alternate Base Rate Advances, in which event (A) all such Eurodollar Rate Advances shall be automatically converted to Alternate Base Rate Advances as of the effective date of such notice as provided in paragraph (b) below if required by applicable law or regulation, or if not so required, at the end of the current Interest Period and (B) all payments and prepayments of principal which would otherwise have been applied to repay the converted Eurodollar Rate Advances shall instead be applied to repay the Alternate Base Rate Advances resulting from the conversion of such Eurodollar Rate Advances.

(b) For purposes of this Section, a notice to the Company by the Agent pursuant to paragraph (a) above shall be effective on the date of receipt thereof by the Company.

SECTION 2.14. INCREASED COSTS, TAXES OR CAPITAL ADEQUACY REQUIREMENTS. (a) If any change in the application or effectiveness of any applicable law or regulation or compliance by any Bank with any applicable guideline or request issued after the date hereof from any central bank or governmental authority having jurisdiction over such Bank (whether or not having the force of law) (i) shall change the basis of taxation of payments to such Bank of the principal of or interest on any Eurodollar Rate Advance made by such Bank or any other fees or amounts payable hereunder with respect to Eurodollar Rate Advances (other than taxes imposed on the overall net income of such Bank or its Applicable Lending Office or franchise taxes imposed upon it by the jurisdiction in which such Bank or its Applicable Lending Office has an office), (ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement with respect to Eurodollar Rate Advances against assets of, deposits with or for the account of, or credit extended by, such Bank (without duplication of any amounts paid pursuant to SECTION 2.10(F)) or (iii) shall impose on such Bank any other condition affecting this Agreement with respect to Eurodollar Rate Advances or any Eurodollar Rate Advance made by such Bank, and the result of any of the foregoing shall be to increase the cost to such Bank of maintaining its Commitment or of making or maintaining any Eurodollar Rate Advance or to reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest or otherwise) in respect thereof by an amount deemed in good faith by such Bank to be material, then the Company shall pay to such Bank such additional amount as will compensate it for such increase or reduction within ten (10) days after notice thereof pursuant to SECTION 2.14(C).

(b) If any Bank shall have determined in good faith that any change in any law, rule, regulation or guideline regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof or compliance with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency has or would have the effect of reducing the rate of return on the capital of such Bank as a consequence of, or with reference to, such Bank's obligations hereunder to a level below that which it could have achieved but for such adoption, change or compliance by an amount deemed by such Bank to be material, then, from time to time, the Company shall pay to the Agent for the benefit of such Bank such additional amount as will reasonably compensate it for such reduction within ten (10) days after notice thereof pursuant to SECTION 2.14(C).

(c) Each Bank will notify the Company through the Agent of any event occurring after the date of this Agreement which will entitle it to compensation pursuant to this Section, as promptly as practicable after it becomes aware thereof and determines to request compensation and in any case, within 120 days after becoming aware thereof. A certificate setting forth in reasonable detail the amount necessary to compensate the Bank in question as specified in paragraph (a) or (b) above, as the case may be, and the calculation of such amount shall be delivered to the Company and shall be conclusive absent manifest error. The failure on the part of any Bank to demand increased compensation with respect to any Interest Period shall not constitute a waiver of the right to demand



compensation thereafter within the 120 day time limit set forth above. Each Bank agrees, to the extent it may lawfully do so without incurring additional costs, to use its best efforts to minimize costs arising under this section by designating another lending office for the Loans affected, PROVIDED no Bank shall be required to do so.

(d) In the event any Bank gives a notice to the Company pursuant to SECTION 2.13 or 2.14 that it cannot fund certain Loans or that such funding will be at an increased cost, or is unable to deliver the Prescribed Forms as required by SECTION 2.17 below, the Company may give notice in response, with copies to the Agent, that it wishes to seek one or more banks to replace such Bank in accordance with the provisions set forth in SECTION 12.10. Each Bank giving such a notice agrees that, at the request of the Company, it will assign all of its interests hereunder and under the Notes and the Commitment to a designated, Eligible Assignee for the full amount then owing to it, all in accordance with SECTION 12.10. Thereafter, said assignee shall have all of the rights hereunder and obligations of the Assigning Bank (except as otherwise expressly set forth herein) and such Bank shall have no further obligations to the Company hereunder.

(e) Any notice given pursuant to this SECTION 2.14 shall be deemed to contain a representation by the Bank issuing such notice that the increased costs and charges are common to substantially all of the loan customers of such Bank and are not unique to the Company.

SECTION 2.15. EURODOLLAR ADVANCE PREPAYMENT AND DEFAULT PENALTIES.

Subject to SECTION 12.08, the Company shall indemnify each Bank against any loss or expense (excluding loss of anticipated profits) which it may sustain or incur as a consequence of (a) an Advance of, or a conversion from or into, Eurodollar Rate Advances that does not occur on the date specified therefor in a Notice of Advance or Notice of Conversion or (b) any payment, prepayment or conversion of a Eurodollar Rate Advance required by any other provision of this Agreement or otherwise made on a date other than the last day of the applicable Interest Period. Such loss or expense shall include an amount equal to the excess determined by each Bank of (i) its cost of obtaining the funds for the Advance being paid, prepaid or converted or not borrowed (based on the Eurodollar Rate) for the period from the date of such payment, prepayment or conversion or failure to borrow to the last day of the Interest Period for such Advance (or, in the case of a failure to borrow, the Interest Period for the Advance which would have commenced on the date of such failure to borrow) OVER (ii) the amount of interest (as determined by each Bank) that would be realized in reemploying the funds so paid, prepaid or converted or not borrowed for such period or Interest Period, as the case may be. The Agent, on behalf of the Banks, will notify the Company of any loss or expense which will entitle the Banks to compensation pursuant to this Section, as promptly as possible after it becomes aware thereof, but failure to so notify shall not affect the Company's liability therefor. A certificate of any Bank setting forth any amount which it is entitled to receive pursuant to this Section shall be delivered to the Company and shall be conclusive absent manifest error if such determination is made on a reasonable basis. The Company shall pay to the Agent for the account of the Banks the amount shown as due on any certificate within ten (10) days after its receipt of the same. Without prejudice to the survival of any other obligations of the Company hereunder, the obligations of the Company under this Section shall survive the termination

of this Agreement and, with respect to the assigning Bank, the assignment of any of the Notes, in each case for one hundred and twenty (120) days.

SECTION 2.16. VOLUNTARY REDUCTION OF COMMITMENT. Upon at least three (3) Business Days' prior written notice, the Company shall have the right, without premium or penalty, to reduce or terminate the Commitments, in whole or in part, in the amount of \$5,000,000.00 or integral multiples thereof.

SECTION 2.17. TAX FORMS. With respect to any Bank which is organized under the laws of a jurisdiction outside the United States, on the date of the initial Advance hereunder or on the date it becomes a party hereto, and from time to time thereafter if requested by the Company or the Agent, each such Bank shall provide the Agent and the Company with the Prescribed Forms. Unless the Company and the Agent have received such Prescribed Forms, the Agent and the Company if required by applicable law or regulation, may withhold taxes from payments under the Loan Documents at the applicable rate in the case of payments to or for any Bank organized under the laws of a jurisdiction outside the United States, PROVIDED the Company shall, unless otherwise directed in writing by the Agent or unless otherwise required by law, make all payments in full to the Agent without deducting any withholding or similar taxes.

### ARTICLE III LETTERS OF CREDIT

SECTION 3.01. LETTERS OF CREDIT. (a) Subject to and upon the terms and conditions herein set forth, the Issuing Bank agrees that it will, at any time and from time to time on or after the Credit Agreement Effective Date and prior to the Maturity Date, following its receipt of a Letter of Credit Request and Application for Letter of Credit, issue for the account of the Company and in support of the obligations of the Company or any of its Subsidiaries, one or more letters of credit (the "LETTERS OF CREDIT"), up to a maximum amount outstanding at any one time for all Letters of Credit of \$5,000,000.00, PROVIDED that the Issuing Bank shall not issue any Letter of Credit if at the time of such issuance: (i) Letter of Credit Obligations shall be greater than an amount which, when added to the sum of all Advances then outstanding plus Letter of Credit Obligations, would exceed the Total Commitment or (ii) the expiry date or, in the case of any Letter of Credit containing an expiry date that is extendible at the option of the Issuing Bank, the initial expiry date, of such Letter of Credit is a date that is later than the Maturity Date.

(b) The Issuing Bank shall neither renew or extend nor permit the renewal or extension of any Letter of Credit (which renewal or extension will not be for any period ending after the Revolving Credit Maturity Date) if any of the conditions precedent to such renewal set forth in SECTION 5.02 are not satisfied or waived or, after giving effect to such renewal, the expiry date of such Letter of Credit would be a date that is later than the Maturity Date.

SECTION 3.02. LETTER OF CREDIT REQUESTS. (a) Whenever the Company desires that a Letter of Credit be issued for its account or that the existing expiry date shall be extended, it shall give the Issuing Bank (with copies to be sent to the Agent and each Bank) (i) in the case of a Letter of Credit to be issued, at least five (5) Business Days' prior written request therefor and (ii) in the case of the extension of the existing expiry date of any Letter of Credit, at least five (5) Business Days prior to the date on which the Issuing Bank must notify the beneficiary thereof that the Issuing Bank does not intend to extend such existing expiry date. Each such request shall be executed by the Company and shall be in the form of EXHIBIT 3.02 attached hereto (each a "LETTER OF CREDIT REQUEST") and shall be accompanied by an Application for Letter of Credit therefor, completed to the reasonable satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank or the Agent may reasonably request. Each Letter of Credit shall be denominated in U.S. dollars, shall expire no later than the date specified in SECTION 3.01, shall not be in an amount greater than is permitted under clause (i) of SECTION 3.01(A) and shall be in such form as may be reasonably approved from time to time by the Issuing Bank and the Company.

(b) The making of each Letter of Credit Request shall be deemed to be a representation and warranty by the Company that such Letter of Credit may be issued in accordance with, and will not violate the requirements of this Agreement. Unless the Issuing Bank has received notice from any Bank before it issues the respective Letter of Credit or extends the existing expiry date of a Letter of Credit that one or more of the conditions specified in ARTICLE V are not then satisfied, or that the issuance of such Letter of Credit would violate this Agreement, then the Issuing Bank shall issue the requested Letter of Credit for the account of the Company in accordance with the Issuing Bank's usual and customary practices. Upon its issuance of any Letter of Credit or the extension of the existing expiry date of any Letter of Credit, as the case may be, the Issuing Bank shall promptly notify the Company and the Agent and the Agent shall notify each Bank of such issuance or extension, which notices shall be accompanied by a copy of the Letter of Credit actually issued or a copy of any amendment extending the existing expiry date of any Letter of Credit, as the case may be.

SECTION 3.03. LETTER OF CREDIT PARTICIPATIONS. (a) All Letters of Credit issued subsequent hereto shall be deemed to have been sold and transferred by the Issuing Bank to each Bank, and each Bank shall be deemed irrevocably and unconditionally to have purchased and received from the Issuing Bank, without recourse or warranty, an undivided interest and participation, (to the extent of such Bank's percentage participation in the Commitment) in each such Letter of Credit (including extensions of the expiry date thereof), each substitute Letter of Credit, each drawing made thereunder and the obligations of the Company under this Agreement and the other Loan Documents with respect thereto, and any security therefor or guaranty pertaining thereto.

(b) In determining whether to pay under any Letter of Credit, the Issuing Bank shall have no obligation relative to the Banks other than to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and that they appear to comply on their face with the requirements of such Letter of Credit.

(c) In the event that the Issuing Bank makes any payment under any Letter of Credit, the same shall be considered an Alternate Base Rate Advance without further action by any Person. The Issuing Bank shall promptly notify the Agent, which shall promptly notify each Bank thereof. Each Bank shall immediately pay to the Agent for the account of the Issuing Bank the amount of such Lender's percentage participation of such Advance. If any Bank shall not have so made its percentage participation available to the Agent, such Lender agrees to pay interest thereon, for each day from such date until the date such amount is paid at the lesser of (i) the Federal Funds Effective Rate and (ii) the Highest Lawful Rate.

(d) The Issuing Bank shall not be liable for, and the obligations of the Company and the Banks to make payments to the Agent for the account of the Issuing Bank with respect to Letters of Credit shall not be subject to, any qualification or exception whatsoever, including any of the following circumstances:

(i) any lack of validity or enforceability of this Agreement or any of the other Loan Documents;

(ii) the existence of any claim, setoff, defense or other right which the Company may have at any time against a beneficiary named in a Letter of Credit, any transferee of any Letter of Credit, the Agent, any Issuing Bank, any Bank, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transaction between the Company and the beneficiary named in any such Letter of Credit);

(iii) any draft, certificate or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(iv) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents; or

(v) the occurrence of any Default or Event of Default.

(e) The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by such Issuing Bank's gross negligence or willful misconduct. IT IS THE EXPRESS INTENTION OF THE PARTIES HERETO THAT SUCH ISSUING BANK, ITS OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS (OTHER THAN WITH RESPECT TO ANY CLAIMS BY THE ISSUING BANK AGAINST ANY SUCH OFFICER, DIRECTOR, EMPLOYEE OR AGENT THEREOF) SHALL BE INDEMNIFIED AND HELD HARMLESS FROM, SUBJECT TO THE SAME TYPE OF PROTECTIONS SET FORTH IN SECTION 11.05(B), ANY ACTION TAKEN OR OMITTED BY SUCH PERSON UNDER OR IN CONNECTION WITH ANY LETTER OF CREDIT OR ANY RELATED DRAFT OR DOCUMENT ARISING OUT OF OR RESULTING FROM SUCH PERSON'S SOLE OR CONTRIBUTORY NEGLIGENCE, BUT NOT FROM THE GROSS NEGLIGENCE OR WILLFUL

MISCONDUCT OF SUCH PERSON. The Company agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit or the related drafts or documents, if done in accordance with the standards of care specified in the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce, Publication No. 500 (and any subsequent revisions thereof approved by a Congress of the International Chamber of Commerce and adhered to by the Issuing Bank) and, to the extent not inconsistent therewith, the Uniform Commercial Code of the State of Texas, shall not result in any liability of the Issuing Bank to the Company.

