UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from ___________________ to _____________________

Commission file number: 1-13011

COMFORT SYSTEMS USA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**76-0526487**
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

675 Bering Drive
Suite 400
Houston, Texas 77057

(Address of Principal Executive Offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No x

The number of shares outstanding of the issuer's common stock, as of October 30, 2009 was 38,223,710.

COMFORT SYSTEMS USA, INC.
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FOR THE QUARTER ENDED SEPTEMBER 30, 2009

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)

	December 31, 2008	September 30, 2009
		(Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 117,015	$ 139,863
Accounts receivable, less allowance for doubtful accounts of $5,250 and $6,897, respectively	266,602	228,250
Other receivables	6,156	8,686
Inventories	11,350	9,412
Prepaid expenses and other	23,399	26,694
Costs and estimated earnings in excess of billings	19,123	17,373
Assets related to discontinued operations	1,544	438
Total current assets	445,189	430,716
PROPERTY, PLANT AND EQUIPMENT, net	35,650	34,083
GOODWILL	90,940	95,590
IDENTIFIABLE INTANGIBLE ASSETS, net	16,281	13,841
MARKETABLE SECURITIES	8,423	5,590
OTHER NONCURRENT ASSETS	2,009	1,506
Total assets	$ 598,492	$ 581,326
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ —	$ —
Current maturities of notes to former owners	1,336	2,018
Accounts payable	98,190	75,291
Accrued compensation and benefits	46,623	42,366
Billings in excess of costs and estimated earnings	97,505	89,647
Income taxes payable	1,011	—
Accrued self-insurance expense	25,360	26,925
Other current liabilities	27,963	29,702
Liabilities related to discontinued operations	397	—
Total current liabilities	298,385	265,949
LONG-TERM DEBT, NET OF CURRENT MATURITIES	—	—
NOTES TO FORMER OWNERS, NET OF CURRENT MATURITIES	9,363	6,607
OTHER LONG-TERM LIABILITIES	4,273	5,677
Total liabilities	312,021	278,233
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par, 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $.01 par, 102,969,912 shares authorized, 41,123,365 and 41,123,365 shares issued, respectively	411	411
Treasury stock, at cost, 2,453,245 and 2,827,755 shares, respectively	(27,069)	(30,324)
Additional paid-in capital	328,621	325,458
Accumulated other comprehensive income (loss)	(326)	(217)
Retained earnings (deficit)	(15,166)	7,765
Total stockholders' equity	286,471	303,093
Total liabilities and stockholders' equity	$ 598,492	$ 581,326

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

COMFORT SYSTEMS USA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2009**	**2008**	**2009**
REVENUES	$ 346,705	$ 291,591	$ 993,862	$ 872,214
COST OF SERVICES	280,011	234,186	806,784	701,335
Gross profit	66,694	57,405	187,078	170,879
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	45,078	41,713	128,397	126,175
GAIN ON SALE OF ASSETS	(183)	(101)	(311)	(98)
Operating income	21,799	15,793	58,992	44,802
OTHER INCOME (EXPENSE):				
Interest income	565	117	2,049	492
Interest expense	(377)	(301)	(1,045)	(946)
Other	—	3	158	5
Other income (expense)	188	(181)	1,162	(449)
INCOME BEFORE INCOME TAXES	21,987	15,612	60,154	44,353
INCOME TAX EXPENSE	8,250	6,072	23,070	17,293
INCOME FROM CONTINUING OPERATIONS	13,737	9,540	37,084	27,060
DISCONTINUED OPERATIONS:				
Operating income (loss), net of income tax (expense) benefit of $(46), $—, $(145), and $133	28	—	115	(387)
Estimated loss on disposition, net of tax of $—, $—, $—, and $—	—	—	—	(93)
NET INCOME	$ 13,765	$ 9,540	$ 37,199	$ 26,580
INCOME PER SHARE:				
Basic —				
Income from continuing operations	$ 0.35	$ 0.25	$ 0.94	$ 0.71
Discontinued operations —				
Income (loss) from operations	—	—	—	(0.01)
Estimated loss on disposition	—	—	—	—
Net income	$ 0.35	$ 0.25	$ 0.94	$ 0.70
Diluted —				
Income from continuing operations	$ 0.34	$ 0.25	$ 0.92	$ 0.70
Discontinued operations —				
Income (loss) from operations	—	—	—	(0.01)
Estimated loss on disposition	—	—	—	—
Net income	$ 0.34	$ 0.25	$ 0.92	$ 0.69
SHARES USED IN COMPUTING INCOME PER SHARE:				
Basic	39,403	37,995	39,625	38,135
Diluted	40,048	38,382	40,296	38,533
DIVIDENDS PER SHARE	$ 0.045	$ 0.050	$ 0.135	$ 0.140

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

COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands, Except Share Amounts)

		STOCKHOLDERS' EQUITY							
		Common Stock		Treasury Stock					
	Comprehensive Income	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2007		41,123,365	$ 411	(781,415)	$ (9,973)	$ 336,996	$ —	$ (64,856)	$ 262,578
Comprehensive Income:									
Net income	$ 49,690	—	—	—	—	—	—	49,690	49,690
Unrealized loss on marketable securities, net of tax	(326)	—	—	—	—	—	(326)	—	(326)
Comprehensive Income	$ 49,364	—	—	—	—	—	—	—	—
Issuance of Stock:									
Issuance of shares for options exercised including tax benefit		—	—	514,658	6,566	(2,789)	—	—	3,777
Issuance of restricted stock		—	—	201,309	2,485	(2,485)	—		—
Shares received in lieu of tax withholding payment on vested restricted stock		—	—	(39,100)	(513)	—	—	—	(513)
Stock-based compensation expense		—	—	—	—	3,851	—	—	3,851
Forfeiture of unvested restricted stock		—	—	(8,288)	(93)	93	—	—	—
Tax benefit from vesting of restricted stock		—	—	—	—	89	—	—	89
Dividends		—	—	—	—	(7,134)	—	—	(7,134)
Share repurchase		—	—	(2,340,409)	(25,541)	—	—	—	(25,541)
BALANCE AT DECEMBER 31, 2008		41,123,365	411	(2,453,245)	(27,069)	328,621	(326)	(15,166)	286,471
Comprehensive Income:									
Net income (unaudited)	$ 26,580	—	—	—	—	—	—	26,580	26,580
Unrealized income on marketable securities, net of tax (unaudited)	109	—	—	—	—	—	109	—	109
Comprehensive Income (unaudited)	$ 26,689								
Issuance of Stock:									
Issuance of shares for options exercised including tax benefit (unaudited)		—	—	280,150	3,012	(1,271)	—	—	1,741
Issuance of restricted stock (unaudited)		—	—	241,857	2,652	(2,652)	—	—	—
Shares received in lieu of tax withholding		—	—	(45,779)	(459)	—	—	—	(459)

payment on vested restricted stock (unaudited)								
Stock-based compensation expense (unaudited)	—	—	—	—	2,543	—	—	2,543
Forfeiture of unvested restricted stock (unaudited)	—	—	(7,038)	(76)	76	—	—	—
Tax benefit from vesting of restricted stock (unaudited)	—	—	—	—	(124)	—	—	(124)
Dividends (unaudited)	—	—	—	—	(1,735)	—	(3,649)	(5,384)
Share repurchase (unaudited)	—	—	(843,700)	(8,384)	—	—	—	(8,384)
BALANCE AT SEPTEMBER 30, 2009 (unaudited)	41,123,365	$ 411	(2,827,755)	$ (30,324)	$ 325,458	$ (217)	$ 7,765	$ 303,093

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

COMFORT SYSTEMS USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2009**	**2008**	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 13,765	$ 9,540	$ 37,199	$ 26,580
Adjustments to reconcile net income to net cash provided by operating activities —				
Estimated loss on disposition of discontinued operations	—	—	—	93
Amortization of identifiable intangible assets	1,458	709	3,301	2,511
Depreciation expense	2,231	2,541	6,269	7,357
Bad debt expense	1,597	467	1,973	2,577
Deferred tax (benefit) expense	2,361	(380)	2,640	(2,427)
Amortization of debt financing costs	27	27	81	81
Gain on sale of assets	(183)	(101)	(316)	(97)
Stock-based compensation expense	891	481	2,971	2,543
Changes in operating assets and liabilities, net of effects of acquisitions —				
(Increase) decrease in —				
Receivables	11,297	28,360	(7,429)	36,230
Inventories	963	767	200	1,898
Prepaid expenses and other current assets	(347)	(321)	2,244	(1,421)
Costs and estimated earnings in excess of billings	1,197	(1,052)	(5,085)	1,747
Other noncurrent assets	(4,313)	(1,803)	(3,122)	(1,837)
Increase (decrease) in —				
Accounts payable and accrued liabilities	(5,781)	(5,790)	2,200	(24,655)
Billings in excess of costs and estimated earnings	(3,504)	(10,564)	4,044	(7,829)
Other long-term liabilities	(716)	1,922	(214)	1,403
Net cash provided by operating activities	20,943	24,803	46,956	44,754
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(3,773)	(1,986)	(10,778)	(6,420)
Proceeds from sales of property and equipment	539	326	656	500
Proceeds from businesses sold	208	278	324	584
Sale of marketable securities	25	1,000	7,600	3,000
Purchases of marketable securities	—	—	(18,525)	—
Cash paid for acquisitions and intangible assets, net of cash acquired	(12,513)	(1,056)	(40,398)	(4,905)
Net cash used in investing activities	(15,514)	(1,438)	(61,121)	(7,241)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings on revolving line of credit	—	—	—	—
Payments on other long-term debt	(1,432)	(365)	(6,665)	(2,074)
Payments of dividends to shareholders	(1,786)	(1,912)	(5,387)	(5,365)
Share repurchase program and shares received in lieu of tax withholding	(4,747)	(2,652)	(15,002)	(8,843)
Excess tax benefit of stock-based compensation	1,755	439	1,844	593
Proceeds from exercise of options	1,573	573	2,044	1,024
Net cash used in financing activities	(4,637)	(3,917)	(23,166)	(14,665)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	792	19,448	(37,331)	22,848
CASH AND CASH EQUIVALENTS, beginning of period – continuing and discontinued operations	101,508	120,415	139,631	117,015
CASH AND CASH EQUIVALENTS, end of period– continuing and discontinued operations	$ 102,300	$ 139,863	$ 102,300	$ 139,863