SECTION 3.04. INCREASED COSTS. (a) Notwithstanding any other provision herein, but subject to SECTION 12.08, if any Bank shall have determined in good faith that any change after the Credit Agreement Effective Date of any law, rule, regulation or guideline or the application or effectiveness of any applicable law or regulation or any change after the Credit Agreement Effective Date in the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) with any applicable guideline or request from any central bank or governmental authority (whether or not having the force of law) issued after the Credit Agreement Effective Date either (i) shall impose, modify or make applicable any reserve, deposit, capital adequacy or similar requirement against Letters of Credit issued, or participated in, by any Bank or (ii) shall impose on any Bank any other conditions affecting this Agreement or any Letter of Credit; and the result of any of the foregoing is to increase the cost to any Bank of issuing, maintaining or participating in any Letter of Credit, or reduce the amount received or receivable by any Bank hereunder with respect to Letters of Credit, by an amount deemed by such Lender to be material, then, from time to time, the Company shall pay to the Agent for the account of such Lender such additional amount or amounts as will reasonably compensate such Lender for such increased cost or reduction by such Lender.

(b) Each Bank will notify the Company through the Agent of any event occurring after the date of this Agreement which will entitle such Bank to compensation pursuant to subsection (a) above, as promptly as practicable. A certificate of such Lender (i) stating that the compensation sought to be recovered pursuant to this SECTION 3.04 is generally being charged to other similarly situated customers and (ii) setting forth in reasonable detail such amount or amounts as shall be necessary to compensate such Bank as specified in subsection (a) above may be delivered to the Company (with a copy to the Agent) and shall be conclusive absent manifest error. The Company shall pay to the Agent for the account of such Bank the amount shown as due on any such certificate upon demand; PROVIDED that with respect to events occurring prior to any notice given under this SECTION 3.04(B), such Bank shall only be entitled to recover compensation for such events occurring over a period of 120 days.

(c) Except as expressly provided in SECTION 3.04(B), failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any Letter of Credit shall not constitute a waiver of such Bank's rights to demand compensation for any increased costs or reduction in amounts received or receivables or reduction in return on capital with respect to such Letter of Credit.

SECTION 3.05. CONFLICT BETWEEN APPLICATIONS AND AGREEMENT. To the extent that any provision of any application related to any Letter of Credit is inconsistent with the provisions of this Agreement, the provisions of this Agreement shall control.

ARTICLE IV  
FEES

SECTION 4.01. FEES. Subject to SECTION 12.08 hereof, the Company agrees to pay the following fees (the "FEES"):

(a) The Company agrees to pay to the Agent for the ratable account of the Banks a Commitment fee (the "COMMITMENT FEE") for the period from and including the Credit Agreement Effective Date to the Maturity Date, respectively, computed at a rate per annum determined by the grid set forth below and calculated on the basis of a 360 day-year on the daily average of the Unutilized Commitment of each Bank. The rate for the Commitment Fee shall be adjusted on the first day of each Margin Period. Commitment Fees shall be due and payable in arrears on each Designated Payment Date commencing on the first such date following the Credit Agreement Effective Date and on the Maturity Date.

FUNDED DEBT/ EBITDA RATIO	COMMITMENT FEE
less than 1.00	12.5 basis points
greater than or equal to 1 but less than 1.50	25.0 basis points
greater than or equal to 1.50 but less than 2.00	25.0 basis points
greater than or equal to 2.00 but less than 2.50	37.5 basis points

(b) The Letter of Credit Fees shall be due and payable at the time the Issuing Bank is to issue or renew any Letter of Credit. The Letter of Credit Fee shall be adjusted, if applicable under the definition of "Letter of Credit Fee", on the first day of each Margin Period.

(c) The fees described in that one certain Fee Letter among the Company, the Agent, BOT and Bank One Capital Markets dated May 13, 1997 and executed by the Company on May 16, 1997.

ARTICLE V  
CONDITIONS PRECEDENT

SECTION 5.01. CONDITIONS PRECEDENT TO THE INITIAL ADVANCE. The obligation of each Bank to make its initial Advance to the Company is subject to the occurrence of or receipt by the Agent of the following, all in form and substance satisfactory to the Agent, and, where relevant, executed by all appropriate parties:

(a) this Agreement (which includes the Guaranty);

(b) one Note for each Bank;

(c) a Notice of Advance with respect to the initial Advance meeting the requirements of SECTION 2.03(A);

(d) a certificate of an officer and of the secretary or an assistant secretary of the Company dated as of the Credit Agreement Effective Date certifying, (i) true and complete copies of each of the articles or certificate of incorporation, as amended and in effect of the Company and each of the Guarantors, the bylaws, as amended and in effect, of the Company and each of the Guarantors and the resolutions adopted by the board of directors of the Company and each of the Guarantors (A) authorizing the execution, delivery and performance by the Company and each of its Subsidiaries of this Agreement and the other Loan Documents to which it is or will be a party and, in the case of the Company, the Advances to be made hereunder, (B) approving the forms of the Loan Documents to which it is or will be a party and which will be delivered at or prior to the date of the initial Advance and (C) authorizing officers of the Company and each of its Subsidiaries to execute and deliver the Loan Documents to which it is or will be a party and any related documents, including, any agreement contemplated by this Agreement, (ii) the incumbency and specimen signatures of the officers of the Company and each of its Subsidiaries executing any documents on its behalf and (iii) that there has been no change in the businesses or financial condition of the Company which could reasonably be expected to have a Material Adverse Effect since December 31, 1996.

(e) a favorable, signed opinion addressed to the Agent and the Banks from Bracewell & Patterson, L.L.P., counsel to the Company and the Guarantors dated as of the Credit Agreement Effective Date;

(f) the payment to the Agent and the Banks of all Fees owing on the Execution Date and all reasonable fees and expenses (including the reasonable fees and disbursements of Andrews & Kurth L.L.P.) agreed upon by such parties to be paid on the Execution Date;

(g) certificates of appropriate public officials as to the existence, good standing and qualification to do business as a foreign corporation, as applicable, of the Company and its Subsidiaries in each jurisdiction in which the ownership of its properties or the conduct of its

business requires such qualifications and where the failure to so qualify would have a Material Adverse Effect; and

(h) The consummation of the initial public offering of the stock of the Company pursuant to the S-1 Registration Statement filed with the Securities and Exchange Commission on March 26, 1997, as amended, at a minimum share price of \$8.00 per share with gross proceeds of at least \$48,800,000.

The acceptance of the benefits of the initial Credit Event shall constitute a representation and warranty by the Company to the Agent and each of the Banks that, all of the conditions specified in this Section above shall have been satisfied or waived as of that time.

SECTION 5.02. CONDITIONS PRECEDENT TO ALL CREDIT EVENTS. The obligation of the Banks to make any Advance is, including, without limitation, the initial Advance, subject to the further conditions precedent that on the date of such Credit Event:

(a) The representations and warranties set forth in ARTICLE VI shall be true and correct in all material respects as of, and as if such representations and warranties were made on, the date of the proposed Advance (unless such representation and warranty expressly relates to an earlier date or is no longer true and correct solely as a result of transactions permitted by the Loan Documents), and the Company shall be deemed to have certified to the Agent and the Banks that such representations and warranties are true and correct in all material respects by submitting a Notice of Advance.

(b) The Company shall have complied with the provisions of SECTION 2.03 hereof.

(c) No Default or Event of Default shall have occurred and be continuing or would result from such Credit Event.

(d) No Material Adverse Effect shall have occurred since the delivery of the most recent financial statements delivered pursuant to SECTION 7.01.

(e) The Agent shall have received such other approvals or documents as the Agent or the Banks may reasonably request.

The acceptance of the benefits of each such Credit Event shall constitute a representation and warranty by the Company to the Agent and each of the Banks that all of the conditions specified in this Section above exist as of that time.

SECTION 5.03. DELIVERY OF DOCUMENTS. All of the Notes, certificates, legal opinions and other documents and papers referred to in this ARTICLE V, unless otherwise specified,



shall be delivered to the Agent for the account of each of the Banks and, except for the Notes, in sufficient counterparts for each of the Banks and shall be reasonably satisfactory in form and substance to the Banks.

ARTICLE VI  
REPRESENTATIONS AND WARRANTIES

The Company, as to itself and each of its Subsidiaries, makes, on or as of the occurrence of each Credit Event (except to the extent such representations or warranties relate to an earlier date or are no longer true and correct in all material respects solely as a result of transactions not prohibited by the Loan Documents), the following representations and warranties to the Agent and the Banks:

SECTION 6.01. ORGANIZATION AND QUALIFICATION. Each of the Company and its Subsidiaries (a) is duly formed or organized, validly existing and is in good standing under the laws of the state of its organization, (b) has the power to own its property and to carry on its business as now conducted, except where the failure to do so would not have a Material Adverse Effect and (c) is duly qualified to do business and is in good standing in every jurisdiction in which the failure to be so qualified would have a Material Adverse Effect.

SECTION 6.02. AUTHORIZATION AND VALIDITY. Each of the Company and its Subsidiaries has the corporate power and authority to execute, deliver and perform its obligations hereunder and under the other Loan Documents to which it is a party and all such action has been duly authorized by all necessary corporate proceedings on its part. The Loan Documents to which each of the Company and its Subsidiaries is a party have been duly and validly executed and delivered by such Person and constitute a valid and legally binding agreement of such Person enforceable in accordance with the respective terms thereof, except, in each case, as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws relating to or affecting the enforcement of creditors' rights generally, and by general principles of equity regardless of whether such enforceability is a proceeding in equity or at law.

SECTION 6.03. GOVERNMENTAL CONSENTS. No authorization, consent, approval, license or exemption of or filing or registration with any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, is necessary for the valid execution, delivery or performance by the Company or any Subsidiary of any Loan Document.

SECTION 6.04. CONFLICTING OR ADVERSE AGREEMENTS OR RESTRICTIONS. Neither the Company nor any Subsidiary is a party to any contract or agreement or subject to any restriction which would reasonably be expected to have a Material Adverse Effect. All agreements of the Company relating to the lending of money or the issuance of letters of credit by any party in existence on the Credit Agreement Effective Date are described hereto on SCHEDULE 6.04. Neither

the execution nor delivery of the Loan Documents nor compliance with the terms and provisions hereof or thereof will be contrary to the provisions of, or constitute a default under (a) the charter or bylaws of the Company or any of its Subsidiaries or (b) any law, regulation, order, writ, injunction or decree of any court or governmental instrumentality that is applicable to the Company or any of its Subsidiaries or (c) any material agreement to which the Company or any of its Subsidiaries is a party or by which it is bound or to which it is subject.

SECTION 6.05. TITLE TO ASSETS. Each of the Company and its Subsidiaries has good title to all material personalty and good and indefeasible title to all material realty as reflected on the Company's and the Subsidiaries' books and records as being owned by them, except for properties disposed of in the ordinary course of business, subject to no Liens, except those permitted hereunder, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. All of such assets have been and are being maintained by the appropriate Person in good working condition in accordance with industry standards, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

SECTION 6.06. LITIGATION. No proceedings against or affecting the Company or any Subsidiary are pending or, to the knowledge of the Company, threatened before any court or governmental agency or department which involve a reasonable material risk of having a Material Adverse Effect except those listed on SCHEDULE 6.06 hereof.

SECTION 6.07. FINANCIAL STATEMENTS. Prior to the Credit Agreement Effective Date, the Company has furnished to the Banks its audited consolidated balance sheet, audited consolidated income statement and statement of cash flows for the twelve (12) months ended December 31, 1996 (such financials, the "FINANCIALS"). The Financials have been prepared in conformity with GAAP consistently applied (except as otherwise disclosed in such financial statements) throughout the periods involved and present fairly, in all material respects, the consolidated financial condition of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations for the periods then ended. As of the Credit Agreement Effective Date, no Material Adverse Effect has occurred since December 31, 1996.

SECTION 6.08. DEFAULT. Neither the Company nor any Subsidiary is in default under any material provisions of any instrument evidencing any Indebtedness or of any agreement relating thereto, or in default in any respect under any order, writ, injunction or decree of any court, or in default in any respect under or in violation of any order, injunction or decree of any governmental instrumentality, in each case in such manner as to cause a Material Adverse Effect.

SECTION 6.09. INVESTMENT COMPANY ACT. Neither the Company nor any Subsidiary is, or is directly or indirectly controlled by or acting on behalf of any Person which is, an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

SECTION 6.10. PUBLIC UTILITY HOLDING COMPANY ACT. Neither the Company nor any Subsidiary is a non-exempt "holding company," or subject to regulation as such, or, to the knowledge of the Company's or such Subsidiary's officers, an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

SECTION 6.11. ERISA. No accumulated funding deficiency (as defined in Section 412 of the Code or Section 302 of ERISA), that would cause a Material Adverse Effect whether or not waived, exists or is expected to be incurred with respect to any Plan. No liability to the PBGC (other than required premium payments) has been or is expected by the Company to be incurred with respect to any Plan by the Company or any ERISA Affiliate that would cause a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any withdrawal liability under Title IV of ERISA with respect to any Multi-Employer Plans.

SECTION 6.12. TAX RETURNS AND PAYMENTS. Each of the Company and its Subsidiaries has filed all federal income tax returns and other tax returns, statements and reports (or obtained extensions with respect thereto) which are required to be filed and has paid or deposited or made adequate provision, in accordance with GAAP for the payment of all taxes (including estimated taxes shown on such returns, statements and reports) which are shown to be due pursuant to such returns, except for such taxes as are being contested in good faith and by appropriate proceedings.