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

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

1. Business and Organization

Comfort Systems USA, Inc., a Delaware corporation, provides comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. We operate primarily in the commercial, industrial and institutional HVAC markets, and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing. Approximately 52% of our consolidated 2009 revenues are attributable to installation of systems in newly constructed facilities, with the remaining 48% attributable to maintenance, repair and replacement services. The following service activities account for our consolidated 2009 revenues: HVAC 77%, plumbing 13%, building automation control systems 3%, and other 7%. These service activities are within the mechanical services industry which is the single industry segment we serve.

2. Summary of Significant Accounting Policies

Basis of Presentation

These interim statements should be read in conjunction with the historical Consolidated Financial Statements and related notes of Comfort Systems included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2008 (the "Form 10-K").

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

Cash Flow Information

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Cash paid for interest for the three months ended September 30, 2008 and 2009 was approximately $0.1 million and $0.3 million, respectively. Cash paid for income taxes for continuing operations for the three months ended September 30, 2008 and 2009 was approximately $11.7 million and $9.9 million, respectively. Cash paid for income taxes for discontinued operations for both the three months ended September 30, 2008 and 2009 was less than $0.1 million. Cash paid for interest for the nine months ended September 30, 2008 and 2009 was approximately $0.6 million and $0.8 million, respectively. Cash paid for income taxes for continuing operations for the nine months ended September 30, 2008 and 2009 was approximately $21.8 million and $22.6 million, respectively. Cash paid for income taxes for discontinued operations for both the nine months ended September 30, 2008 and 2009 was less than approximately $0.1 million.

Subsequent Events

We evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q on November 3, 2009. No significant events occurred subsequent to the balance sheet or prior to the filing of this report that would have a material impact on our consolidated financial statements.

Segment Disclosure

Our activities are within the mechanical services industry which is the single industry segment we serve. Each operating subsidiary represents an operating segment and these segments have been aggregated, as the operating units meet all of the aggregation criteria.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, revenues and expenses and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, self-insurance accruals, deferred tax assets, warranty accruals, and the quantification of fair value for reporting units in connection with our goodwill impairment testing.

Income Taxes

We file a consolidated return for federal income tax purposes. Income taxes are provided for under the liability method, which takes into account differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets represent the tax effect of activity that has been reflected in the financial statements but which will not be deductible for tax purposes until future periods. Deferred tax liabilities represent the tax effect of activity that has been reflected in the financial statements but which will not be taxable until future periods.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. Estimations of required valuation allowances include estimates of future taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the activity underlying these assets becomes deductible. We consider projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income is less than the estimates, we may not realize all or a portion of the recorded deferred tax assets.

Financial Instruments

Our financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, other receivables, accounts payable, notes to former owners and a revolving credit facility. We believe that the carrying values of these instruments on the accompanying balance sheets approximate their fair values.

Marketable securities are classified as available-for-sale. These investments are recorded at fair value and are classified as marketable securities in the accompanying consolidated balance sheet as of September 30, 2009. The changes in fair values, net of applicable taxes, are recorded as unrealized gains (losses) as a component of accumulated other comprehensive income (loss) in stockholders’ equity.

Recent Accounting Pronouncements

On September 30, 2009, we adopted changes issued by the Financial Accounting Standards Board (“FASB”) to the authoritative hierarchy of generally accepted accounting principles (“GAAP”). These changes establish the FASB Accounting Standards Codification™ (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. These changes and the Codification itself do

not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the consolidated financial statements.

Fair Value Accounting

On January 1, 2009, we adopted changes issued by the FASB to fair value accounting and reporting as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. These changes define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. This guidance applies to other GAAP that require or permit fair value measurements and is to be applied prospectively with limited exceptions. The adoption of these changes, as it relates to nonfinancial assets and nonfinancial liabilities, had no impact on the consolidated financial statements, however we have expanded the disclosures regarding marketable securities, goodwill, and intangible assets.

Business Combinations and Consolidation Accounting

On January 1, 2009, we adopted changes issued by the FASB to accounting for business combinations. These changes apply to all assets acquired and liabilities assumed in a business combination that arise from certain contingencies and requires (i) an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition date fair value of that asset or liability can be determined during the measurement period otherwise the asset or liability should be recognized at the acquisition date if certain defined criteria are met; (ii) contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be recognized initially at fair value; (iii) subsequent measurements of assets and liabilities arising from contingencies be based on a systematic and rational method depending on their nature and contingent consideration arrangements be measured subsequently; and (iv) disclosures of the amounts and measurement basis of such assets and liabilities and the nature of the contingencies. The adoption did not have a material impact on our consolidated financial statements. The adoption will significantly impact our accounting and reporting for future acquisitions, principally as a result of the expanded requirements to value acquired assets, liabilities and contingencies at their fair values and the requirement that acquisition related transaction costs be expensed as incurred rather than capitalized as a part of the cost of the acquisition.

Earnings Per Share

On January 1, 2009, we adopted changes issued by the FASB to the calculation of earnings per share. These changes state that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method for all periods presented. There was no significant impact upon the adoption of these changes.

Subsequent Events

On June 30, 2009, we adopted changes issued by the FASB to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The new guidance also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This change had no impact on our consolidated financial statements.

Reclassifications

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

3. Fair Value Measurements

We use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy, which gives the highest priority to quoted prices in active markets, is comprised of the following three levels:

- Level 1 - defined as observable inputs such as quoted prices in active markets;
- Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The assets measured at fair value on a recurring basis as of September 30, 2009 are as follows (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 139,863	$ 139,863	$ —	$ —
Auction rate securities	$ 6,590	$ —	$ 925	$ 5,665

Cash and cash equivalents consist primarily of highly rated money market funds at a variety of well-known institutions with original maturities of three months or less. The original cost of these assets approximates fair value due to their short term maturity.

As of September 30, 2009, our marketable securities consisted of $6.6 million of auction rate securities, which are variable rate debt instruments, having long-term maturities (with final maturities up to October 2034), but whose interest rates are designed to reset through an auction process, at intervals ranging from seven to 35 days. We had investments in marketable securities of $9.4 million as of December 31, 2008. All of our auction rate securities are high quality municipal obligations which have high investment grade ratings or otherwise are backed by high investment grade rated insurance agencies. During the nine months ended September 30, 2009, we sold $3.0 million of these auction rate securities at face value. An additional $1.0 million were sold at face value during October 2009; this is included in ‘‘Prepaid Expenses and Other’’ in our consolidated balance sheet. The remaining $5.6 million has been classified as a noncurrent asset on the consolidated balance sheet as we have the intent and ability to hold these securities until the market for auction rate securities stabilizes or until the issuer refinances the underlying security.

The auction events for some of these instruments failed during 2008 due to events in the credit markets. As a result of the temporary declines in fair value for our auction rate securities, which we attribute to liquidity issues rather than credit issues, we recorded an unrealized loss of $0.3 million, net of tax of less than $0.1 million, to accumulated other comprehensive income (loss). Our analysis of the fair values of these securities considered, among other items, the creditworthiness of the counterparty, the timing of expected future cash flows, and the possibility that a discount may be required if we choose to sell the securities in the absence of a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics.

As of September 30, 2009 we continue to collect interest when due on all of our auction rate securities. Any future fluctuation in fair value related to these instruments that we deem to be temporary, including any recoveries of previous write-downs, would be recorded to accumulated other comprehensive income (loss). If

we determine that any future valuation adjustment was other than temporary, we would record a charge to earnings as appropriate.

We measure certain assets, including our goodwill and intangible assets, at a fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be impaired. During the nine months ended September 30, 2009, we did not recognize any impairments on those assets required to be measured at fair value on a nonrecurring basis.

4. Acquisitions

We completed various acquisitions in 2008 which were not material individually or in the aggregate. Additional contingent purchase price (''earn-out'') has been and will be paid if certain acquisitions achieve predetermined profitability targets. The total purchase price for these acquisitions was $68.9 million, including $4.7 million in earn-outs that were recorded during the nine months of 2009. There were no acquisitions for the nine months ended September 30, 2009. The results of operations of these acquisitions are included in our consolidated financial statements from their respective acquisition dates.