SECTION 6.13. ENVIRONMENTAL MATTERS. Each of the Company and its Subsidiaries (a) possesses all environmental, health and safety licenses, permits, authorizations, registrations, approvals and similar rights necessary under law or otherwise for the Company or such Subsidiary to conduct its operations as now being conducted (other than those with respect to which the failure to possess or maintain would not, individually or in the aggregate for the Company and such Subsidiaries, reasonably be expected to have a Material Adverse Effect) and (b) each of such licenses, permits, authorizations, registrations, approvals and similar rights is valid and subsisting, in full force and effect and enforceable by the Company or such Subsidiary, and each of the Company and its Subsidiaries is in compliance with all effective terms, conditions or other provisions of such permits, authorizations, registrations, approvals and similar rights except for such failure or noncompliance that, individually or in the aggregate for the Company and such Subsidiaries, would not reasonably be expected to have a Material Adverse Effect. Except as disclosed on SCHEDULE 6.13 on the Credit Agreement Effective Date, neither the Company nor any of its Subsidiaries has received any notices of any violation of, noncompliance with, or remedial obligation under, Requirements of Environmental Laws (which violation or non-compliance has not been cured), and there are no writs, injunctions, decrees, orders or judgments outstanding, or lawsuits, claims, proceedings, investigations or inquiries pending or, to the knowledge of the Company or any Subsidiary, threatened, relating to the ownership, use, condition, maintenance or operation of, or conduct of business related to, any property owned, leased or operated by the Company or such Subsidiary or other assets of the Company or such Subsidiary, other than those violations, instances of noncompliance, obligations, writs, injunctions, decrees, orders, judgments,

lawsuits, claims, proceedings, investigations or inquiries that, individually or in the aggregate for the Company and such Subsidiaries, would not have a Material Adverse Effect. Except as disclosed on SCHEDULE 6.13, there are no material obligations, undertakings or liabilities arising out of or relating to Environmental Laws to which the Company or any of its Subsidiaries has agreed, assumed or retained, or by which the Company or any of its Subsidiaries is adversely affected, by contract or otherwise and, further, except as disclosed on SCHEDULE 6.13, neither the Company nor any of its Subsidiaries has received a written notice or claim to the effect that the Company or any of its Subsidiaries is or may be liable to any other Person as the result of a Release or threatened Release of a Hazardous Material which, in either case, could reasonably be expected to have a Material Adverse Effect.

SECTION 6.14. PURPOSE OF LOANS. (a) The proceeds of the Loan will be used solely for general corporate purposes, including working capital and to finance acquisitions permitted hereunder.

(b) None of the proceeds of any Advance will be used directly or indirectly for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin stock.

SECTION 6.15. FRANCHISES AND OTHER RIGHTS. The Company and each of its Subsidiaries has all franchises, permits, licenses and other authority as are necessary to enable them to carry on their respective businesses as now being conducted and is not in default in respect thereof where the absence of such or any such default could reasonably be expected to have a Material Adverse Effect.

SECTION 6.16. SUBSIDIARIES AND ASSETS. The Subsidiaries listed on SCHEDULE 6.16 are all of the Subsidiaries of the Company as of the Credit Agreement Effective Date and the address given for such Guarantors is the correct mailing address as of the Credit Agreement Effective Date.

SECTION 6.17. SOLVENCY. After giving effect to the initial Advance hereunder and all other Indebtedness of the Company existing at the time of such Advance, the Company and its Subsidiaries, viewed as a consolidated entity have at such time (a) capital sufficient to carry on their businesses and transactions and (b) assets, the fair market value of which exceeds their consolidated liabilities (as reflected on the Financials or on the financial statements most recently delivered to the Banks).

SECTION 6.18. PAYMENT OF CERTAIN INDEBTEDNESS. The Company has (a) repaid in full all of the Indebtedness described on Schedule 8.03(b)(ii) and (b) obtained, and where applicable recorded in all appropriate locations, releases of liens for all real and personal property securing same.

ARTICLE VII  
AFFIRMATIVE COVENANTS

The Company, as to itself and each of its Subsidiaries, covenants and agrees that on and after the date hereof and for so long as this Agreement is in effect and until the Notes have been paid in full and the Commitments have terminated:

SECTION 7.01. INFORMATION COVENANTS. The Company will furnish to each Bank:

(a) As soon as available, and in any event within forty-five (45) days after the close of each fiscal quarter, the consolidated and consolidating balance sheet of the Company and its Subsidiaries as of the end of such period and the related consolidated and consolidating statements of income and cash flow for such period, setting forth, in each case, comparative consolidated figures for the related periods in the prior fiscal year, all of which shall be certified by the chief financial officer or chief executive officer of the Company as fairly presenting in all material respects, the financial position of the Company and its Subsidiaries as of the end of such period and the results of their operations for the period then ended in accordance with GAAP, subject to changes resulting from normal year-end audit adjustments.

(b) As soon as available, and in any event within one hundred twenty (120) days after the close of each fiscal year of the Company, the audited consolidated and the unaudited consolidating balance sheets of the Company and its Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income, stockholders equity and cash flows for such fiscal year, setting forth, in each case, comparative figures for the preceding fiscal year and certified by Arthur Andersen or other independent certified public accountants of recognized national standing, whose report shall be without limitation as to the scope of the audit and reasonably satisfactory in substance to the Banks.

(c) Promptly after any Responsible Officer of the Company obtains knowledge thereof, notice of:

(i) any material violation of, noncompliance with, or remedial obligations under, Requirements of Environmental Laws that could cause a Material Adverse Effect;

(ii) any Release or threatened material Release of Hazardous Materials affecting any property owned, leased or operated by the Company or any of its Subsidiaries that could cause a Material Adverse Effect;

(iii) any event or condition which constitutes a Default or an Event of Default;

(iv) any condition or event which, in the opinion of management of the Company, would reasonably be expected to have a Material Adverse Effect;

(v) any Person having given any written notice to the Company or taken any other action with respect to a claimed material default or event under any material instrument or material agreement;

(vi) the institution of any litigation which might reasonably be expected in the good faith judgment of the Company either to have a Material Adverse Effect or result in a final, non-appealable judgment or award in excess of \$1,000,000.00 with respect to any single cause of action; and

(vii) all ERISA notices required by SECTION 7.07;

such notice shall specify the nature and period of existence thereof and specifying the notice given or action taken by such Person and the nature of any such claimed default, event or condition and, in the case of an Event of Default or Default, what action has been taken, is being taken or is proposed to be taken with respect thereto.

(d) At the time of the delivery of the financial statements provided for in SECTIONS 7.01(A) and 7.01(B), a compliance certificate of a Responsible Officer in the form attached hereto as EXHIBIT 7.01(D) to the effect that, no Default or Event of Default exists or, if any Default or Event of Default does exist, specifying the nature and extent thereof and the action that is being taken or that is proposed to be taken with respect thereto, which certificate shall set forth the calculations required to establish whether the Company was in compliance with the provisions of SECTIONS 8.10 through 8.14 as at the end of such fiscal period or year, as the case may be.

(e) Promptly following request by the Agent such environmental reports, studies and audits of the Company's procedures and policies, assets and operations in respect of Environmental Laws as the Agent may reasonably request.

(f) Promptly upon receipt thereof, a copy of any report or letter submitted to the Company by its independent accountants in connection with any regular or special audit of the Company's records.

(g) From time to time and with reasonable promptness, such other information or documents as the Agent or any Bank through the Agent may reasonably request.

SECTION 7.02. BOOKS, RECORDS AND INSPECTIONS. The Company and its Subsidiaries will maintain, and will permit, or cause to be permitted, any Person designated by any Bank or the Banks to visit and inspect any of the properties of the Company and its Subsidiaries, to examine the corporate books and financial records of the Company and its Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any such corporations with the officers of the Company and its Subsidiaries and with their independent public accountants, all at such reasonable times and as often as the Agent or such Bank may reasonably request. Such inspections shall be at the expense of the Bank or Banks requesting same unless there

is in existence a Default at the time of such request in which event such expense shall be at the expense of the Company.

SECTION 7.03. INSURANCE AND MAINTENANCE OF PROPERTIES. (a) Each of the Company and its Subsidiaries will keep reasonably adequately insured by financially sound and reputable insurers all of its material property, which is of a character, and in amounts and against such risks, usually and reasonably insured by similar Persons engaged in the same or similar businesses, including, without limitation, insurance against fire, casualty and any other hazards normally insured against. Each of the Company and its Subsidiaries will at all times maintain insurance against its liability for injury to Persons or property, which insurance shall be by financially sound and reputable insurers and in such amounts and form as are customary for corporations of established reputation engaged in the same or a similar business and owning and operating similar properties. The Company shall provide the Agent a listing of all such insurance and such other certificates and other evidence thereof, on or prior to the Credit Agreement Effective Date hereof and annually thereafter.

(b) Each of the Company and its Subsidiaries will cause all of its material properties used or useful in the conduct of its business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all reasonably necessary repairs, renewals and replacements thereof, all as in the reasonable judgment of such Person may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, except where such failure could not reasonably be expected to have a Material Adverse Effect.

SECTION 7.04. PAYMENT OF TAXES. Each of the Company and its Subsidiaries will pay and discharge all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, except for such amounts that are being contested in good faith and by appropriate proceedings, except where such failure could not reasonably be expected to have a Material Adverse Effect.

SECTION 7.05. CORPORATE EXISTENCE. Each of the Company and its Subsidiaries will do all things necessary to preserve and keep in full force and effect (a) the existence of the Company, and (b) unless the failure to do so would not reasonably be expected to have a Material Adverse Effect, the rights and franchises of each of the Company and its Subsidiaries.

SECTION 7.06. COMPLIANCE WITH STATUTES. Each of the Company and its Subsidiaries will comply with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property, except to the extent the failure to do so would not reasonably be expected to have a Material Adverse Effect.

SECTION 7.07. ERISA. Promptly after any Responsible Officer of the Company or any of its Subsidiaries knows or has reason to know any of the following items are true the Company will deliver or cause to be delivered to the Banks a certificate of the chief financial officer of the Company setting forth details as to such occurrence and such action, if any, the Company or its ERISA Affiliate is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Company or its ERISA Affiliate with respect thereto: that a Reportable Event has occurred or that an application may be or has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard; that a Multiemployer Plan has been or may be terminated, reorganized, partitioned or declared insolvent under Title IV of ERISA; that any required contribution to a Plan or Multiemployer Plan has not been or may not be timely made; that proceedings may be or have been instituted under Section 4069(a) of ERISA to impose liability on the Company or an ERISA Affiliate or under Section 4042 of ERISA to terminate a Plan or appoint a trustee to administer a Plan; that the Company or any ERISA Affiliate has incurred or may incur any liability (including any contingent or secondary liability) on account of the termination of or withdrawal from a Plan or a Multiemployer Plan; and that the Company or an ERISA Affiliate may be required to provide security to a Plan under Section 401(a)(29) of the Code.

SECTION 7.08. ADDITIONAL SUBSIDIARIES. The Company will cause any Person that becomes a Subsidiary subsequent to the Credit Agreement Effective Date, within ten (10) Business Days after becoming a Subsidiary, to execute a Guaranty or a counterpart of this Agreement and deliver same to the Agent, PROVIDED if said Subsidiary is not incorporated under the laws of the United States or one of its states or territories, no such guaranty will be required if the Company makes arrangements, satisfactory to the Agent, in its sole discretion, regarding restrictions on transfer of funds or other assets by the Company or any Subsidiary to said new foreign Subsidiary.

#### ARTICLE VIII NEGATIVE COVENANTS

The Company covenants and agrees, as to itself and, except as otherwise provided herein, each of its Subsidiaries, that on and after the date hereof and for so long as this Agreement is in effect and until the Commitments have terminated:

SECTION 8.01. CHANGE IN BUSINESS. The Company will not, and will not permit any of its Subsidiaries to, engage in any businesses not of the same general type or reasonably related thereto as those conducted by the Company on the Credit Agreement Effective Date.

SECTION 8.02. CONSOLIDATION, MERGER OR SALE OF ASSETS. Except as previously disclosed to the Agent, the Company will not, and will not permit any of its Subsidiaries to, wind up, liquidate or dissolve their affairs, or enter into any transaction of merger or consolidation, or sell or otherwise dispose of all or any substantial part of their property or assets (other than sales of



inventory and surplus or obsolete assets in the ordinary course of business provided that any disposal does not prejudice the Banks in any way), including the capital stock of any Subsidiary, except for (a) mergers permitted under SECTION 8.05(D), (b) mergers by the Company with any of its wholly-owned Subsidiaries and mergers by the Company's wholly-owned Subsidiaries with another of the Company's wholly-owned Subsidiaries and (c) mergers by a wholly-owned Subsidiary of the Company with another Person in connection with an investment permitted under SECTION 8.05(D).

SECTION 8.03. INDEBTEDNESS. Neither the Company nor any Subsidiary of the Company will create, incur, assume or permit to exist any Indebtedness of the Company or any Subsidiary except:

(a) Indebtedness existing hereunder;

(b) Indebtedness existing on the Credit Agreement Effective Date and described in the Financials or, if not shown, listed on SCHEDULE 8.03(B)(I) and (II) (but subject to SECTION 7.09);

(c) Indebtedness arising as a result of the endorsement in the ordinary course of business of negotiable instruments in the course of collection;

(d) accounts payable and unsecured, current and long-term, liabilities (including accrued insurance related liabilities), not the result of indebtedness for borrowed money, to vendors, suppliers and other Persons for goods and services in the ordinary course of business;

(e) agreements to acquire any Person or assets issued by the Company or any of its Subsidiaries in anticipation of acquiring such Person or assets if such acquisition is not prohibited by this Agreement;

(f) intercompany Indebtedness of any Subsidiary of the Company to the Company or any other Subsidiary and Indebtedness of the Company to any Subsidiary of the Company provided that same is subordinate to the Obligations in the manner provided in SECTION 8.05 hereof;

(g) current and deferred taxes;

(h) Other Indebtedness not in excess of \$2,000,000.00 in the aggregate at any time outstanding;

(i) Subordinated Debt incurred by Borrower solely in connection with investments permitted by SECTION 8.05(D);

(j) Indebtedness assumed or acquired in connection with Investments permitted under SECTION 8.05(D); provided that all of such Indebtedness in excess of three percent (3%) of the

net book value of the assets acquired in any such Investment shall be retired within 60 days after the date of such Investment; and

(k) renewals and extensions with the same lenders (in the same or lesser principal amount on similar terms and conditions) of any Indebtedness listed in subparagraphs (a) through (i) above.