5. Discontinued Operations

We sold a small operating company in June 2009. This company's after-tax income of $0.1 million for the nine months ended September 30, 2008 and after-tax loss of $0.4 million for the nine months ended September 30, 2009 have been reported in discontinued operations under "Operating income (loss), net of income tax (expense) benefit." We recorded an estimated loss on the sale of this company of $0.1 million in the second quarter of 2009. This loss has been reported in discontinued operations under "Estimated loss on disposition, net tax."

Our consolidated statements of operations and the related earnings per share amounts have been restated to reflect the effects of this discontinued operation. No interest expense was allocated to this discontinued operation.

Revenues and pretax income (loss) related to this company in 2008 and 2009 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Revenues	$ 1,930	$ —	$ 5,575	$ 1,795
Pre-tax income (loss)	$ 74	$ —	$ 260	$ (520)

6. Long-Term Debt Obligations

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

	December 31, 2008	September 30, 2009
Revolving credit facility	$ —	$ —
Notes to former owners	10,699	8,625
Total debt	10,699	8,625
Less —current maturities of notes to former owners	1,336	2,018
Total long-term portion of debt	$ 9,363	$ 6,607

We have a $100.0 million senior credit facility (the ''Facility'') provided by a syndicate of banks which is available for borrowings and letters of credit. The Facility expires in February 2012 and is secured by the capital stock of our current and future subsidiaries. As of September 30, 2009, we had no outstanding borrowings, $43.1 million in letters of credit outstanding, and $56.9 million of credit available.

We have a choice of two interest rate options for borrowings under the Facility; these rates are floating rates determined by the broad financial markets, meaning they can and do move up and down from time to time. We estimate that the interest rate applicable to the borrowings under the Facility would be approximately 1.5% as of September 30, 2009. Commitment fees are payable on the portion of the revolving loan capacity not in use for borrowings or letters of credit at any given time. These fees range from 0.20%-0.30% per annum, based on the ratio of debt to Credit Facility Adjusted EBITDA, as defined in the credit agreement.

The Facility contains financial covenants defining various financial measures and the levels of these measures with which we must comply. The Facility's principal financial covenants include:

Leverage Ratio — The Facility requires that the ratio of our total indebtedness less cash and cash equivalents to our Credit Facility Adjusted EBITDA not exceed 2.50. The leverage ratio as of September 30, 2009 was 0.11.

Fixed Charge Coverage Ratio — The Facility requires that the ratio of Credit Facility Adjusted EBITDA, less non-financed capital expenditures, tax provision, dividends and amounts used to repurchase stock to the sum of interest expense and scheduled principal payments be at least 1.50. Capital expenditures, tax provision, dividends and stock repurchase payments are defined under the Facility for purposes of this covenant to be amounts for the four quarters ending as of any given quarterly covenant compliance measurement date. The calculation of the fixed charge coverage ratio excludes acquisitions, stock repurchases and the payment of cash dividends, at any time that the Leverage Ratio does not exceed 1.0. The fixed charge coverage ratio as of September 30, 2009 was 13.34.

Other Restrictions — The Facility permits acquisitions of up to $25.0 million per transaction, or $50.0 million in the aggregate. However, these limitations only apply when the Leverage Ratio is greater than 1.0.

While the Facility's financial covenants do not specifically govern capacity under the Facility, if our debt level under the Facility at a quarter-end covenant compliance measurement date were to cause us to violate the Facility's debt-to-Credit Facility Adjusted EBITDA covenant, our borrowing capacity under the Facility and the favorable terms that we currently enjoy could be negatively impacted by the lenders.

We are in compliance with all the financial covenants as of September 30, 2009.

Notes to Former Owners

We issued subordinated notes to the former owners of acquired companies, as part of the consideration used to acquire these companies. These notes had an outstanding balance of $8.6 million as of September 30, 2009, of which $2.0 million is current as of September 30, 2009 and bear interest, payable annually, at a weighted average interest rate of 5.7%.

7. Commitments and Contingencies

Claims and Lawsuits

We are subject to certain legal and regulatory claims, including lawsuits arising in the normal course of business. We maintain various insurance coverages to minimize financial risk associated with these claims. We have estimated and provided accruals for probable losses and related legal fees associated with certain of its litigation in the accompanying consolidated financial statements. While we cannot predict the outcome of these proceedings, in management's opinion and based on reports of counsel, any liability arising from these matters individually and in the aggregate will not have a material effect on our operating results or financial condition, after giving effect to provisions already recorded.

In addition to the matters described above, we have accrued $5.7 million as of September 30, 2009 for potential and asserted backcharges from several customers of our large multi-family operation based in Texas. The related expense was included in "Cost of Services" prior to 2009 and the accrual is included in "Other

Current Liabilities." We believe these accruals reflect a probable outcome with respect to such backcharges and potential backcharges, however, if we are not successful in resolving these disputes, we may in the future experience a material adverse effect on our operating results.

The following table shows the activity during the first nine months of 2009 and the remaining backcharges as of September 30, 2009 (in thousands):

Balance at December 31, 2008	$	5,838
Additions		—
Utilization		(169)
Balance at September 30, 2009	$	5,669

Surety

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

Surety market conditions remain challenging as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. Further, under standard terms in the surety market, sureties issue bonds on a project-by-project basis, and can decline to issue bonds at any time. Historically, approximately 25% to 30% of our business has required bonds. While we have strong surety relationships to support our bonding needs, current market conditions as well as changes in the sureties' assessment of our operating and financial risk could cause the sureties to decline to issue bonds for our work. If that were to occur, the alternatives include doing more business that does not require bonds, posting other forms of collateral for project performance such as letters of credit or cash, and seeking bonding capacity from other sureties. We would likely also encounter concerns from customers, suppliers and other market participants as to our creditworthiness. While we believe our general operating and financial characteristics, including a significant amount of cash on our balance sheet, would enable us to ultimately respond effectively to an interruption in the availability of bonding capacity, such an interruption would likely cause our revenues and profits to decline in the near term.

Self-Insurance

We are substantially self-insured for worker's compensation, employer's liability, auto liability, general liability and employee group health claims, in view of the relatively high per-incident deductibles we absorb under our insurance arrangements for these risks. Losses up to deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages. Loss estimates associated with the larger and longer-developing risks, such as worker's compensation, auto liability and general liability, are reviewed by a third-party actuary quarterly. Our self-insurance arrangements currently are as follows:

Worker's Compensation — The per-incident deductible for worker's compensation is $500,000. Losses above $500,000 are determined by statutory rules on a state-by-state basis, and are fully covered by excess worker's compensation insurance.

Employer's Liability — For employer's liability, the per incident deductible is $500,000. We are fully insured for the next $500,000 of each loss, and then have a single, aggregate excess loss insurance policy that covers losses up to $50 million across both of these risk areas (as well as general liability and auto liability noted below).

General Liability — For general liability, the per incident deductible is $500,000. We are fully insured for the next $1.5 million of each loss, and then have a single, aggregate excess loss insurance policy that covers losses up to $50 million across both these risk areas (as well as employer's liability and auto liability noted below).

Auto Liability — For auto liability, the per incident deductible is $500,000. We are fully insured for the next $1.5 million of each loss, and then have a single, aggregate excess loss insurance policy that covers losses up to $50 million.

Employee Medical — We have two medical plans. The deductible for employee group health claim is $300,000 per person, per policy (calendar) year for one plan and $150,000 per person, per policy (calendar) year for the other plan. Insurance then covers any responsibility for medical claims in excess of the deductible amount.

Our $50 million of aggregate excess loss coverage above applicable per-incident policy limits represents one policy limit that applies to all lines of risk; we do not have a separate $50 million of excess loss coverage for each of general liability, employer's liability and auto liability.

8. Stockholders' Equity

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted EPS is computed considering the dilutive effect of stock options and contingently issuable restricted stock.

There were approximately 2,000 and 0.4 million of anti-dilutive stock options that were excluded from the calculation of diluted EPS for the three months ended September 30, 2008 and 2009, respectively. There were approximately 0.2 million and 0.6 million of anti-dilutive stock options that were excluded from the calculation of diluted EPS for the nine months ended September 30, 2008 and 2009, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Common shares outstanding, end of period(a)	39,532	37,919	39,532	37,919
Effect of using weighted average common shares outstanding	(129)	76	93	216
Shares used in computing earnings per share—basic	39,403	37,995	39,625	38,135
Effect of shares issuable under stock option plans based on the treasury stock method	571	350	618	380
Effect of contingently issuable restricted stock	74	37	53	18
Shares used in computing earnings per share—diluted	40,048	38,382	40,296	38,533

(a) Excludes 0.3 million and 0.4 million shares of unvested contingently issuable restricted stock outstanding as of September 30, 2008 and 2009, respectively.

Share Repurchase Program

On March 29, 2007, our Board of Directors (the "Board") approved a stock repurchase program to acquire up to one million shares of our outstanding common stock. As of December 31, 2008, the Board approved extensions of the program to cover an additional 2.9 million shares. During the first quarter of 2009, the Board approved an extension of the program to cover an additional 0.5 million shares. During the third quarter of 2009, the Board approved an extension of the program to cover an additional 0.5 million shares. Since the inception of the repurchase program, the Board has approved 4.9 million shares to be repurchased.

The share repurchases will be made from time to time at our discretion in the open market or privately negotiated transactions as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The Board may modify, suspend, extend or terminate the program at any time. We repurchased 843,700 shares during the nine months ended September 30, 2009, at an average price of $9.94 per share. Since the inception of the program in 2007, we have repurchased a cumulative total of 4.0 million shares as of September 30, 2009, at an average price of $11.12 per share.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with our historical Consolidated Financial Statements and related notes thereto included elsewhere in this Form 10-Q and the Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2008 (the "Form 10-K"). This discussion contains "forward-looking statements" regarding our business and industry within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on our current plans and expectations and involve risks and uncertainties that could cause our actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual results to differ include risks set forth in "Item 1A. Company Risk Factors" included in our Form 10-K. The terms "Comfort Systems," "we," "us," or "the Company," refer to Comfort Systems USA, Inc. or Comfort Systems USA, Inc. and its consolidated subsidiaries, as appropriate in the context.

Introduction and Overview

We are a national provider of comprehensive HVAC installation, maintenance, repair and replacement services within the mechanical services industry. The services we provide address a very broad need, as air is circulated through almost all commercial, industrial and institutional buildings virtually year-round. We operate primarily in the commercial, industrial and institutional HVAC markets and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing.

Nature and Economics of Our Business

Approximately 86% of our revenues are earned on a project basis for installation of HVAC systems in newly constructed facilities or for replacement of HVAC systems in existing facilities. Customers hire us to ensure such systems deliver specified or generally expected heating, cooling, conditioning and circulation of air in a facility. This entails installing core system equipment such as packaged heating and air conditioning units, or in the case of larger facilities, separate core components such as chillers, boilers, air handlers, and cooling towers. We also typically install connecting and distribution elements such as piping and ducting. Our responsibilities usually require conforming the systems to pre-established engineering drawings and equipment and performance specifications, which we frequently participate in establishing. Our project management responsibilities include staging equipment and materials to project sites, deploying labor to perform the work, and coordinating with other service providers on the project, including any subcontractors we might use to deliver our portion of the work.

When competing for project business, we usually estimate the costs we will incur on a project, then propose a bid to the customer that includes a contract price and other performance and payment terms. Our bid price and terms are intended to cover our estimated costs on the project and provide a profit margin to us commensurate with the value of the installed system to the customer, the risk that project costs or duration will vary from estimate, the schedule on which we will be paid, the opportunities for other work that we might forego by committing capacity to this project, and other costs that we incur more broadly to support our operations but which are not specific to the project. Typically customers will seek bids from competitors for a given project. While the criteria on which customers select the winning bid vary widely and include factors such as quality, technical expertise, on-time performance, post-project support and service, and company history and financial strength, we believe that price is the most influential factor for most customers in choosing an HVAC installation and service provider.

After a customer accepts our bid, we generally enter into a contract with the customer that specifies what we will deliver on the project, what our related responsibilities are, and how much and when we will be paid. Our overall price for the project is typically set at a fixed amount in the contract, although changes in project specifications or work conditions that result in unexpected additional work are usually subject to additional payment from the customer via what are commonly known as change orders. Project contracts typically provide for periodic billings to the customer as we meet progress milestones or incur cost on the project.. Project

contracts in our industry also frequently allow for a small portion of progress billings or contract price to be withheld by the customer until after we have completed the work, typically for six months. Amounts withheld under this practice are known as retention or retainage.

Labor and overhead costs account for the majority of our cost of service. Accordingly, labor management and utilization have the most impact on our project performance. Given the fixed price nature of much of our project work, if our initial estimate of project costs is wrong or we incur cost overruns that cannot be recovered in change orders, we can experience reduced profits or even significant losses on fixed price project work. We also perform some project work on a cost-plus or a time and materials basis, under which we are paid our costs incurred plus an agreed-upon profit margin. These margins are typically less than fixed-price contract margins because there is less risk of unrecoverable cost overruns in cost-plus or time and materials work.

As of September 30, 2009, we had 4,468 projects in process. Our average project takes six to nine months to complete, with an average contract price of approximately $425,000. Our projects generally require working capital funding of equipment and labor costs. Customer payments on periodic billings generally do not recover these costs until late in the job. Our average project duration together with typical retention terms as discussed above generally allow us to complete the realization of revenue and earnings in cash within one year. We have what we believe is a well-diversified distribution of revenues across end-use sectors that we believe reduces our exposure to negative developments in any given sector. Because of the integral nature of HVAC and related controls systems to most buildings, we have the legal right in almost all cases to attach liens to buildings or related funding sources when we have not been fully paid for installing systems, except with respect to some government buildings. The service work that we do, which is discussed further below, usually does not give rise to lien rights.

We also perform larger HVAC projects. As of September 30, 2009, we had 6 projects in process with a contract price of between $15 million and $30 million, 19 projects between $10 million and $15 million, 53 projects between $5 million and $10 million, and 241 projects between $1 million and $5 million. Taken together, projects with contract prices of $1 million or more totaled $1,286.0 million of aggregate contract value as of September 30, 2009, or approximately 68%, out of a total contract value for all projects in progress of $1,898.5 million. Generally, projects closer in size to $1 million will be completed in one year or less. It is unusual for us to work on a project that exceeds two years in length.

In addition to project work, approximately 14% of our revenues represent maintenance and repair service on already-installed HVAC and controls systems. This kind of work usually takes from a few hours to a few days to perform. Prices to the customer are usually based on the equipment and materials used in the service as well as technician labor time. We usually bill the customer for service work when it is complete, typically with payment terms of up to thirty days. We also provide maintenance and repair service under ongoing contracts. Under these contracts, we are paid regular monthly or quarterly amounts and provide specified service based on customer requirements. These agreements typically cover periods ranging from one to three years and are cancelable on 30 to 60 days notice.

A relatively small but growing portion of our revenues comes from national and regional account customers. These customers typically have multiple sites, and contract with us to perform maintenance and repair service. These contracts may also provide for us to perform new or replacement systems installation. We operate a national call center to dispatch technicians to sites requiring service. We perform the majority of this work with our own employees, with the balance being subcontracted to third parties that meet our performance qualifications. We will also typically use proprietary information systems to maintain information on the customer’s sites and equipment, including performance and service records, and related cost data. These systems track the status of ongoing service and installation work, and may also monitor system performance data. Under these contractual relationships, we usually provide consolidated billing and credit payment terms to the customer.

Profile and Management of Our Operations

We manage our 41 operating units based on a variety of factors. Financial measures we emphasize include profitability, and use of capital as indicated by cash flow and by other measures of working capital principally involving project cost, billings and receivables. We also monitor selling, general, administrative and indirect

project support expense, backlog, workforce size and mix, growth in revenues and profits, variation of actual project cost from original estimate, and overall financial performance in comparison to budget and updated forecasts. Operational factors we emphasize include project selection, estimating, pricing, management and execution practices, labor utilization, safety, training, and the make-up of both existing backlog as well as new business being pursued, in terms of project size, technical application and facility type, end-use customers and industries, and location of the work.

Most of our operations compete on a local or regional basis. Attracting and retaining effective operating unit managers is an important factor in our business, particularly in view of the relative uniqueness of each market and operation, the importance of relationships with customers and other market participants such as architects and consulting engineers, and the high degree of competition and low barriers to entry in most of our markets. Accordingly, we devote considerable attention to operating unit management quality, stability, and contingency planning, including related considerations of compensation, and non-competition protection where applicable.

Economic and Industry Factors

As an HVAC and building controls services provider, we operate in the broader nonresidential construction services industry and are affected by trends in this sector. While we do not have operations in all major cities of the United States, we believe our national presence is sufficiently large that we experience trends in demand for and pricing of our services that are consistent with trends in the national nonresidential construction sector. As a result, we monitor the views of major construction sector forecasters along with macroeconomic factors they believe drive the sector, including trends in gross domestic product, interest rates, business investment, employment, demographics, and the general fiscal condition of federal, state and local governments. Although nonresidential construction activity has demonstrated periods of both significant growth and decline, it has grown at a compound annual rate of approximately 4.2% over the last twenty-five years.

Spending decisions for building construction, renovation and system replacement are generally made on a project basis, usually with some degree of discretion as to when and if projects proceed. With larger amounts of capital, time, and discretion involved, spending decisions are affected to a significant degree by uncertainty, particularly concerns about economic and financial conditions and trends. We have experienced periods of time, when economic weakness caused a significant slowdown in decisions to proceed with installation and replacement project work.

Operating Environment and Management Emphasis

Nonresidential building construction and renovation activity, as reported by the federal government, declined over the three year period of 2001 to 2003, expanded moderately during 2004 and 2005, and was strong over the three year period from 2006 to 2008. During the decline and through 2003, we responded to market challenges by pursuing work in sectors less affected by this downturn, such as government, educational, and healthcare facilities, and by establishing marketing initiatives that take advantage of our size and range of expertise. We also responded to declining gross profits over those years by reducing our selling, general, and administrative expenses, and our indirect project and service overhead costs. We believe our efforts in these areas partially offset the decline in our profitability over that period. We experienced notable improvements in both industry activity as well as our own results from 2004 to 2008.

As discussed at greater length in ‘‘Results of Operations’’ below, we have seen declining activity levels in our industry since late 2008 and we expect price competition to continue to be strong, as local and regional competitors respond cautiously to changing conditions. We will continue our efforts to find the more active sectors in our markets, and to increase our regional and national account business. Our primary emphasis for 2009 will be on execution and cost control, and on maintaining activity levels that will permit us to earn reasonable profits while preserving our core workforce. We have increased our focus on project qualification, estimating, pricing and management, and on service performance.