SECTION 8.04. LIENS. Neither the Company nor any Subsidiary of the Company will create, incur, assume or suffer to exist any Lien upon or with respect to any of its property or assets of any kind whether now owned or hereafter acquired (nor will they covenant with any other Person not to grant such a Lien to the Agent, except:

(a) Liens existing on the Credit Agreement Effective Date and listed on SCHEDULE 8.04(A);

(b) Liens securing currently secured Indebtedness permitted under SECTION 8.03(B) or (h) above;

(c) Permitted Liens;

(d) Liens securing Indebtedness permitted under SECTION 8.03(H) AND 8.03(J); and

(e) any renewal, extension or replacement of any Lien referred to above with the same lenders; PROVIDED, that no Lien arising or existing as a result of such extension, renewal or replacement shall be extended to cover any property not theretofore subject to the Lien being extended, renewed or replaced and PROVIDED FURTHER that the principal amount of the Indebtedness secured thereby shall not exceed the principal amount of the Indebtedness so secured at the time of such extension, renewal or replacement.

SECTION 8.05. INVESTMENTS. Neither the Company nor any Subsidiary will, directly or indirectly, make or own any Investment in any Person, except:

(a) Permitted Investments;

(b) Investments owned on the Credit Agreement Effective Date as set forth on SCHEDULE 8.05(B), including Investments in the Subsidiaries, direct and indirect;

(c) Investments arising out of loans and advances for expenses, travel per diem and similar items in the ordinary course of business to officers, directors and employees and intercompany Indebtedness permitted by SECTION 8.03(F);

(d) Investments in the stock, warrants, stock appreciation rights, other securities and/or other assets of domestic entities engaged in the same general type of business as the Company

on the Credit Agreement Effective Date, (i) in which the Company or one of its wholly owned Subsidiaries is the surviving entity, (ii) at a time when no Default or Event of Default exists hereunder and (iii) the cash portion of the purchase price for any one such Investment does not exceed \$10,000,000.00;

(e) other Investments not exceeding \$500,000.00 in the aggregate at any one time outstanding;

(f) Investments in the form of stock buybacks allowed under SECTION 8.06; and

(g) Investments in capital stock of wholly-owned Subsidiaries of the Company.

SECTION 8.06. RESTRICTED PAYMENTS. The Company will not pay any dividends or redeem, retire, purchase or guaranty the value of or make any other acquisition, direct or indirect, of any shares of any class of stock of the Company, or of any warrants, rights or options to acquire any such shares, now or hereafter outstanding, except to the extent that the consideration therefor consists solely of shares of stock (including warrants, rights or options relating thereto) of the Company or is approved by the Majority Banks; PROVIDED, the Company may purchase the stock of departing officers and employees upon their departure in a maximum, aggregate amount not to exceed \$500,000.00 in the aggregate or such larger amount at the Agent's written consent.

SECTION 8.07. CHANGE IN ACCOUNTING. The Company will not and will not permit any Subsidiary to, change its method of accounting except for (a) changes permitted by GAAP in which the Company's auditors concur, (b) changes with respect to any Person or assets acquired by the Company to conform with the Company's policies and procedures and which are permitted by GAAP or (c) changes required by GAAP. The Company shall advise the Agent in writing promptly upon making any material change to the extent same is not disclosed in the financial statements required under SECTION 7.01 hereof. In the event of any such change, the Company, the Banks and the Agent agree to negotiate amendments to SECTIONS 8.10 through 8.14 hereof (and related definitions, if relevant) so as to equitably reflect such changes thereon with the intended result that the criteria for evaluating the financial condition of the Company and its Subsidiaries shall be substantially the same after such changes as before.

SECTION 8.08. CHANGE OF CERTAIN INDEBTEDNESS. The Company will not, and will not permit any of its Subsidiaries after the occurrence and during the continuance of any Event of Default to make any voluntary prepayments of principal or interest on any other of the Company's Indebtedness.

SECTION 8.09. TRANSACTIONS WITH AFFILIATES. The Company will not, directly or indirectly, engage in any transaction with any Affiliate, including the purchase, sale or exchange of assets or the rendering of any service, except in the ordinary course of business or pursuant to the reasonable requirements of its business and, in each case, upon terms that are no less favorable than those which might be obtained in an arm's-length transaction at the time from non-Affiliates.

SECTION 8.10. CURRENT RATIO. The Company will not permit the ratio of Current Assets to Current Liabilities to be less than 1.25 to 1.0.

SECTION 8.11. FUNDED DEBT TO EBITDA RATIO. The Company will not as of the last day of any fiscal quarter permit the ratio of its total Funded Debt on such day to EBITDA for the four (4) quarters then ended to be greater than 2.5 to 1.0 at any time during the term hereof.

SECTION 8.12. FUNDED DEBT TO CONSOLIDATED TANGIBLE NET WORTH RATIO. The Company will not permit as of the last day of any fiscal quarter the ratio of (a) its total Funded Debt minus investable cash and Permitted Investments on such day to (b) Consolidated Tangible Net Worth plus Subordinated Debt on such day, to be greater than 1.25 to 1.0 at any time during the term hereof.

SECTION 8.13. CAPITAL EXPENDITURES. The Company will not permit total consolidated capital expenditures (including Capitalized Lease Obligations but exclusive of Investments permitted under SECTION 8.05(D) to be greater than two percent (2%) of gross revenues for any fiscal year during the term hereof.

SECTION 8.14. INTEREST COVERAGE RATIO. The Company will not permit as of the last day of any fiscal quarter the ratio EBITDA less depreciation for the four (4) quarters ended on such day to required cash Interest Expense for such period to be less than 4.0 to 1. This interest coverage ratio shall be calculated on a year to date basis during the initial four quarter period during the term hereof and on a rolling four (4) quarter basis thereafter.

#### ARTICLE IX GUARANTY

SECTION 9.01. GUARANTY. In consideration of, and in order to induce the Banks to make the Loans and the Issuing Bank to issue Letters of Credit hereunder, the Guarantors hereby absolutely, unconditionally and irrevocably, jointly and severally, guarantee the punctual payment and performance when due, whether at stated maturity, by acceleration or otherwise, of the Obligations, and all other obligations and covenants of the Company now or hereafter existing under this Agreement, the Notes and the other Loan Documents whether for principal, interest (including interest accruing or becoming owing both prior to and subsequent to the commencement of any proceeding against or with respect to the Company under any chapter of the Bankruptcy Code), Fees, commissions, expenses (including reasonable attorneys' fees and expenses) or otherwise, and all reasonable costs and expenses, if any, incurred by the Agent or any Bank in connection with enforcing any rights under this Guaranty (all such obligations being the "GUARANTEED OBLIGATIONS"), and agree to pay any and all reasonable expenses incurred by each Bank and the Agent in enforcing this Guaranty; PROVIDED that notwithstanding anything contained herein or in any of the Loan Documents to the contrary, the maximum liability of each Guarantor hereunder and under the other Loan Documents shall in no event exceed such Guarantor's Maximum Guaranteed Amount,

PROVIDED FURTHER, each Guarantor shall be unconditionally required to pay all amounts demanded of it hereunder prior to any determination of such Maximum Guaranteed Amount and the recipient of such payment, if so required by a final non-appealable order of a court of competent jurisdiction, shall then be liable for the refund of any excess amounts. If any such rebate or refund is ever required, all other Guarantors (and the Company) shall be fully liable for the repayment thereof to the maximum extent allowed by applicable law. This Guaranty is an absolute, unconditional, present and continuing guaranty of payment and not of collectibility and is in no way conditioned upon any attempt to collect from the Company or any other action, occurrence or circumstance whatsoever. Each Guarantor agrees that the Guaranteed Obligations may at any time and from time to time exceed the Maximum Guaranteed Amount of such Guarantor without impairing this Guaranty or affecting the rights and remedies of the Banks hereunder.

SECTION 9.02. CONTINUING GUARANTY. Each Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of this Agreement, the Notes and the other Loan Documents. Each Guarantor agrees that the Guaranteed Obligations and Loan Documents may be extended or renewed, and Loans repaid and reborrowed in whole or in part, without notice to or assent by such Guarantor, and that it will remain bound upon this Guaranty notwithstanding any extension, renewal or other alteration of any Guaranteed Obligations or Loan Documents, or any repayment and reborrowing of Loans. To the maximum extent permitted by applicable law, the obligations of each Guarantor under this Guaranty shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms hereof under any circumstances whatsoever, including:

(a) any extension, renewal, modification, settlement, compromise, waiver or release in respect of any Guaranteed Obligations;

(b) any extension, renewal, amendment, modification, rescission, waiver or release in respect of any Loan Documents;

(c) any release, exchange, substitution, non-perfection or invalidity of, or failure to exercise rights or remedies with respect to, any direct or indirect security for any Guaranteed Obligations, including the release of any Guarantor or other Person liable on any Guaranteed Obligations;

(d) any change in the corporate existence, structure or ownership of the Company, any Guarantor, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Company, such Guarantor, any other Guarantor or any of their respective assets;

(e) the existence of any claim, defense, set-off or other rights or remedies which such Guarantor at any time may have against the Company, or the Company or such Guarantor may have at any time against the Agent, any Bank, any other Guarantor or any other Person, whether in connection with this Guaranty, the Loan Documents, the transactions contemplated thereby or any

other transaction other than by the payment in full by the Company of the Guaranteed Obligations after the termination of the Commitments of the Banks;

(f) any invalidity or unenforceability for any reason of this Agreement or other Loan Documents, or any provision of law purporting to prohibit the payment or performance by the Company, such Guarantor or any other Guarantor of the Guaranteed Obligations or Loan Documents, or of any other obligation to the Agent or any Bank; or

(g) any other circumstances or happening whatsoever, whether or not similar to any of the foregoing.

SECTION 9.03. EFFECT OF DEBTOR RELIEF LAWS. If after receipt of any payment of, or proceeds of any security applied (or intended to be applied) to the payment of all or any part of the Guaranteed Obligations, the Agent or any Bank is for any reason compelled to surrender or voluntarily surrenders such payment or proceeds to any Person (a) because such payment or application of proceeds is or may be avoided, invalidated, declared fraudulent, set aside, determined to be void or voidable as a preference, fraudulent conveyance, fraudulent transfer, impermissible set-off or a diversion of trust funds or (b) for any other similar reason, including (i) any judgment, decree or order of any court or administrative body having jurisdiction over the Agent, any Bank or any of their respective properties or (ii) any settlement or compromise of any such claim effected by the Agent or any Bank with any such claimant (including the Company), then the Guaranteed Obligations or part thereof intended to be satisfied shall be reinstated and continue, and this Guaranty shall continue in full force as if such payment or proceeds have not been received, notwithstanding any revocation thereof or the cancellation of any Note or any other instrument evidencing any Guaranteed Obligations or otherwise; and the Guarantors, jointly and severally, shall be liable to pay the Agent and the Banks, and hereby do indemnify the Agent and the Banks and hold them harmless for the amount of such payment or proceeds so surrendered and all expenses (including reasonable attorneys' fees, court costs and expenses attributable thereto) incurred by the Agent or any Bank in the defense of any claim made against it that any payment or proceeds received by the Agent or any Bank in respect of all or part of the Guaranteed Obligations must be surrendered. The provisions of this paragraph shall survive the termination of this Guaranty, and any satisfaction and discharge of the Company by virtue of any payment, court order or any federal or state law.

SECTION 9.04. WAIVER OF SUBROGATION. Notwithstanding any payment or payments made by any Guarantor hereunder, or any set-off or application by the Agent or any Bank of any security or of any credits or claims, no Guarantor will assert or exercise any rights of the Agent or any Bank or of such Guarantor against the Company to recover the amount of any payment made by such Guarantor to the Agent or any Bank hereunder by way of any claim, remedy or subrogation, reimbursement, exoneration, contribution, indemnity, participation or otherwise arising by contract, by statute, under common law or otherwise, and such Guarantor shall not have any right of recourse to or any claim against assets or property of the Company, in each case unless and until the Obligations of the Company guaranteed hereby have been fully and finally satisfied. Until such time, each Guarantor hereby expressly waives any right to exercise any claim, right or remedy which

such Guarantor may now have or hereafter acquire against the Company that arises under this Agreement or any other Loan Document or from the performance by any Guarantor of the Guaranty hereunder including any claim, remedy or right of subrogation, reimbursement, exoneration, contribution, indemnification or participation in any claim, right or remedy of the Agent or any Bank against the Company, or any security that the Agent or any Bank now has or hereafter acquires, whether or not such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise. If any amount shall be paid to a Guarantor by the Company or another Guarantor after payment in full of the Obligations, and the Obligations shall thereafter be reinstated in whole or in part and the Agent or any Bank forced to repay and sums received by any of them in payment of the Obligations, this Guaranty shall be automatically reinstated and such amount shall be held in trust for the benefit of the Agent and the Banks and shall forthwith be paid to the Agent to be credited and applied to the Guaranteed Obligations, whether matured or unmatured. The provisions of this paragraph shall survive the termination of this Guaranty, and any satisfaction and discharge of the Company by virtue of any payment, court order or any federal or state law.

SECTION 9.05. SUBORDINATION. If any Guarantor becomes the holder of any indebtedness payable by the Company or another Guarantor, each Guarantor hereby subordinates all indebtedness owing to it from the Company to all indebtedness of the Company to the Agent and the Banks, and agrees that during the continuance of any Event of Default it shall not accept any payment on the same until payment in full of the Obligations of the Company under this Agreement and the other Loan Documents after the termination of the Commitments of the Banks and shall in no circumstance whatsoever attempt to set-off or reduce any obligations hereunder because of such indebtedness. If any amount shall nevertheless be paid in violation of the foregoing to a Guarantor by the Company or another Guarantor prior to payment in full of the Guaranteed Obligations, such amount shall be held in trust for the benefit of the Agent and the Banks and shall forthwith be paid to the Agent to be credited and applied to the Guaranteed Obligations, whether matured or unmatured.

SECTION 9.06. WAIVER. Each Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Guaranty and waives presentment, demand of payment, notice of intent to accelerate, notice of dishonor or nonpayment and any requirement that the Agent or any Bank institute suit, collection proceedings or take any other action to collect the Guaranteed Obligations, including any requirement that the Agent or any Bank protect, secure, perfect or insure any Lien against any property subject thereto or exhaust any right or take any action against the Company or any other Person or any collateral (it being the intention of the Agent, the Banks and each Guarantor that this Guaranty is to be a guaranty of payment and not of collection). It shall not be necessary for the Agent or any Bank, in order to enforce any payment by any Guarantor hereunder, to institute suit or exhaust its rights and remedies against the Company, any other Guarantor or any other Person, including others liable to pay any Guaranteed Obligations, or to enforce its rights against any security ever given to secure payment thereof. Each Guarantor hereby expressly waives to the maximum extent permitted by applicable law each and every right to which it may be entitled by virtue of the suretyship laws of the State of Texas, including any and all rights it may have pursuant

to Rule 31, Texas Rules of Civil Procedure, Section 17.001 of the Texas Civil Practice and Remedies Code and Chapter 34 of the Texas Business and Commerce Code. Each Guarantor hereby waives marshaling of assets and liabilities, notice by the Agent or any Bank of any indebtedness or liability to which such Bank applies or may apply any amounts received by such Bank, and of the creation, advancement, increase, existence, extension, renewal, rearrangement or modification of the Guaranteed Obligations. Each Guarantor expressly waives, to the extent permitted by applicable law, the benefit of any and all laws providing for exemption of property from execution or for valuation and appraisal upon foreclosure.

SECTION 9.07. FULL FORCE AND EFFECT. This Guaranty is a continuing guaranty and shall remain in full force and effect until all of the Obligations of the Company under this Agreement and the other Loan Documents and all other amounts payable under this Guaranty have been paid in full (after the termination of the Commitments of the Banks). All rights, remedies and powers provided in this Guaranty may be exercised, and all waivers contained in this Guaranty may be enforced, only to the extent that the exercise or enforcement thereof does not violate any provisions of applicable law which may not be waived.

ARTICLE X  
EVENTS OF DEFAULT AND REMEDIES

SECTION 10.01. EVENTS OF DEFAULT. The following events shall constitute Events of Default ("EVENTS OF DEFAULT") hereunder:

(a) any installment of principal is not paid when due or any payment of interest or Fees is not paid on the date on which such payment is due and such failure continues for a period of five (5) days; or

(b) any representation or warranty made or deemed made by the Company or any Subsidiary herein or in any of the Loan Documents or other document, certificate or financial statement delivered in connection with this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made or deemed made or reaffirmed, as the case may be; or

(c) the Company shall fail to perform or observe or cause any Subsidiary to fail to perform or observe (i) any duty or covenant contained in ARTICLE VIII of this Agreement or (ii) any other duty or covenant contained elsewhere in this Agreement or in any of the Loan Documents and such failure continues for a period of thirty (30) days; or

(d) the Company or any Subsidiary shall (i) fail to make (whether as primary obligor or as guarantor or other surety) any principal payment of or interest or premium, if any, on any instrument of Indebtedness in excess of \$2,500,000 allowed hereunder outstanding beyond any period of grace provided with respect thereto or (ii) shall fail to duly observe, perform or comply



with any agreement with any Person or any term or condition of any instrument of Indebtedness in excess of \$2,500,000, if the effect of such failure is to cause, or to permit the holder or holders to cause, such obligations to become due prior to any stated maturity; or

(e) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Company or any Subsidiary, or of a substantial part of the property or assets of the Company or any Subsidiary, under Title 11 of the United States Code, as now or hereafter in effect, or any successor thereto (the "BANKRUPTCY CODE"), or any other federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or any Subsidiary or for a substantial part of the property or assets of the Company or any Subsidiary or (iii) the winding-up or liquidation of the Company or any Subsidiary; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered; or

(f) the Company or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under the Bankruptcy Code or any other federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in clause (e) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or any Subsidiary or for a substantial part of the property or assets of the Company or any Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, or admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing; or

(g) a judgment or order, which with other outstanding judgments and orders against the Company and its Subsidiaries equal or exceed \$500,000.00 in the aggregate (to the extent not covered by insurance as to which the respective insurer has acknowledged coverage), shall be entered against the Company or any Subsidiary and (i) within 30 days after entry thereof such judgment shall not have been paid or discharged or execution thereof stayed pending appeal or, within 30 days after the expiration of any such stay, such judgment shall not have been paid or discharged or (ii) any enforcement proceeding shall have been commenced (and not stayed) by any creditor or upon such judgment; or

(h) a Change of Control shall occur.

SECTION 10.02. PRIMARY REMEDIES. In any such event, and at any time after the occurrence of any of the above described events, the Agent, if directed by the Majority Banks, shall by written notice to the Company (a "NOTICE OF DEFAULT") take any or all of the following actions, PROVIDED that, if an Event of Default specified in SECTION 10.01(E) or SECTION 10.01(F) shall occur, the following shall occur automatically without the giving of any Notice of Default: (a) declare

the Commitments terminated, whereupon the Commitments shall forthwith terminate immediately and any Commitment Fee and any other owing and unpaid Fee shall forthwith become due and payable without any other notice of any kind; (b) declare the principal of and any accrued and unpaid interest in respect of all Advances, and all obligations owing hereunder, to be, whereupon the same shall become, forthwith due and payable without presentment, demand, notice of demand or of dishonor and non-payment, protest, notice of protest, notice of intent to accelerate, declaration or notice of acceleration or any other notice of any kind (except as herein expressly provided), all of which are hereby waived by the Company; (c) set off any assets or money of the Company or any Guarantor in its or any Bank's possession against the Obligations; and (d) exercise any rights or remedies under any document securing any of the Loan Documents or under any applicable state or federal law.

SECTION 10.03. OTHER REMEDIES. Upon the occurrence and during the continuance of any Event of Default, the Agent may proceed to protect and enforce its and the Banks' rights, either by suit in equity or by action at law or both, whether for the specific performance of any covenant or agreement contained in this Agreement or in any other Loan Document or in aid of the exercise of any power granted in this Agreement or in any other Loan Document; or may proceed to enforce the payment of all amounts owing to the Banks under the Loan Documents and any accrued and unpaid interest thereon in the manner set forth herein or therein; it being intended that no remedy conferred herein or in any of the other Loan Documents is to be exclusive of any other remedy, and each and every remedy contained herein or in any other Loan Document shall be cumulative and shall be in addition to every other remedy given hereunder and under the other Loan Documents or now or hereafter existing at law or in equity or by statute or otherwise.

ARTICLE XI  
THE AGENT

SECTION 11.01. AUTHORIZATION AND ACTION. Each Bank hereby irrevocably appoints and authorizes the Agent to act on its behalf and to exercise such powers under this Agreement and the other Loan Documents as are specifically delegated to or required of the Agent by the terms hereof, together with such powers as are reasonably incidental thereto. The Agent may perform any of its duties hereunder by or through its agents and employees. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of this Agreement or any other Loan Documents a fiduciary relationship in respect of any Bank; and nothing in this Agreement or any other Loan Document, expressed or implied, is intended to, or shall be so construed as to, impose upon the Agent any obligations in respect of this Agreement or any other Loan Document except as expressly set forth herein or therein. As to any matters not expressly provided for by this Agreement, the Notes or the other Loan Documents (including enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Banks, and such instructions shall be binding upon the Banks and all holders of Notes and the Obligations; PROVIDED, that the Agent shall

not be required to take any action which exposes the Agent to personal liability and shall not be required or entitled to take any action which is contrary to any of the Loan Documents or applicable law.

SECTION 11.02. AGENT'S RELIANCE. (a) Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Banks for any action taken or omitted to be taken by it or them under or in connection with this Agreement, the Notes or any of the other Loan Documents (i) with the consent or at the request of the Majority Banks or (ii) in the absence of its or their own gross negligence or willful misconduct, IT BEING THE EXPRESS INTENTION OF THE PARTIES HERETO THAT THE AGENT AND ITS DIRECTORS, OFFICERS, AGENTS AND EMPLOYEES SHALL HAVE NO LIABILITY TO THE BANKS FOR ACTIONS AND OMISSIONS UNDER THIS SECTION RESULTING FROM THEIR SOLE ORDINARY OR CONTRIBUTORY NEGLIGENCE.

(b) Without limitation of the generality of the foregoing, the Agent: (i) may treat the payee of each Note and the Obligations as the holder thereof until the Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to the Agent; (ii) may consult with legal counsel (including counsel for the Company), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations made in or in connection with this Agreement, any Note or any other Loan Document; (iv) except as otherwise expressly provided herein, shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement, any Note or any other Loan Document or to inspect the property (including the books and records) of the Company; (v) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, collectibility, genuineness, sufficiency or value of this Agreement, any Note, any other Loan Document or any other instrument or document furnished pursuant hereto or thereto; (vi) shall not be responsible to any Bank for the perfection or priority of any Lien securing the Obligations; and (vii) shall incur no liability under or in respect of this Agreement, any Note or any other Loan Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, telecopier or cable) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 11.03. AGENT AND AFFILIATES; BOT AND AFFILIATES. Without limiting the right of any other Bank to engage in any business transactions with the Company or any of its Affiliates, with respect to their Commitments, the Loans made by them and the Notes issued to them, BOT and each other Bank who may become the Agent shall have the same rights and powers under this Agreement and its Notes as any other Bank and may exercise the same as though it was not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include BOT and any such other Bank, in their individual capacities. BOT, each other Person who becomes the Agent and their respective Affiliates may be engaged in, or may hereafter engage in, one or more loan, letter of credit, leasing or other financing activity not the subject of this Agreement (collectively, the "OTHER FINANCINGS") with the Company, any Subsidiary or any of its Affiliates, or

may act as trustee on behalf of, or depository for, or otherwise engage in other business transactions with the Company, any Subsidiary or any of its Affiliates (all Other Financings and other such business transactions being collectively, the "OTHER ACTIVITIES") with no responsibility to account therefor to the Banks. Without limiting the rights and remedies of the Banks specifically set forth herein, no other Bank by virtue of being a Bank hereunder shall have any interest in (a) any Other Activities, (b) any present or future guaranty by or for the account of the Company not contemplated or included herein, (c) any present or future offset exercised by the Agent in respect of any such Other Activities, (d) any present or future property taken as security for any such Other Activities or (e) any property now or hereafter in the possession or control of the Agent which may be or become security for the Obligations of the Company hereunder and under the Notes by reason of the general description of indebtedness secured, or of property contained in any other agreements, documents or instruments related to such Other Activities; PROVIDED, HOWEVER, that if any payment in respect of such guaranties or such property or the proceeds thereof shall be applied to reduction of the Obligations evidenced hereunder and by the Notes, then each Bank shall be entitled to share in such application according to its pro rata portion of such Obligations.

SECTION 11.04. BANK CREDIT DECISION. Each Bank acknowledges and agrees that it has, independently and without reliance upon the Agent or any other Bank and based on the financial statements referred to in SECTION 7.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges and agrees that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

SECTION 11.05. AGENT'S INDEMNITY. (a) The Agent shall not be required to take any action hereunder or to prosecute or defend any suit in respect of this Agreement, the Notes or any other Loan Document unless indemnified to the Agent's satisfaction by the Banks against loss, cost, liability and expense. If any indemnity furnished to the Agent shall become impaired, it may call for additional indemnity and cease to do the acts indemnified against until such additional indemnity is given. In addition, the Banks agree to indemnify the Agent (to the extent not reimbursed by the Company), ratably according to the respective aggregate principal amounts of the Notes then held by each of them (or if no Notes are at the time outstanding, ratably according to the respective amounts of the Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent under this Agreement, the Notes and the other Loan Documents. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including reasonable counsel fees) incurred by the Agent in connection with the preparation, execution, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement, the Notes and the other Loan Documents to the extent that the Agent is not reimbursed for such expenses by the Company. The provisions of this Section shall

survive the termination of this Agreement, the payment of the Obligations and/or the assignment of any of the Notes.

(b) Notwithstanding the foregoing, no Bank shall be liable under this Section to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements due to the Agent resulting from the Agent's gross negligence or willful misconduct. EACH BANK AGREES, HOWEVER, THAT IT EXPRESSLY INTENDS, UNDER THIS SECTION, TO INDEMNIFY THE AGENT RATABLY AS AFORESAID FOR ALL SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES AND DISBURSEMENTS ARISING OUT OF OR RESULTING FROM THE AGENT'S SOLE ORDINARY OR CONTRIBUTORY NEGLIGENCE.

SECTION 11.06. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Banks and the Company and may be removed as Agent under this Agreement, the Notes and the other Loan Documents at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Banks, and shall have accepted such appointment, within 30 calendar days after the retiring Agent's giving of notice of resignation or the Majority Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be an Eligible Assignee. Upon the acceptance of any appointment as Agent hereunder and under the Notes and the other Loan Documents by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement, the Notes and the other Loan Documents. After any retiring Agent's resignation or removal as Agent hereunder and under the Notes and the other Loan Documents, the provisions of this ARTICLE XI shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement, the Notes and the other Loan Documents.

SECTION 11.07. NOTICE OF DEFAULT. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent shall have received notice from a Bank or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." If the Agent receives such notice, the Agent shall give notice thereof to the Banks; PROVIDED, HOWEVER, if such notice is received from a Bank, the Agent also shall give notice thereof to the Company. The Agent shall be entitled to take action or refrain from taking action with respect to such Default or Event of Default as provided in SECTION 10.01 and SECTION 10.02.

#### ARTICLE XII MISCELLANEOUS

SECTION 12.01. AMENDMENTS. No amendment or waiver of any provision of this Agreement, any Note or any other Loan Document, nor consent to any departure by the Company

herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the Company, as to amendments, and by the Majority Banks in all cases, and then, in any case, such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given PROVIDED, no such waiver or amendment shall be effective unless signed by all of the Banks if it attempts to: (a) change the definition of "COMMITMENT", "DESIGNATED PAYMENT DATE", "MAJORITY BANKS", "MARGIN" or "MATURITY DATE"; (b) modify or waive the requirements of this Section, SECTIONS 4.01(A), SECTION 4.01(B), or SECTION 10.01(A); (c) modify so as to increase the ratio set forth in SECTION 8.12 or waive the requirements of SECTION 8.12, in either case, for a second consecutive fiscal quarter of the Company; (d) release any Guarantor or (e) in any other manner change the repayment terms of the Loans, including required principal payments, the rate, amount or time of interest payments or the reimbursement obligations under any Letter of Credit.