As a result of our continued strong emphasis on cash flow, our debt outstanding under our revolving credit facility is zero, and we have substantial uncommitted cash balances, as discussed further in ‘‘Liquidity and Capital Resources’’ below. We have a credit facility in place with considerably less restrictive terms than those of our previous facilities; this facility does not expire until February 2012. We have strong surety relationships to

support our bonding needs, and we believe our relationships with the surety markets are positive in light of our strong current results and financial position. We have generated positive free cash flow in each of the last ten calendar years and will continue our emphasis in this area. We believe that the relative size and strength of our balance sheet and surety support as compared to most companies in our industry represent competitive advantages for us.

Critical Accounting Policies

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

Percentage of Completion Method of Accounting

Approximately 86% of our revenues were earned on a project basis and recognized through the percentage of completion method of accounting. Under this method contract revenue recognizable at any time during the life of a contract is determined by multiplying expected total contract revenue by the percentage of contract costs incurred at any time to total estimated contract costs. More specifically, as part of the negotiation and bidding process in which we engage in connection with obtaining installation contracts, we estimate our contract costs, which include all direct materials (exclusive of rebates), labor and subcontract costs and indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. These contract costs are included in our results of operations under the caption "Cost of Services." Then, as we perform under those contracts, we measure such costs incurred, compare them to total estimated costs to complete the contract, and recognize a corresponding proportion of contract revenue. Labor costs are considered to be incurred as the work is performed. Subcontract labor is recognized as the work is performed, but is generally subjected to approval as to milestones or other evidence of completion. Non-labor project cost consists of purchased equipment, prefabricated materials and other materials. Purchased equipment on our projects is substantially produced to job specifications and is a value added element to our work. The costs are considered to be incurred when title is transferred to us, which typically is upon delivery to the worksite. Prefabricated materials, such as ductwork and piping, are generally performed at our shops and recognized as contract costs when fabricated for the unique specifications of the job. Other materials cost are not significant and are generally recorded when delivered to the worksite. This measurement and comparison process requires updates to the estimate of total costs to complete the contract, and these updates may include subjective assessments.

Our contracts typically provide for a schedule of billings or invoices to the customer based on reaching agreed-upon milestones or as we incur costs. The schedules for such billings usually do not precisely match the schedule on which we incur costs. As a result, contract revenues recognized in the statement of operations can and usually do differ from amounts that can be billed or invoiced to the customer at any point during the contract. Amounts by which cumulative contract revenues recognized on a contract as of a given date exceed cumulative billings to the customer under the contract are reflected as a current asset in our balance sheet under the caption "Costs and estimated earnings in excess of billings." Amounts by which cumulative billings to the customer under a contract as of a given date exceed cumulative contract revenues recognized on the contract are reflected as a current liability in our balance sheet under the caption "Billings in excess of costs and estimated earnings."

The percentage of completion method of accounting is also affected by changes in job performance, job conditions, and final contract settlements. These factors may result in revisions to estimated costs and, therefore,

revenues. Such revisions are frequently based on further estimates and subjective assessments. We recognize these revisions in the period in which they are determined. If such revisions lead us to conclude that we will recognize a loss on a contract, the full amount of the estimated ultimate loss is recognized in the period we reach that conclusion, regardless of the percentage of completion of the contract.

Revisions to project costs and conditions can give rise to change orders under which the customer agrees to pay additional contract price. Revisions can also result in claims we might make against the customer to recover project variances that have not been satisfactorily addressed through change orders with the customer. Except in certain circumstances, we do not recognize revenues or margin based on change orders or claims until they have been agreed upon with the customer. The amount of revenue associated with unapproved change orders and claims is currently immaterial. Variations from estimated project costs could have a significant impact on our operating results, depending on project size, and the recoverability of the variation via additional customer payments.

Accounting for Allowance for Doubtful Accounts

We are required to estimate the collectibility of accounts receivable and provide an allowance for doubtful accounts for receivable amounts we believe we will not ultimately collect. This requires us to make certain judgments and estimates involving, among others, the creditworthiness of the customer, our prior collection history with the customer, ongoing relationships with the customer, the aging of past due balances, our lien rights, if any, in the property where we performed the work, and the availability, if any, of payment bonds applicable to our contract. These estimates are re-evaluated and adjusted as additional information is received.

Accounting for Self-Insurance Liabilities

We are substantially self-insured for worker’s compensation, employer’s liability, auto liability, general liability and employee group health claims in view of the relatively high per-incident deductibles we absorb under our insurance arrangements for these risks. Losses up to deductible amounts are estimated and accrued based upon known facts, historical trends and industry averages. Loss estimates associated with the larger and longer-developing risks—worker’s compensation, auto liability and general liability—are reviewed by a third party actuary quarterly. We believe these accruals are adequate. However, insurance liabilities are difficult to estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, timely reporting of occurrences, ongoing treatment or loss mitigation, general trends in litigation recovery outcomes and the effectiveness of safety and risk management programs. Therefore, if actual experience differs from the assumptions and estimates used for recording the liabilities, adjustments may be required and would be recorded in the period that such experience becomes known.

Accounting for Deferred Tax Assets

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation quarterly. Estimations of required valuation allowances include estimates of future taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the activity underlying these assets becomes deductible. We consider projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income differs from our estimates, we may not realize deferred tax assets to the extent we have estimated.

Recoverability of Goodwill and Identifiable Intangible Assets

Goodwill is the excess of purchase cost over the fair value of the net assets of acquired businesses. We do not amortize goodwill. We assess our goodwill asset amounts for impairment each year, and more frequently if circumstances suggest an impairment may have occurred. Impairment must be reflected when the value of a given business unit in excess of its tangible net assets falls below the goodwill asset balance carried for that unit on our books. If other business units have had increases in the value of their respective goodwill balances, such increases may not be recorded. Accordingly, such increases may not be netted against impairments at other business units. The requirements for assessing whether goodwill assets have been impaired involve market-based information. This information, and its use in assessing goodwill, entails some degree of subjective assessment.

We currently perform our annual impairment testing as of October 1 and any impairment charges resulting from this process are reported in the fourth quarter. We segregate our operations into reporting units based on the degree of operating and financial independence of each unit and our related management of them. We perform our annual goodwill impairment testing at the reporting unit level. We have 41 reporting units of which 25 reporting units have a goodwill balance. These reporting units are tested for impairment by comparing each unit's fair value to its carrying value. The fair value of each reporting unit was estimated using a discounted cash flow model combined with market valuation approaches. Significant estimates and assumptions are used in assessing the fair value of reporting units. These estimates and assumptions involved future cash flows, growth rates, discount rates, weighted average cost of capital and estimates of market valuations for each of the reporting units.

We amortize identifiable intangible assets with finite lives over their useful lives. Changes in strategy and/or market condition, may result in adjustments to recorded intangible asset balances or their useful lives.

Results of Operations (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008	%	2009	%	2008	%	2009	%
Revenues	$346,705	100.0%	$291,591	100.0%	$993,862	100.0%	$872,214	100.0%
Cost of services	280,011	80.8%	234,186	80.3%	806,784	81.2%	701,335	80.4%
Gross profit	66,694	19.2%	57,405	19.7%	187,078	18.8%	170,879	19.6%
Selling, general and administrative expenses	45,078	13.0%	41,713	14.3%	128,397	12.9%	126,175	14.5%
Gain on sale of assets	(183)	(0.1)%	(101)	—	(311)	—	(98)	—
Operating income	21,799	6.3%	15,793	5.4%	58,992	5.9%	44,802	5.1%
Interest income (expense), net	188	0.1%	(184)	(0.1)%	1,004	0.1%	(454)	(0.1)%
Other income	—	—	3	—	158	—	5	—
Income before income taxes	21,987	6.3%	15,612	5.4%	60,154	6.1%	44,353	5.1%
Income tax expense	8,250		6,072		23,070		17,293	
Income from continuing operations	13,737	4.0%	9,540	3.3%	37,084	3.7%	27,060	3.1%
Discontinued operations -								
Operating results, net of tax	28		—		115		(387)	
Estimated loss on disposition, net of tax	—		—		—		(93)	
Net income	$ 13,765		$ 9,540		$ 37,199		$ 26,580	

Revenues — Revenues decreased $55.1 million, or 15.9% to $291.6 million for the third quarter of 2009 compared to the same period in 2008. Approximately 19.1% of the decrease in revenues related to the same store activity offset by 3.2% increase from 2008 acquisitions. The same store revenue decrease stemmed primarily from reduced activity in the nonresidential markets throughout the United States especially in the lodging and entertainment sector (approximately $13.5 million) and manufacturing (approximately $12.2 million) as well as continued decreases in the multi-family sector (approximately $23.6 million). These decreases were partially offset by increased activity in the governmental sector (approximately $3.9 million). We have seen decreased activity, primarily in our central Arizona and Virginia operations, resulting from a significant decrease in both markets resulting in limited new projects and from the planned downsizing of our large multi-family operation based in Texas.