SECTION 12.02. NOTICES. Except with respect to telephone notifications specifically permitted pursuant to ARTICLE II, all notices, consents, requests, approvals, demands and other communications provided for herein shall be in writing (including telecopy communications) and mailed, telecopied, sent by overnight courier or delivered:

(a) If to the Company and the Guarantors:

Comfort Systems USA, Inc.  
Three Riverway, Suite 200  
Houston, Texas 77056  
Telephone No.: (713) 830-9600  
Telecopy No: (713) 627-7176  
Attention: J. Gordon Beittenmiller

(b) If to the Agent:

Bank One, Texas, N.A.  
910 Travis, 7th Floor  
Houston, Texas 77002  
Telephone No.: (713) 751-3828  
Telecopy No: (713) 751-6199  
Attention: Mr. H. Gale Smith, Jr.

and to:

Andrews & Kurth L.L.P.  
4200 Texas Commerce Tower  
Houston, Texas 77002  
Telephone No.:(713) 220-4274  
Telecopy No.: (713) 220-4285  
Attention: Mr. Douglas J. Dillon

or, in the case of any party hereto, such other address or telecopy number as such party may hereafter specify for such purpose by notice to the other parties.

(c) If to any Bank, to the address shown on the signature page hereof or specified by such Bank (or the Agent on behalf of any Bank) to the Company.

All communications shall, when mailed, telecopied or delivered, be effective when mailed by certified mail, return receipt requested to any party at its address specified above, or telecopied to any party to the telecopy number set forth above, or delivered personally to any party at its address specified above; PROVIDED, that communications to the Agent pursuant to ARTICLE II shall not be effective until actually received by the Agent, and PROVIDED FURTHER that communications sent by telecopy after 5:00 p.m., Houston, Texas time, shall be effective on the next succeeding business day.

SECTION 12.03. NO WAIVER; REMEDIES. No failure on the part of any Bank or the Agent to exercise, and no delay in exercising, any right hereunder, under any Note or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, or any abandonment or discontinuance of any steps to enforce such right, preclude any other or further exercise thereof or the exercise of any other right. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances. The remedies herein are cumulative and not exclusive of any other remedies provided by law, at equity or in any other agreement.

SECTION 12.04. COSTS, EXPENSES AND TAXES. The Company agrees to pay on demand: (a) all reasonable out-of-pocket costs and expenses of the Agent in connection with the preparation, execution and delivery of this Agreement, the Notes, the other Loan Documents and the other documents to be delivered hereunder, including the reasonable fees and out-of-pocket expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under this Agreement, the Notes and the other Loan Documents, and any modification, supplement or waiver of any of the terms of this Agreement or any other Loan Document, (b) all reasonable costs and expenses of any Bank and any other holder of an interest in the Notes, and the Obligations of the Company hereunder and under the Loan Documents, including reasonable legal fees and expenses, in connection with the enforcement of this Agreement, the Notes and the other Loan Documents and (c) reasonable costs and expenses incurred in connection with

third party professional services required by the Agent such as appraisers, environmental consultants, accountants or similar Persons, PROVIDED THAT, prior to any Event of Default hereunder, the Agent will first obtain the consent of the Company to such expense, which consent shall not be unreasonably withheld. Without prejudice to the survival of any other obligations of the Company hereunder and under the Notes, the obligations of the Company under this Section shall survive the termination of this Agreement or the replacement of the Agent and each assignment of the Notes.

SECTION 12.05. INDEMNITY. (a) The Company shall and hereby does indemnify the Agent and each Bank and each Affiliate thereof and their respective directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims or damages (including reasonable legal fees and expenses) to which any of them may become subject, insofar as such losses, liabilities, claims or damages arise out of or result from any actual or proposed use by the Company of the proceeds of any extension of credit hereunder or any investigation, litigation or other proceeding (including any threatened investigation or proceeding) relating to the foregoing or any of the other Loan Documents, and the Company shall reimburse each Bank and each Affiliate thereof and their respective directors, officers, employees and agents, upon demand for any expenses (including legal fees) reasonably incurred in connection with any such investigation or proceeding; but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified (the "INDEMNIFIED OBLIGATIONS").

(B) WITHOUT LIMITING ANY PROVISION OF THIS AGREEMENT, IT IS THE EXPRESS INTENTION OF THE PARTIES HERETO THAT EACH PERSON TO BE INDEMNIFIED HEREUNDER SHALL BE INDEMNIFIED AND HELD HARMLESS AGAINST ANY AND ALL INDEMNIFIED OBLIGATIONS: (I) ARISING OUT OF OR RESULTING FROM THE ORDINARY SOLE OR CONTRIBUTORY NEGLIGENCE OF SUCH PERSON OR (II) IMPOSED UPON SAID PARTY UNDER ANY THEORY OF STRICT LIABILITY. Without prejudice to the survival of any other obligations of the Company hereunder and under the other Loan Documents, the obligations of the Company under this Section shall survive the termination of this Agreement and the other Loan Documents and the payment of the Obligations or the assignment of the Notes.

SECTION 12.06. RIGHT OF SETOFF. Without limiting the remedies provided for in ARTICLE X, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits held and other indebtedness owing by such Bank, or any branch, subsidiary or Affiliate, to or for the credit or the account of the Company against any and all the Obligations of the Company now or hereafter existing under this Agreement and the other Loan Documents and other obligations of the Company held by such Bank, irrespective of whether or not such Bank shall have made any demand under this Agreement, its Note or the Obligations and although the Obligations may be unmatured. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank may have.

SECTION 12.07. GOVERNING LAW. This Agreement, all Notes, the other Loan Documents and all other documents executed in connection herewith shall be deemed to be contracts



and agreements executed by the Company and each Bank under the laws of the State of Texas and of the United States of America and for all purposes shall be construed in accordance with, and governed by, the laws of said state and of the United States of America. Without limitation of the foregoing, nothing in this Agreement, or in the Notes or in any other Loan Document shall be deemed to constitute a waiver of any rights which any Bank may have under applicable federal legislation relating to the amount of interest which such Bank may contract for, take, receive or charge in respect of the Loan and the Loan Documents, including any right to take, receive, reserve and charge interest at the rate allowed by the law of the state where any Bank is located. The Agent, each Bank and the Company further agree that insofar as the provisions of Article 5069-1.04, of the Revised Civil Statutes of Texas, as amended, are applicable to the determination of the Highest Lawful Rate with respect to the Notes and the Obligations hereunder and under the other Loan Documents, the indicated rate ceiling of such Article shall be applicable; PROVIDED, HOWEVER, that to the extent permitted by such Article, the Agent may from time to time by notice to the Company revise the election of such interest rate ceiling as such ceiling affects the then current or future balances of the Loans. The provisions of Article 5069-15.01 ET SEQ. do not apply to this Agreement, any Note issued hereunder or the other Loan Documents.

SECTION 12.08. INTEREST. Each provision in this Agreement and each other Loan Document is expressly limited so that in no event whatsoever shall the amount paid, or otherwise agreed to be paid, to the Agent or any Bank, or charged, contracted for, reserved, taken or received by the Agent or any Bank, for the use, forbearance or detention of the money to be loaned under this Agreement or any Loan Document or otherwise (including any sums paid as required by any covenant or obligation contained herein or in any other Loan Document which is for the use, forbearance or detention of such money), exceed that amount of money which would cause the effective rate of interest to exceed the Highest Lawful Rate, and all amounts owed under this Agreement and each other Loan Document shall be held to be subject to reduction to the effect that such amounts so paid or agreed to be paid, charged, contracted for, reserved, taken or received which are for the use, forbearance or detention of money under this Agreement or such Loan Document shall in no event exceed that amount of money which would cause the effective rate of interest to exceed the Highest Lawful Rate. Anything in any Note or any other Loan Document to the contrary notwithstanding, the Company shall not be required to pay unearned interest on any Note and the Company shall not be required to pay interest on the Obligations at a rate in excess of the Highest Lawful Rate, and if the effective rate of interest which would otherwise be payable under such Note and such Loan Documents would exceed the Highest Lawful Rate, or if the holder of such Note shall receive any unearned interest or shall receive monies that are deemed to constitute interest which would increase the effective rate of interest payable by the Company under such Note and the other Loan Documents to a rate in excess of the Highest Lawful Rate, then (a) the amount of interest which would otherwise be payable by the Company shall be reduced to the amount allowed under applicable law and (b) any unearned interest paid by the Company or any interest paid by the Company in excess of the Highest Lawful Rate shall in the first instance be credited on the principal of the Obligations of the Company (or if all such Obligations shall have been paid in full, refunded to the Company). It is further agreed that, without limitation of the foregoing, all calculations of the rate of interest contracted for, reserved, taken, charged or received by any Bank under the Notes and

the Obligations and under the other Loan Documents are made for the purpose of determining whether such rate exceeds the Highest Lawful Rate, and shall be made, to the extent permitted by usury laws applicable to such Bank, by amortizing, prorating and spreading in equal parts during the period of the full stated term of the Notes and this Agreement all interest at any time contracted for, charged or received by such Bank in connection therewith. Furthermore, in the event that the maturity of any Note or other obligation is accelerated or in the event of any required or permitted prepayment, then such consideration that constitutes interest under applicable law may never include more than the maximum amount allowed by applicable law and excess interest, if any, provided for in this Agreement, any Note or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be refunded to the Company.

SECTION 12.09. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations, warranties and covenants contained herein or made in writing by the Company in connection herewith and the other Loan Documents shall survive the execution and delivery of this Agreement, the Notes and the other Loan Documents, the termination of the Commitments of the Banks and will bind and inure to the benefit of the respective successors and assigns of the parties hereto, whether so expressed or not, PROVIDED, that the Commitments of the Banks shall not inure to the benefit of any successor or assign of the Company.

SECTION 12.10. SUCCESSORS AND ASSIGNS; PARTICIPATIONS. (a) All covenants, promises and agreements by or on behalf of the Company or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective permitted successors and assigns. The Company may not assign or transfer any of its rights or obligations hereunder.

(b) Any of the Banks may assign to or sell participations to one or more banks of all or a portion of its rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitment, the Advances and the Obligations of the Company owing to it and the Notes); PROVIDED, that the participating banks or other entities shall be entitled to the cost protection provisions contained in Article II and SECTION 12.04 and the Company shall continue to deal solely and directly with the Agent in connection with its rights and obligations under this Agreement and the other Loan Documents. Except with respect to cost protections provided to a participant pursuant to this paragraph and the items listed in SECTION 12.01 hereof, no participant shall be a third party beneficiary of this Agreement nor shall it be entitled to enforce any rights provided to the Banks against the Company under this Agreement.

(c) A Bank may assign to any other Bank or Banks or to any Affiliate of a Bank and, with the prior written consent of the Company and the Agent (which consent shall not be unreasonably withheld), a Bank may assign to one or more other Eligible Assignees all or a portion of its interests, rights, and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitment and the same portion of the Loans and other Obligations of the Company at the time owing to it and the Note held by it); PROVIDED, HOWEVER, that (i) each such assignment shall be in a minimum principal amount of not less than \$5,000,000.00 all Types of Loans and shall be of a constant, and not a varying, percentage of all the assigning Bank's

Commitment, rights and obligations under this Agreement, (ii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance, an Assignment and Acceptance, substantially in the form of EXHIBIT 12.10(C) hereto, in form and substance satisfactory to the Agent (an "ASSIGNMENT AND ACCEPTANCE") and any Note subject to such assignment and (iii) no assignment shall be effective until receipt by the Agent of a reasonable service fee from the assignee in respect of said assignment equal to \$2,000.00. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date (unless otherwise agreed to by the assigning Bank, the Eligible Assignee thereunder and the Agent) shall be at least five Business Days after the execution thereof, (x) the Eligible Assignee thereunder shall be a party hereto and to the other Loan Documents and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and under the other Loan Documents and (y) the assignor Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement and the other Loan Documents (and, in the case of an Assignment and Acceptance covering all of the remaining portion of an assigning Bank's rights and obligations under this Agreement and the other Loan Documents, such Bank shall cease to be a party hereto).

(d) Notwithstanding any other provision herein, any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this section, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Company furnished to such Bank by or on behalf of the Company.

SECTION 12.11. CONFIDENTIALITY. Each Bank agrees to exercise its best efforts to keep any information delivered or made available by the Company to it which is clearly indicated to be confidential information, confidential from anyone other than Persons employed or retained by such Bank who are or are expected to become engaged in evaluating, approving, structuring or administering the Loans; PROVIDED that nothing herein shall prevent any Bank from disclosing such information (a) to any other Bank, (b) pursuant to subpoena or upon the order of any court or administrative agency, (c) upon the request or demand of any regulatory agency or authority having jurisdiction over such Bank, (d) which has been publicly disclosed, (e) to the extent reasonably required in connection with any litigation to which the Agent, any Bank, the Company or its respective Affiliates may be a party, (f) to the extent reasonably required in connection with the exercise of any remedy hereunder, (g) to such Bank's legal counsel and independent auditors and (h) to any actual or proposed participant or assignee of all or part of its rights hereunder which has agreed in writing to be bound by the provisions of this Section. Each Bank will promptly notify the Company of any information that it is required or requested to deliver pursuant to clause (b) or (c) of this Section and, if the Company is a party to any such litigation, clause (e) of this Section .

SECTION 12.12. PRO RATA TREATMENT. (a) Except as otherwise specifically permitted hereunder, each payment or prepayment of principal, if permitted under this Agreement, and each payment of interest with respect to an Advance shall be made pro rata among the Banks.

(b) Each Bank agrees that if, through the exercise of a right of banker's Lien, setoff or claim of any kind against the Company as a result of which the unpaid principal portion of the Notes and the Obligations held by it shall be proportionately less than the unpaid principal portion of the Notes and Obligations held by any other Bank, it shall be deemed to have simultaneously purchased from such other Bank a participation in the Notes and Obligations held by such other Bank, in the amount required to render such amounts proportional; PROVIDED, HOWEVER, that if any such purchase or purchases or adjustments shall be made pursuant to this Section and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustments restored without interest.

SECTION 12.13. SEPARABILITY. Should any clause, sentence, paragraph or Section of this Agreement be judicially declared to be invalid, unenforceable or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement, and the parties hereto agree that the part or parts of this Agreement so held to be invalid, unenforceable or void will be deemed to have been stricken herefrom and the remainder will have the same force and effectiveness as if such part or parts had never been included herein.

SECTION 12.14. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Any Subsidiary of the Company that executes this Agreement after the date of this Agreement shall, upon such execution, become a party hereto as a Guarantor.

SECTION 12.15. INTERPRETATION. (a) In this Agreement, unless a clear contrary intention appears:

(i) the singular number includes the plural number and VICE VERSA;

(ii) reference to any gender includes each other gender;

(iii) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision;

(iv) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually, PROVIDED that nothing in this clause is intended to authorize any assignment not otherwise permitted by this Agreement;

(v) except as expressly provided to the contrary herein, reference to any agreement, document or instrument (including this Agreement) means such agreement,

document or instrument as amended, supplemented or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof, and reference to any Note or other note includes any Note issued pursuant hereto in extension or renewal thereof and in substitution or replacement therefor;

(vi) unless the context indicates otherwise, reference to any Article, Section, Schedule or Exhibit means such Article or Section hereof or such Schedule or Exhibit hereto;

(vii) the words "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term;

(viii) with respect to the determination of any period of time, except as expressly provided to the contrary, the word "from" means "from and including" and the word "to" means "to but excluding"; and

(ix) reference to any law, rule or regulation means such as amended, modified, codified or reenacted, in whole or in part, and in effect from time to time.

(b) The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

(c) No provision of this Agreement shall be interpreted or construed against any Person solely because that Person or its legal representative drafted such provision.

(d) In the event of any conflict between the specific provisions of this Agreement and the provisions of any application pertaining to any Letter of Credit, the terms of this Agreement shall control.

SECTION 12.16. SUBMISSION TO JURISDICTION. (a) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS, IN HARRIS COUNTY OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF TEXAS AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE COMPANY AND EACH GUARANTOR HEREBY IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING. THE COMPANY AND EACH GUARANTOR FURTHER IRREVOCABLY CONSENT TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO IT AT ITS ADDRESS PROVIDED IN SECTION 12.02 AND WITH RESPECT TO ANY GUARANTOR, AT THE ADDRESS PROVIDED ON SCHEDULE 6.16 HERETO, SUCH SERVICE TO BECOME

EFFECTIVE THIRTY (30) DAYS AFTER SUCH MAILING. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE AGENT OR ANY BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE COMPANY IN ANY OTHER JURISDICTION.

(b) EACH OF THE COMPANY AND THE GUARANTORS HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT BROUGHT IN THE COURTS REFERRED TO IN CLAUSE (a) ABOVE AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

SECTION 12.17. WAIVER OF JURY TRIAL. EACH OF THE COMPANY AND EACH GUARANTOR HEREBY WAIVES, TO THE EXTENT PERMITTED BY

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APPLICABLE LAW, ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM OR RELATING TO ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT, AND AGREES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

SECTION 12.18. FINAL AGREEMENT OF THE PARTIES. THIS AGREEMENT (INCLUDING THE SCHEDULES AND EXHIBITS HERETO), THE NOTES AND THE OTHER LOAN DOCUMENTS CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(A) OF THE TEXAS BUSINESS AND COMMERCE CODE, AND REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

BORROWER:

COMFORT SYSTEMS USA, INC.

By: /s/ J. GORDON BEITTENMILLER  
J. Gordon Beittenmiller  
Chief Financial Officer

GUARANTORS:

ACCURATE AIR SYSTEMS, INC.  
ATLAS COMFORT SERVICES USA, INC.  
ATLAS AIR CONDITIONING COMPANY  
CONTRACT SERVICE, INC.  
EASTERN HEATING & COOLING, INC.  
EASTERN REFRIGERATION CO., INC.  
FREEWAY HEATING & AIR CONDITIONING,  
INC.  
LAWRENCE SERVICE, INC.  
QUALITY AIR HEATING & COOLING, INC.  
SEASONAIR, INC.  
S.M. LAWRENCE COMPANY, INC.  
STANDARD HEATING & AIR CONDITIONING  
COMPANY  
TECH HEATING AND AIR CONDITIONING, INC.  
TECH MECHANICAL, INC.  
TRI-CITY MECHANICAL, INC.  
WESTERN BUILDING SERVICES, INC.

By: /s/ J. GORDON BEITTENMILLER  
J. Gordon Beittenmiller  
Vice President



AMOUNT OF COMMITMENT:

AGENT/BANK:

\$30,000,000.00

BANK ONE, TEXAS, N.A.,  
as Agent and Individually, as a Bank

By:/s/H. GALE SMITH, JR.  
H. Gale Smith, Jr.  
Vice President

AMOUNT OF COMMITMENT:

AGENT/BANK:

\$25,000,000.00

THE FIRST NATIONAL BANK  
OF CHICAGO

By:/s/ JENNY A. GILPIN  
Jenny A. Gilpin  
Vice President

ADDRESS FOR NOTICE:

One First National Plaza  
Suite 0324  
Chicago, Illinois 60670

AMOUNT OF COMMITMENT:

\$20,000,000.00

AGENT/BANK:

NATIONAL CITY BANK OF COLUMBUS

By:/s/MICHAEL J. DURBIN  
Michael J. Durbin  
Assistant Vice President

ADDRESS FOR NOTICE:

155 East Broad Street  
Columbus, Ohio 43251-0034



## 1998 EMPLOYEE STOCK PURCHASE PLAN

(Effective January 1, 1998)

## ARTICLE I - BACKGROUND

## 1.1 ESTABLISHMENT OF THE PLAN.

Comfort Systems USA, Inc. (the "Company"), hereby establishes a stock purchase plan, effective January 1, 1998, to be known as the "1998 Employee Stock Purchase Plan" (the "Plan"), as set forth in this document. The Plan is intended to be a qualified employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended, and the regulations and rulings thereunder.

## 1.2 APPLICABILITY OF THE PLAN.

The provisions of this Plan are applicable only to certain individuals who, on or after January 1, 1998, are employees of the Company and its subsidiaries participating in the Plan.

## 1.3 PURPOSE.

The purpose of the Plan is to enhance the proprietary interest among the employees of the Company and its participating subsidiaries through ownership of Common Stock of the Company.

## ARTICLE II - DEFINITIONS

Whenever capitalized in this document, the following terms shall have the respective meanings set forth below.

## 2.1 ADMINISTRATOR.

Administrator shall mean the person or persons (who may be officers or employees of the Company) selected by the Committee to operate the Plan, perform day-to-day administration of the Plan, and maintain records of the Plan.

## 2.2 BOARD.

Board shall mean the Board of Directors of the Company.

1

## 2.3 CODE.

Code shall mean the Internal Revenue Code of 1986, as amended from time to time, and the regulations thereunder.

## 2.4 COMMITTEE.

Committee shall mean a committee which consists of members of the Board and which has been designated by the Board to have the general responsibility for the administration of the Plan. Members of the Committee shall not be eligible to participate in the Plan. Each member of the Committee shall not be eligible to participate in the Plan. Each member of the Committee shall be a "disinterested person" within the meaning of Section 16 of, and Rule 16b-3 under, the Securities Exchange Act of 1934. The Committee shall satisfy the requirements of Section 16 of the Securities Exchange Act of 1934, and all rules and regulations thereunder, regarding disinterested administration.

Subject to the express provisions of the Plan, the Committee shall have plenary authority in its sole and absolute discretion to interpret and construe any and all provisions of the Plan, to adopt rules and regulations for administering the Plan, and to make all other determinations necessary or advisable for administering the Plan. The Committee's determinations on the foregoing matters shall be conclusive and binding upon all persons.

## 2.5 COMMON STOCK.

Common Stock shall mean Common Stock, \$0.01 par value per share, of the Company.

## 2.6 COMPANY.

Company shall mean Comfort Systems USA, Inc.

## 2.7 COMPENSATION.

- (a) For purposes of this Plan, "Total Compensation" shall mean, for any Participant, for any period, the Participant's total compensation including fixed and variable components of base compensation and cash incentive compensation paid to the Participant for the respective period; but excluding car allowances, life insurance premiums, moving expenses, income from disqualifying dispositions of incentive stock options and other similar items.
- (b) Total Compensation shall include any amounts deferred by the Participant under a plan maintained by an Employer under Code Section 401(k) or amounts contributed by the Participant under a plan maintained by an Employer under Code Section 125.

2

2.8 DATE OF GRANT.

Date of Grant shall mean the first day of each Option Period.

2.9 EFFECTIVE DATE.

Effective Date shall mean January 1, 1998.

2.10 EMPLOYEE.

Employee shall mean an employee of an Employer.

2.11 EMPLOYER.

Employer shall mean the Company and any Subsidiary designated by the Committee as an employer participating in the Plan.

2.12 ENROLLMENT FORM.

Enrollment Form shall mean an Employee's authorization either in writing on a form approved by the Administrator or through telephonic communication approved by the Administrator that specifies the Employee's payroll deduction, and contains such other terms and provisions as may be required by the Administrator.

2.13 EXERCISE DATE.

Exercise Date shall mean the last day of each Option Period.

2.14 FAIR MARKET VALUE.

Fair Market Value of a share of Common Stock, as of any applicable date, shall mean --

- (a) if the Common Stock is not traded on the applicable date on a national stock exchange, the closing price for the Common Stock as reported on the New York Stock Exchange for that date or, if no closing price is so reported for that date, the closing price on the next preceding date for which a closing price was reported; or
- (b) if the Common Stock is traded on the applicable date on a national stock exchange, the closing price on such date of a share of Common Stock as traded on the largest stock exchange on which it is then traded or, if no shares were traded on such date, on the next preceding day on which shares were traded on such exchange, as reported by National Quotation Bureau, Inc., or other national quotation service.

If at any time shares of Common Stock are not traded on an exchange or in the over-the-counter market, Fair Market Value shall be the value determined by the Board or the Committee, taking into consideration those factors affecting or reflecting value which they deem appropriate.

2.15 OPTION.

Option shall mean a right to purchase Common Stock under the Plan.

2.16 OPTION PERIOD.

Option Period shall mean each six-month period beginning each January 1 and July 1.

2.17 OPTION PRICE.

Option Price shall mean the purchase price of Common Stock determined under Section 5.1.

2.18 PARTICIPANT.

Participant shall mean any Employee who meets the eligibility requirements of Section 3.1 and who has elected to participate in the Plan under Section 3.3 and who has an account balance under the Plan.

2.19 PLAN.

Plan shall mean the 1998 Employee Stock Purchase Plan, as amended and in effect from time to time.

2.20 REPORTING PERSON.

Reporting Person shall mean a Participant who, on the relevant date, is a director, executive officer or 10% shareholder of the Company as defined in Section 16(a) of the Securities Exchange Act of 1934, as amended.

2.21 SUBSIDIARY.

Subsidiary shall mean any present or future corporation that is a "subsidiary corporation" of the Company as defined in Code Section 424.

Except when otherwise indicated by the context, the definition of any term herein in the singular may also include the plural.

ARTICLE III - ELIGIBILITY AND PARTICIPATION

3.1 ELIGIBILITY.

Each Employee who is an Employee regularly scheduled to work at least twenty hours each week shall be eligible to participate in the Plan as of the later of:

- (a) the first Date of Grant following the Employee's last date of hire by an Employer; or
- (b) the Effective Date.

Notwithstanding the foregoing, no Employee shall be granted an Option for an Option Period if, immediately after the grant, the Employee would own stock, and/or hold outstanding options to purchase stock, possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary. For purposes of this section, the attribution rules of Code Section 424(d) shall apply in determining stock ownership of any Employee.

3.2 LEAVE OF ABSENCE.

For purposes of Section 3.1, an individual on a leave of absence from an Employer shall be deemed to be an Employee for all or such portion of such leave of absence as the Committee shall determine, with all such determinations to be made in a nondiscriminatory manner. Such individual's employment with the Employer shall be deemed to terminate in accordance with such determination by the Committee or in accordance with the rules adopted from time to time by the Committee for such purpose.

3.3 INITIAL PARTICIPATION.

An Employee eligible to participate in the Plan under Section 3.1 may submit an Enrollment Form to the Administrator for an Option Period. The Enrollment Form shall authorize a regular payroll deduction from the Employee's Total Compensation for the Option Period subject to the limits and procedures described in Article VI. A Participant's Enrollment Form authorizing a regular payroll deduction shall remain effective from Option Period to Option Period until amended or canceled under Section 6.3.

ARTICLE IV - STOCK AVAILABLE

4.1 IN GENERAL.

Subject to the adjustments in Sections 4.2 and 4.3, an aggregate of Three Hundred Thousand (300,000) shares of Common Stock shall be available for purchase by



Participants pursuant to the provisions of the Plan. These shares may be authorized and unissued shares or may be shares issued and subsequently acquired by the Company or an independent agent of the Company if the Company should choose to use one. If an Option under the Plan expires or terminates for any reason without having been exercised in whole or part, the shares subject to such Option that are not purchased shall again be available for subsequent Option grants under the Plan. If the total number of shares of Common Stock for which Options are exercised on any Exercise Date exceeds the maximum number of shares available for the Option Period, the Committee shall make a pro rata allocation of the shares available in as nearly a uniform manner as shall be practicable and as it shall determine to be equitable; and the balance of the cash credited to Participants' accounts shall be distributed to the Participants as soon as practicable.

#### 4.2 ADJUSTMENT IN EVENT OF CHANGES IN CAPITALIZATION.

In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capitalization, or other distribution with respect to holders of the Company's Common Stock other than normal cash dividends, an automatic adjustment shall be made in the number and kind of shares as to which outstanding Options or portions thereof then unexercised shall be exercisable and in the available shares set forth in Section 4.1, so that the proportionate interest of the Participants shall be maintained as before the occurrence of such event. This adjustment in outstanding Options shall be made without change in the total price applicable to the unexercised portion of such Options and with a corresponding adjustment in the Option Price per share.