Revenues for the first nine months of 2009 decreased $121.6 million, or 12.2%, to $872.2 million as compared to the same period in 2008. Approximately 16.7% of the decrease in revenues related to same store activity offset by 4.5% increase from 2008 acquisitions. The same store decrease stemmed primarily from decreased activity in the nonresidential markets throughout the United States especially in office buildings (approximately $37.3 million) and in the healthcare sector (approximately $23.3 million). There has been decreased activity in our multi-family sector (approximately $62.0 million) as a result of our planned downsizing of our large multi-family operation based in Texas. These decreases were partially offset by increased activity in the educational and religious and not-for-profit sectors (approximately $7.7 million). We have seen decreased activity, primarily in our central Arizona operation resulting from a decline in market activity in the Phoenix

market and from the planned downsizing of our large multi-family operation based in Texas.

Backlog reflects revenues still to be recognized under contracted or committed installation and replacement project work. Project work generally lasts less than one year. Service agreement revenues and service work and short duration projects which are generally billed as performed do not flow through backlog. Accordingly, backlog represents only a portion of our revenues for any given future period, and it represents revenues that are likely to be reflected in our operating results over the next six to twelve months. As a result, we believe the predictive value of backlog information is limited to indications of general revenue direction over the near term, and should not be interpreted as indicative of ongoing revenue performance over several quarters.

Backlog as of September 30, 2009 was $554.3 million a 13.4% decrease from June 30, 2009 backlog of $639.8 million. The sequential decrease was primarily related to our Arkansas, Wisconsin, and northern Florida operations. Backlog as of September 30, 2008 was $803.7 million, a decrease of $249.4 million or 31.0%. The year-over-year decrease is primarily related to the planned downsizing of our large multi-family operation based in Texas, and decreases at our central Arizona, central Florida, New Hampshire and Arkansas operations due to the close out of several jobs and a decline in market activity.

Following the three-year period of industry activity declines from 2001-2003 noted previously, we saw modest year-over-year revenue increases at our ongoing operations beginning in mid-2003 and continuing throughout 2008. Based on our backlog and forecasts from industry construction analysts, we expect that activity levels in our industry are likely to decrease over the next twelve months, particularly in the area of new construction.

We continue to experience a noticeable amount of price competition in our markets, which restrains our ability to profitably increase revenues.

Gross Profit — Gross profit decreased $9.3 million, or 13.9%, to $57.4 million for the third quarter of 2009 as compared to the same period in 2008. As a percentage of revenues, gross profit increased from 19.2% in 2008 to 19.7% in 2009. The increase in gross profit percentage resulted primarily from higher profitability at our southern Maryland operation (approximately $1.1 million).

Gross profit for the first nine months of 2009 decreased $16.2 million, or 8.7% to $170.9 million, as compared to the same period in 2008. As a percentage of revenues, gross profit increased from 18.8% in 2008 to 19.6% in 2009. The increase in gross profit percentage for the first nine months of 2009 resulted primarily from higher profitability at our central Florida operation (approximately $4.7 million), and southern Maryland operation (approximately $2.1 million) as well as improved profitability at our northern Maryland operation (approximately $1.9 million). These increases were partially offset by underperformance at our southeast Texas operation (approximately $2.0 million).

Selling, General and Administrative Expenses (“SG&A”) — SG&A decreased $3.4 million, or 7.5% for the third quarter of 2009 as compared to the same period in 2008. This decrease is primarily due to overhead reductions and lower bad debt expense (approximately $1.1 million) during the third quarter of 2009 as compared to the third quarter of 2008. These decreases were partially offset by higher medical costs (approximately $1.0 million) primarily from terminated employees that elected health insurance coverage under COBRA. As a percentage of revenues, SG&A increased from 13.0% in 2008 to 14.3% in 2009 due to a lower 2009 revenue base. SG&A decreased $2.2 million, or 1.7%, to $126.2 million for the first nine months ended September 30, 2009 as compared to the same period in 2008. On a same store basis, SG&A decreased $5.0 million. These decreases were primarily related to overhead reductions and lower compensation accruals due to lower profitability in 2009 partially offset by higher medical costs (approximately $0.9 million). As a percentage of revenues, SG&A increased from 12.9% for the first nine months of 2008 to 14.5% for the first nine months of 2009 due to a lower 2009 revenue base.

Interest Income (Expense), Net — Interest income decreased $0.4 million for the third quarter of 2009 as compared to the same period in 2008. Interest income decreased $1.6 million for the first nine months ended September 30, 2009 as compared to the same period of 2008. The decrease is due to lower interest rates in 2009.

Income Tax Expense — Our year to date effective tax rate for 2009 was 39.0%, as compared to 38.4% in 2008. The increase in the effective tax rate for 2009 is primarily due to an increase in tax reserves. Adjustments to tax reserves are analyzed and adjusted quarterly as events occur to warrant such changes. Adjustments to tax reserves are a component of the effective tax rate. We currently estimate our effective tax rate for 2009 will be between 38% and 40%.

Outlook — We expect that developing weakness in the underlying environment for non-residential activity has and will continue to affect 2009 activity levels in our industry compared to 2008. Our backlog while still at solid levels by historical standards has been declining. Our primary emphasis for 2009 has been and continues to be on execution including a focus on cost controls and efficient project and service performance at the unit level. Based on our backlog and the weakening economic conditions for our industry, we expect continued profitability over the next twelve months, but we expect lower profitability than we achieved over the past twelve months as industry conditions continue to weaken.

***Liquidity and Capital Resources*:**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
	(in thousands)			
Cash provided by (used in):				
Operating activities	$ 20,943	$ 24,803	$ 46,956	$ 44,754
Investing activities	$ (15,514)	$ (1,438)	$ (61,121)	$ (7,241)
Financing activities	$ (4,637)	$ (3,917)	$ (23,166)	$ (14,665)
Free cash flow:				
Cash provided by operating activities	$ 20,943	$ 24,803	$ 46,956	$ 44,754
Purchases of property and equipment	(3,773)	(1,986)	(10,778)	(6,420)
Proceeds from sales of property and equipment	539	326	656	500
Free cash flow	$ 17,709	$ 23,143	$ 36,834	$ 38,834

Cash Flow — We define free cash flow as cash provided by operating activities less customary capital expenditures, plus the proceeds from asset sales. Positive free cash flow represents funds available to invest in significant operating initiatives, to acquire other companies, or to reduce a company's outstanding debt or equity. If free cash flow is negative, additional debt or equity is generally required to fund the outflow of cash. Free cash flow may be defined differently by other companies.

Our business does not require significant amounts of investment in long-term fixed assets. The substantial majority of the capital used in our business is working capital that funds our costs of labor and installed equipment deployed in project work until our customers pay us. Customary terms in our industry allow customers to withhold a small portion of the contract price until after we have completed the work, typically for six months. Amounts withheld under this practice are known as retention or retainage. Our average project duration together with typical retention terms generally allow us to complete the realization of revenue and earnings in cash within one year. Accordingly, we believe free cash flow, by encompassing both profit margins and the use of working capital over our approximately one year working capital cycle, is an effective measure of operating effectiveness and efficiency. We have included free cash flow information here for this reason, and because we are often asked about it by third parties evaluating us. However, free cash flow is not considered under generally accepted accounting principles to be a primary measure of an entity’s financial results, and accordingly free cash flow should not be considered an alternative to operating income, net income, or amounts shown in our consolidated statements of cash flows as determined under generally accepted accounting principles.

For the three months ended September 30, 2009, we had free cash flow of $23.1 million as compared to free cash flow of $17.7 million in 2008. This increase is primarily due to improved working capital efficiency due to

lower revenue growth. For the nine months ended September 30, 2009, we had free cash flow of $38.8 million, as compared to free cash flow of $36.8 million for the nine months ended September 30, 2008. This decrease is primarily due to lower net income in 2009.

As of September 30, 2009, our marketable securities consisted of $6.6 million of auction rate securities, which are variable rate debt instruments, having long-term maturities, but whose interest rates are designed to reset through an auction process, at intervals ranging from seven to 35 days. We had $9.4 million investments in marketable securities as of December 31, 2008. All of our auction rate securities are high quality direct municipal obligations which have high investment grade ratings or otherwise are backed by high investment grade rated insurance agencies. In February 2008, liquidity issues in the global credit markets caused auctions representing some of the auction rate securities we hold to fail because the amount of securities offered for sale exceeded the bids. As a result, the liquidity of our remaining auction rate securities has diminished, and we expect that this decreased liquidity for our auction rate securities will continue as long as the present depressed global credit market environment persists, or until issuers refinance and replace these securities with other instruments. As a result of the temporary declines in fair value for our auction rate securities, which we attribute to liquidity issues rather than credit issues, we recorded an unrealized loss of $0.3 million, net of tax of $0.1 million, to accumulated other comprehensive income (loss). Our analysis of the fair values of these securities considered, among other items, the creditworthiness of the counterparty, the timing of expected future cash flows, and the possibility that a discount may be required if we choose to sell the securities in the absence of a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics.

As a result of the current situation in the auction markets, our ability to liquidate our investment in auction rate securities and fully recover the carrying value of our investment in the near term may be limited or impossible. If in the future the issuers are unable to successfully close future auctions and their credit ratings deteriorate and if we determine that any future valuation adjustment was other than temporary, we may be required to record an impairment charge on these investments. Because the tax exempt interest rates on these bonds are relatively attractive, we believe that we may be able to liquidate our investment without significant loss in the foreseeable future; however, it could take until the final maturity of the underlying notes (up to October 2034) to be repaid. Based on our expected operating cash flows, and our other sources of cash, we do not anticipate the potential lack of liquidity on these investments will affect our ability to execute our current business plan. During the nine months ended September 30, 2009, we sold $3.0 million of these auction rate securities at face value. An additional $1.0 million was sold at face value during October 2009; this is included in “Prepaid Expenses and Other” in our consolidated balance sheet.