#### 4.3 DISSOLUTION, LIQUIDATION OR MERGER.

Upon the dissolution or liquidation of the Company, or upon a reorganization, merger, or consolidation of the Company with one or more corporations in which the Company is not the surviving corporation, or upon a sale of substantially all of the property or stock of the Company to another corporation, the holder of each Option then outstanding under the Plan shall be entitled to receive at the next Exercise Date upon the exercise of such Option for each share as to which such Option shall be exercised, as nearly as reasonably may be determined, the cash, securities, or property that a holder of one share of the Common Stock was entitled to receive upon and at the time of such transaction. The Board shall take such steps in connection with these transactions as the Board deems necessary or appropriate to assure that the provisions of this section shall thereafter be applicable, as nearly as reasonably may be determined, in relation to the cash, securities, or property which the holder of the Option may thereafter be entitled to receive. In lieu of the foregoing, the Committee may terminate the Plan in accordance with Section 8.2.

ARTICLE V - OPTION PROVISIONS

5.1 OPTION PRICE.

The Option Price of a share of Common Stock purchased for a Participant pursuant to the exercise of an Option for the Option Period shall be set by the Committee at the lesser of:

- (a) Eighty-five percent of the Fair Market Value of a share of Common Stock on the Date of Grant; or
- (b) Eighty-five percent of the Fair Market Value of a share of Common Stock on the Exercise Date.

5.2 CALENDAR YEAR \$25,000 LIMIT.

Notwithstanding anything else contained herein, no Employee may be granted an Option which permits such Employee's rights to purchase Common Stock under this Plan and any other qualified employee stock purchase plan (within the meaning of Code Section 423) of the Company and its Subsidiaries to accrue at a rate which exceeds \$25,000 of Fair Market Value of such Common Stock for each calendar year in which an Option is outstanding at any time. For purposes of this section, Fair Market Value shall be determined as of the Date of Grant.

ARTICLE VI - PURCHASING COMMON STOCK

6.1 PARTICIPANT'S ACCOUNT.

The Administrator shall establish a book account in the name of each Participant. As discussed in Section 6.2 below, a Participant's payroll deductions shall be credited to the Participant's account, without interest, until such cash is withdrawn, distributed, or used to purchase Common Stock as described below.

All cash received or held by the Company under the Plan may be used by the Company for any corporate purpose. The Company shall not be obligated to segregate any assets held under the Plan.

As soon as practicable following each Exercise Date, the Company shall deliver to each Participant a stock certificate evidencing the Participant's shares of Common Stock acquired upon exercise of an Option on such Exercise Date. A Participant shall have all ownership rights as to the shares evidenced by such certificate from and after the relevant Exercise Date.

## 6.2 PAYROLL DEDUCTIONS

### (a) PAYROLL DEDUCTIONS.

By submitting an Enrollment Form before the beginning of any Option Period in accordance with rules adopted by the Committee, an Employee eligible to participate in the Plan under Section 3.1 may authorize a payroll deduction to purchase Common Stock under the Plan for the Option Period. The payroll deduction shall be in any whole percentage from two (2) to eight (8) percent of such Employee's Total Compensation payable each pay period, and at any other time an element of Total Compensation is payable. A Participant's payroll deduction, however, shall be at least ten dollars (\$10.00) each payroll period.

### (b) OPTION PERIOD \$2,000 LIMIT.

Notwithstanding anything else contained herein, no Employee may have more than \$2,000 deducted during any Option Period.

### (c) DURATION.

A Participant's Enrollment Form authorizing a regular payroll deduction shall remain effective, from Option Period to Option Period, until amended or canceled under Section 6.3.

## 6.3 DEDUCTION CHANGES AND DISCONTINUANCE.

A Participant may not increase his or her payroll deduction during an Option Period. A Participant may increase payroll deductions for a future Option Period by filing a new Enrollment Form in accordance with rules adopted by the Administrator.

A Participant may decrease, or completely discontinue, his or her payroll deductions by filing a new Enrollment Form with the Administrator. This decrease or discontinuance shall be effective on the first pay period commencing at least twenty days after receipt of the Enrollment Form by the Administrator.

If a Participant who is not a Reporting Person discontinues his or her payroll deductions during an Option Period, such Participant may not recommence participation in the Plan until the next Option Period. Any amount held in the Participant's account after the effective date of the discontinuance of his or her payroll deductions will either be refunded or used to purchase Common Stock in accordance with Section 7.1.

If a Participant who is a Reporting Person discontinues his or her payroll deductions during an Option Period, the Reporting Person may not recommence participation in the Plan until the next Option Period commencing at least six months after the effective date

of the discontinuance of his or her payroll deductions. Any amount held in the Reporting Person's account after such effective date of discontinuance shall be refunded to the Reporting Person as soon as practicable.

#### 6.4 LEAVE OF ABSENCE; TRANSFER TO INELIGIBLE STATUS.

If a Participant either begins a leave of absence, is transferred to employment with a Subsidiary not participating in the Plan, or remains employed with an Employer but is no longer customarily scheduled to work at least twenty hours each week, the Participant shall cease to be eligible for payroll deductions to his or her account pursuant to Section 6.2. The cash standing to the credit of the Participant's account shall become subject to the provisions of Section 7.1. However, any amount held in the account of a Reporting Person shall be refunded to the Reporting Person as soon as practicable.

If the Participant returns from the leave of absence before being deemed to have ceased employment with the Employer under Section 3.2, or again becomes an Employee of the Employer customarily scheduled to work at least twenty (20) hours each week, the Enrollment Form, if any, in effect immediately before the leave of absence or disqualifying change in employment status shall be deemed void and the Participant must again complete a new Enrollment Form to resume participation in the Plan. A Participant who is a Reporting Person must wait at least six months from the date such Reporting Person ceased to be eligible for payroll deductions before recommencing his or her participation in the Plan.

#### 6.5 AUTOMATIC EXERCISE.

Unless the cash credited to a Participant's account is withdrawn or distributed as provided in Article VII, his or her Option shall be deemed to have been exercised automatically on the Exercise Date, for the purchase of the number of full shares of Common Stock which the cash credited to his or her account at that time will purchase at the Option Price. However, in no event may a Participant purchase more than two thousand (2,000) shares of Common Stock on any Exercise Date. Moreover, the amount of cash that may be used to purchase shares of Common Stock may not exceed the Compensation restrictions set forth in Section 6.2.

Except in the case of cash that would have been used to purchase fractional shares as described in the following paragraph, if the cash credited to a Participant's account on the Exercise Date exceeds the applicable Compensation restrictions of Section 6.2 or exceeds the amount necessary to purchase the maximum number of shares of Common Stock available during the Option Period, such excess cash shall be refunded to the Participant. The excess cash may not be used to purchase shares of Common Stock or retained in the Participant's account for a future Option Period.

Fractional shares of Common Stock shall not be issued or purchased under the Plan. Any accumulated cash balances which would have been used to purchase fractional shares

shall be held in the Participant's account for the next Option Period if a valid Enrollment Form is in effect for such Option Period, or otherwise distributed to the Participant without interest.

#### 6.6 LISTING REGISTRATION AND QUALIFICATION OF SHARES.

The granting of Options for, and the sale and delivery of, Common Stock under the Plan shall be subject to the effecting by the Company of any listing, registration, or qualification of the shares subject to that Option upon any securities exchange or market or under any federal or state law, or the obtaining of the consent or approval of any governmental regulatory body deemed necessary or desirable for the issuance or purchase of the shares covered.

### ARTICLE VII - WITHDRAWALS; DISTRIBUTIONS

#### 7.1 DISCONTINUANCE OF DEDUCTIONS; LEAVE OF ABSENCE; TRANSFER TO INELIGIBLE STATUS.

In the event of a Participant's (other than a Reporting Person's) complete discontinuance of payroll deductions under Section 6.3 or a Participant's (other than a Reporting Person's) leave of absence or transfer to an ineligible status under Section 6.4, the cash balance then standing to the credit of the Participant's account shall be:

- (a) returned to the Participant, in cash, without interest, as soon as practicable, upon the Participant's written request received by the Administrator at least twenty days before the next Exercise Date; or
- (b) held under the Plan and used to purchase Common Stock for the Participant under the automatic exercise provisions of Section 6.5.

In the event of a Reporting Person's complete discontinuance of payroll deductions under Section 6.3 or 6.4, the cash balance standing to the credit of the Reporting Person's account as of the effective date of the discontinuance shall be returned to the Reporting Person, in cash, without interest, as soon as practicable, without the necessity of receiving a written request.

#### 7.2 TERMINATION OF EMPLOYMENT FOR REASONS OTHER THAN DEATH.

If a Participant terminates employment with the Company and the Subsidiaries for reasons other than death, the cash balance in the Participant's account shall be returned to the Participant in cash, without interest, as soon as practicable.

### 7.3 DEATH.

In the event a Participant dies, the cash balance in his or her account shall be distributed to the Participant's beneficiary, in cash, without interest, as soon as practicable.

In the event of the Participant's death, the Participant's beneficiary shall be the person or entity identified on the Participant's Enrollment Form or on such other form as determined by the Administrator. This designation of beneficiary may be changed by the Participant in accordance with procedures established by the Administrator.

### 7.4 REGISTRATION OF CERTIFICATES.

The Common Stock certificates, when distributed under this Plan, shall be registered only in the name of the Participant (or beneficiary, if applicable). No other names may be included in the Common Stock registration. For each distribution of Common Stock, only one Common Stock certificate shall be issued to a Participant or beneficiary representing the Participant's shares of Common Stock. In lieu of delivering a stock certificate to each Participant, the Administrator may, in its discretion, implement a designated broker program and direct the Company to issue a single stock certificate to a broker designated by the Administrator. Such designated broker shall establish an account for each Participant and shall effect transfers and sales from each such account at the direction of the specified Participant. To facilitate the designated broker program, the Administrator may require, as a condition to participation in the Plan, that a Participant agree to the issuance of his or her stock certificates directly to the designated broker.

## ARTICLE VIII - AMENDMENT AND TERMINATION

### 8.1 AMENDMENT.

The Committee shall have the right to amend or modify the Plan, in full or in part, at any time and from time to time; provided, however, that no amendment or modification shall

- (a) affect any right or obligation with respect to any grant previously made, unless required by law, or
- (b) unless previously approved by the stockholders of the Company, where such approval is necessary to satisfy federal securities laws, the Code, or rules of any stock exchange or market on which the Company's Common Stock is listed
  - (1) in any manner materially affect the eligibility requirements set forth in Sections 3.1 and 3.2, or change the definition of Employer as set forth in Section 2.11,

- (2) increase the number of shares of Common Stock subject to any options issued to Participants (except as provided in Sections 4.2 and 4.3), or
- (3) materially increase the benefits to Participants under the Plan.

## 8.2 TERMINATION.

The Committee may terminate the Plan at any time in its sole and absolute discretion. The Plan shall be terminated by the Committee if at any time the number of shares of Common Stock authorized for purposes of the Plan is not sufficient to meet all purchase requirements, except as specified in Section 4.1.

Upon termination of the Plan, the Administrator shall give notice thereof to Participants and shall terminate all payroll deductions. Cash balances then credited to Participants' accounts shall be distributed as soon as practicable, without interest.

## ARTICLE IX - MISCELLANEOUS

### 9.1 SHAREHOLDER APPROVAL.

The Plan shall be approved and ratified by the stockholders of the Company, not later than July 1, 1998, pursuant to Treasury regulation Section 1.423-2(c). If for any reason such approval is not given by such date, the Plan shall be null and void, and all payroll deductions and direct cash payments to the Plan shall cease. The cash balances and Common Stock credited to Participants' accounts shall be promptly distributed to them; and any Common Stock certificates issued and delivered to Participants prior to such date shall remain the property of the Participants.

### 9.2 EMPLOYMENT RIGHTS.

Neither the establishment of the Plan, nor the grant of any Options thereunder, nor the exercise thereof shall be deemed to give to any Employee the right to be retained in the employ of the Company or any Subsidiary or to interfere with the right of the Company or any Subsidiary to discharge any Employee or otherwise modify the employment relationship at any time.

### 9.3 TAX WITHHOLDING.

The Administrator may make appropriate provisions for withholding of federal, state, and local income taxes, and any other taxes, from a Participant's Total Compensation to the extent the Administrator deems such withholding to be legally required.

9.4 RIGHTS NOT TRANSFERABLE.

Rights and Options granted under this Plan are not transferable by the Participant other than by will or by the laws of descent and distribution and are exercisable only by the Participant during his or her lifetime.

9.5 NO REPURCHASE OF STOCK BY COMPANY.

The Company is under no obligation to repurchase from any Participant any shares of Common Stock acquired under the Plan.

9.6 GOVERNING LAW.

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware except to the extent such laws are preempted by the laws of the United States.

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IN WITNESS WHEREOF, COMFORT SYSTEMS USA, INC. has caused this document to be executed on this \_\_\_\_ day of \_\_\_\_\_, 1997.

By: \_\_\_\_\_

Title: \_\_\_\_\_

ATTEST:

By: \_\_\_\_\_

Title: \_\_\_\_\_



## COMFORT SYSTEMS USA, INC. SUBSIDIARIES

Accurate Air Systems, Inc.  
Atlas Comfort Services USA, Inc.  
Contract Service, Inc.  
Eastern Heating & Cooling, Inc.  
Fred Hayes Mechanical Contractors, Inc.  
Freeway Heating & Air Conditioning, Inc.  
Kuempel Service, Inc.  
River City Mechanical, Inc.  
Salmon & Alder, Inc.  
S&K Air Conditioning Co., Inc.  
S.M. Lawrence Company, Inc.  
Seasonair, Inc.  
Standard Heating & Air Conditioning Company  
Tech Heating and Air Conditioning, Inc.  
Temp-Right Service, Inc.  
Tri-City Mechanical, Inc.  
Troost Service Co.  
Quality Air Heating & Cooling, Inc.  
Western Building Services, Inc.  
Walker-J-Walker, Inc.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

ARTHUR ANDERSEN LLP

Houston, Texas  
October 14, 1997