As of December 31, 2008, the Board approved extensions of the program to cover an additional 2.9 million shares. During the first quarter of 2009, the Board approved an extension of the program to cover an additional 0.5 million shares. During the third quarter of 2009, the Board approved an extension of the program to cover an additional 0.5 million shares. Since the inception of the repurchase program, the Board has approved 4.9 million shares to be repurchased.

The share repurchases will be made from time to time at our discretion in the open market or privately negotiated transactions as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The Board may modify, suspend, extend or terminate the program at any time. We repurchased 843,700 shares during the nine months ended September 30, 2009, at an average price of $9.94 per share. Since the inception of the repurchase program in 2007, we have repurchased a cumulative total of 4.0 million shares as of September 30, 2009, at an average price of $11.12 per share.

Credit Facility — On February 20, 2007, we entered into a $100.0 million senior credit facility (the ‘‘Facility’’) provided by a syndicate of banks. The Facility expires in February 2012 and is secured by the capital stock of our current and future subsidiaries. As of September 30, 2009, we had no outstanding borrowings, $43.1 million in letters of credit outstanding, and $56.9 million of credit available.

We have a choice of two interest rate options for borrowings under the Facility; these rates are floating rates determined by the broad financial markets, meaning they can and do move up and down from time to time. Excluding the amortization of debt financing and arrangement cost, we estimate that the interest rate applicable to

the borrowings under the Facility would be approximately 1.5% as of September 30, 2009. Commitment fees are payable on the portion of the capacity not in use for borrowings or letters of credit at any given time. These fees range from 0.20%-0.30% per annum, based on the ratio of debt to Credit Facility Adjusted EBITDA.

The Facility contains financial covenants defining various financial measures and the levels of these measures with which we must comply. The Facility’s principal financial covenants include:

Leverage Ratio — The Facility requires that the ratio of our total indebtedness less cash and cash equivalents to our Credit Facility Adjusted EBITDA not exceed 2.50. The leverage ratio as of September 30, 2009 was 0.11.

Fixed Charge Coverage Ratio — The Facility requires that the ratio of Credit Facility Adjusted EBITDA, less non-financed capital expenditures, tax provision, dividends and amounts used to repurchase stock to the sum of interest expense and scheduled principal payments be at least 1.50. Capital expenditures, tax provision, dividends and stock repurchase payments are defined under the Facility for purposes of this covenant to be amounts for the four quarters ending as of any given quarterly covenant compliance measurement date. The calculation of the fixed charge coverage ratio excludes acquisitions, stock repurchases and the payment of cash dividends, at any time that the Leverage Ratio does not exceed 1.0. The fixed charge coverage ratio as of September 30, 2009 was 13.34.

Other Restrictions — The Facility permits acquisitions of up to $25.0 million per transaction, or $50.0 million in the aggregate. However, these limitations only apply when the Leverage Ratio is greater than 1.0.

While the Facility's financial covenants do not specifically govern capacity under the Facility, if our debt level under the Facility at a quarter-end covenant compliance measurement date were to cause us to violate the Facility's debt-to-Credit Facility Adjusted EBITDA covenant, our borrowing capacity under the Facility and the favorable terms that we currently enjoy could be negatively impacted by the lenders.

We are in compliance with all the financial covenants as of September 30, 2009.

Notes to Former Owners — We issued subordinated notes to the former owners of acquired companies, as part of the consideration used to acquire these companies. These notes had an outstanding balance of $8.6 million, of which $2.0 million is current as of September 30, 2009. These notes bear interest, payable annually, at a weighted average interest rate of 5.7%.

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

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

Certain of our vendors require letters of credit to ensure reimbursement for amounts they are disbursing on our behalf, such as to beneficiaries under our self-funded insurance programs. We have also occasionally used letters of credit to guarantee performance under our contracts and to ensure payment to our subcontractors and vendors under those contracts. The letters of credit we provide are actually issued by our lenders through the Facility as described above. A letter of credit commits the lenders to pay specified amounts to the holder of the letter of credit if the holder demonstrates that we have failed to perform specified actions. If this were to occur, we would be required to reimburse the lenders. Depending on the circumstances of such a reimbursement, we may also have to record a charge to earnings for the reimbursement. Absent a claim, there is no payment or reserving of funds by us in connection with a letter of credit. However, because a claim on a letter of credit would require immediate reimbursement by us to our lenders, letters of credit are treated as a use of the Facility’s capacity just the same as actual borrowings. Claims against letters of credit are rare in our industry. To date we

have not had a claim made against a letter of credit that resulted in payments by a lender or by us. We believe that it is unlikely that we will have to fund claims under a letter of credit in the foreseeable future.

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

Surety market conditions are currently challenging as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. Further, under standard terms in the surety market, sureties issue bonds on a project-by-project basis, and can decline to issue bonds at any time. Historically, approximately 25% to 30% of our business has required bonds. While we have strong surety relationships to support our bonding needs, current market conditions as well as changes in our sureties' assessment of our operating and financial risk could cause our sureties to decline to issue bonds for our work. If that were to occur, our alternatives include doing more business that does not require bonds, posting other forms of collateral for project performance such as letters of credit or cash, and seeking bonding capacity from other sureties. We would likely also encounter concerns from customers, suppliers and other market participants as to our creditworthiness. While we believe our general operating and financial characteristics, including a significant amount of cash on our balance sheet, would enable us to ultimately respond effectively to an interruption in the availability of bonding capacity, such an interruption would likely cause our revenues and profits to decline in the near term.

The following recaps the future maturities of our contractual obligations as of September 30, 2009 (in thousands):

	Twelve Months Ended September 30,						
	2010	2011	2012	2013	2014	Thereafter	Total
Liabilities – Notes to former owners	$ 2,018	$ 6,232	$ 375	$ —	$ —	$ —	$ 8,625
Operating lease obligations	9,740	8,519	7,374	6,270	4,166	6,083	42,152
Interest payable	457	196	—	—	—	—	653
Total	$ 12,215	$ 14,947	$ 7,749	$ 6,270	$ 4,166	$ 6,083	$ 51,430

Absent any significant commitments of capital for items such as capital expenditures, acquisitions, dividends and share repurchases, it is reasonable to expect us to continue to maintain excess cash on our balance sheet. Therefore, we assumed that we would continue our current status of not utilizing any borrowings under our revolving credit facility.

As of September 30, 2009, we also have $43.1 million letter of credit commitments, of which $42.5 million will expire in 2009 and $0.6 million will expire in 2010. The substantial majority of these letters of credit are posted with insurers who disburse funds on our behalf in connection with our worker's compensation, auto liability and general liability insurance program. These letters of credit provide additional security to the insurers that sufficient financial resources will be available to fund claims on our behalf, many of which develop over long periods of time, should we ever encounter financial duress. Posting of letters of credit for this purpose is a common practice for entities that manage their self-insurance programs through third-party insurers as we do. While most of these letter of credit commitments expire in 2009, we expect nearly all of them, particularly those supporting our insurance programs, will be renewed annually.

Other than the operating lease obligations noted above, we have no significant purchase or operating commitments outside of commitments to deliver equipment and provide labor in the ordinary course of performing project work.

Outlook — We have generated positive net free cash flow for the last ten calendar years, much of which occurred during challenging economic and industry conditions. We also expect to have significant borrowing capacity under our credit facility and we continue to have substantial uncommitted cash balances. We believe these factors will provide us with sufficient liquidity to fund our operations for the foreseeable future.

Cyclicality and Seasonality

Historically, the construction industry has been highly cyclical. As a result, our volume of business may be adversely affected by declines in new installation and replacement projects in various geographic regions of the United States during periods of economic weakness.

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

Recent Accounting Pronouncements

On September 30, 2009, we adopted changes issued by the Financial Accounting Standards Board ("FASB") to the authoritative hierarchy of generally accepted accounting principles ("GAAP"). These changes establish the FASB Accounting Standards Codification™ ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the consolidated financial statements.

Fair Value Accounting

On January 1, 2009, we adopted changes issued by the FASB to fair value accounting and reporting as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. These changes define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. This guidance applies to other GAAP that require or permit fair value measurements and is to be applied prospectively with limited exceptions. The adoption of these changes, as it relates to nonfinancial assets and nonfinancial liabilities, had no impact on the consolidated financial statements, however we have expanded the disclosures regarding marketable securities, goodwill, and intangible assets.

Business Combinations and Consolidation Accounting

On January 1, 2009, we adopted changes issued by the FASB to accounting for business combinations. These changes apply to all assets acquired and liabilities assumed in a business combination that arise from certain contingencies and requires (i) an acquirer to recognize at fair value, at the acquisition date, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period otherwise the asset or liability should be recognized at the acquisition date if certain defined criteria are met; (ii) contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be recognized initially at fair value; (iii) subsequent measurements of assets and liabilities arising from contingencies be based on a systematic and rational method depending on their nature and contingent consideration arrangements be measured subsequently; and (iv) disclosures of the amounts and measurement basis of such assets and liabilities and the nature of the contingencies. The adoption did not have a material impact on our consolidated financial statements. The adoption will significantly impact our accounting and reporting for future acquisitions, principally as a result of the expanded requirements to value acquired assets, liabilities and contingencies at their

fair values and (ii) the requirement that acquisition related transaction costs be expensed as incurred rather than capitalized as a part of the cost of the acquisition.

Earnings Per Share

On January1, 2009, we adopted changes issued by the FASB to the calculation of earnings per share. These changes state that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method for all periods presented. There was no significant impact upon the adoption of these changes.

Subsequent Events

On June 30, 2009, we adopted changes issued by the FASB to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The new guidance also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This change had no impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk primarily related to potential adverse changes in interest rates as discussed below. We are actively involved in monitoring exposure to market risk and continue to develop and utilize appropriate risk management techniques. We are not exposed to any other significant financial market risks including commodity price risk, foreign currency exchange risk or interest rate risks from the use of derivative financial instruments. We do not use derivative financial instruments.

We have limited exposure to changes in interest rates under our revolving credit facility. We have a debt facility under which we may borrow funds in the future. We do not currently foresee any borrowing needs. Our debt with fixed interest rates consists of notes to former owners of acquired companies.

The following table presents principal amounts (stated in thousands) and related average interest rates by year of maturity for our debt obligations and their indicated fair market value at September 30, 2009:

	Twelve Months Ended September 30,						
	2010	2011	2012	2013	2014	Thereafter	Fair Value
Fixed Rate Debt	$ 2,018	$ 6,232	$ 375	$ —	$ —	$ —	$ 8,625
Average Interest Rate	5.5%	5.8%	6.0%	—	—	—	5.7%

As of September 30, 2009, our marketable securities consisted of $6.6 million of auction rate securities, which are variable rate debt instruments, having long-term maturities, but whose interest rates are designed to reset through an auction process, at intervals ranging from seven to 35 days. We had $9.4 million in investments of marketable securities as of December 31, 2008. All of our auction rate securities are high quality direct municipal obligations which have high investment grade ratings or otherwise are backed by high investment grade rated insurance agencies. In February 2008, liquidity issues in the global credit markets caused auctions representing some of the auction rate securities we hold to fail because the amount of securities offered for sale exceeded the bids. As a result, the liquidity of our auction rate securities has diminished, and we expect that this decreased liquidity for our auction rate securities will continue as long as the present depressed global credit market environment persists, or until issuers refinance and replace these securities with other instruments. As a result of the temporary declines in fair value for our auction rate securities, which we attribute to liquidity issues rather than credit issues, we recorded an unrealized loss of $0.3 million, net of tax, of less than $0.1 million to accumulated other comprehensive income (loss). Our analysis of the fair values of these securities considered, among other items, the creditworthiness of the counterparty, the timing of expected future cash flows, and the possibility that a discount may be required if we choose to sell the securities in the absence of a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics.

As a result of the current situation in the auction markets, our ability to liquidate our investment in auction rate securities and fully recover the carrying value of our investment in the near term may be limited or impossible. If in the future the issuers are unable to successfully close future auctions and their credit ratings deteriorate and if we determine that any future valuation adjustment was other than temporary, we may be required to record an impairment charge on these investments. Because the tax exempt interest rates on these bonds are relatively attractive, we believe that we may be able to liquidate our investment without significant loss in the foreseeable future; however, it could take until the final maturity of the underlying notes (up to October 2034) to be repaid. Based on our expected operating cash flows, and our other sources of cash, we do not anticipate the potential lack of liquidity on these investments will affect our ability to execute our current business plan.

We measure certain assets, including our goodwill and intangible assets at a fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be impaired. During the nine months ended September 30, 2009, we did not recognize any impairments on those assets required to be measured at fair value on a nonrecurring basis.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our executive management is responsible for ensuring the effectiveness of the design and operation of our disclosure controls and procedures. We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) during the three months ended September 30, 2009 that have materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. ***Legal Proceedings***

We are subject to certain claims and lawsuits arising in the normal course of business. We maintain various insurance coverages to minimize financial risk associated with these claims. We have estimated and provided accruals for probable losses and related legal fees associated with certain of our litigation in our consolidated financial statements. While we cannot predict the outcome of these proceedings, in our opinion and based on reports of counsel, any liability arising from these matters individually and in the aggregate will not have a material effect on our operating results or financial condition, after giving effect to provisions already recorded.

Item 2. **U*nregistered Sales of Equity Securities and Use of Proceeds***

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

On March 29, 2007, our Board of Directors (the "Board") approved a stock repurchase program to acquire up to one million shares of our outstanding common stock. As of December 31, 2008, the Board approved extensions of the program to cover an additional 2.9 million shares. During the first quarter of 2009, the Board approved an extension of the program to cover an additional 0.5 million shares. During the third quarter of 2009, the Board approved an extension of the program to cover an additional 0.5 million shares. Since the inception of the repurchase program, the Board has approved 4.9 million shares to be repurchased.

The share repurchases will be made from time to time at our discretion in the open market or privately negotiated transactions as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The Board may modify, suspend, extend or terminate the program at any time. We repurchased 843,700 shares during the nine months ended September 30, 2009, at an average price of $9.94 per share. Since the inception of the program, we have repurchased a cumulative total of 4.0 million shares as of September 30, 2009, at an average price of $11.12 per share.

During the quarter ended September 30, 2009, we purchased our common shares in the following amounts at the following average prices:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 – July 31	56,000	$ 10.06	3,857,409	541,600
August 1 – August 31	18,000	$ 11.31	3,875,409	1,000,000
September 1 – September 30	168,600	$ 11.16	4,044,009	831,400
	242,600	$ 10.92	4,044,009	831,400

Under our restricted share plan, employees may elect to have us withhold common shares to satisfy minimum statutory federal, state and local tax withholding obligations arising on the vesting of restricted stock awards and exercise of options. When we withhold these shares, we are required to remit to the appropriate taxing authorities the market price of the shares withheld, which could be deemed a purchase of the common shares by us on the date of withholding. During the quarter ended September 30, 2009, we withheld common shares to satisfy these tax withholding obligations as follows:

Period	Number of Shares Purchased	Average Price Paid Per Share
July 1 – July 31	—	$ —
August 1 – August 31	220	$ 12.64
September 1 – September 30	—	$ —
	220	$ 12.64

Item 6. ***Exhibits***

(a) Exhibits.

10.1	Supplemental Schedules and Exhibits to Amended and Restated Senior Credit Facility dated February 20, 2007.
31.1	Rule 13a-14(a) Certification of William F. Murdy pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Rule 13a-14(a) Certification of William George pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 1350 Certification of William F. Murdy pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Section 1350 Certification of William George pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		COMFORT SYSTEMS USA, INC.
November 3, 2009	By:	/s/ WILLIAM F. MURDY
		William F. Murdy *Chairman of the Board and* *Chief Executive Officer*
November 3, 2009	By:	/s/ WILLIAM GEORGE
		William George *Executive Vice President and* *Chief Financial Officer*
November 3, 2009	By:	/s/ JULIE S. SHAEFF
		Julie S. Shaeff *Senior Vice President and* *Chief Accounting Officer*

Exhibit 10.1

Supplemental Schedules and Exhibits

Exhibit 2.10	Letter of Credit Application and Agreement
Exhibit 4.1(g)(i)	Opinion of Bracewell and Giuliani LLP
Exhibit 4.1(g)(ii)	Opinion of Trent McKenna
Schedule 1.1(b)	Existing Letters of Credit

EXHIBIT 4.1(g)(i)

Bracewell & Giuliani LLP
711 Louisiana Street
Suite 2300
Houston, Texas
713.223.2300
713.221.1212

bgllp.com

February 20, 2007

To the Lenders and the Agent
referred to herein

Ladies and Gentlemen:

We have acted as Texas counsel for Comfort Systems USA, Inc., a Delaware corporation (the "Borrower"), and the subsidiaries of the Borrower named on the attached Exhibit A (each, an "Opinion Subsidiary" and, collectively, the "Opinion Subsidiaries") in connection with the Amended and Restated Credit Agreement dated as of February 20, 2007 (the "Credit Agreement"), among the Borrower, the financial institutions listed on the signature pages thereof (the "Lenders"), and Wachovia Bank, N.A., as administrative agent for the Lenders (in such capacity, the "Agent"). The Borrower and the Opinion Subsidiaries are sometimes referred to herein individually as a "Transaction Party" and collectively as the "Transaction Parties." This opinion letter is delivered to you pursuant to Section 4.1(g) of the Credit Agreement.

Capitalized terms used herein and not otherwise defined herein have the meanings assigned to such terms in the Credit Agreement. As used herein, (i) "Texas UCC" means the Uniform Commercial Code, as amended and in effect in the State of Texas on the date hereof; (ii) "Delaware UCC" means the Uniform Commercial Code, as amended and in effect in the State of Delaware on the date hereof; and (iii) "Applicable Law" means, with respect to each Transaction Party, the General Corporation Law of the State of Delaware, the Revised Limited Partnership Act of the State of Delaware, the Limited Liability Company Act of the State of Delaware, the Delaware UCC, and those laws, rules, and regulations of the State of Texas and of the United States of America as in effect on the date hereof which in our experience are normally applicable to such Transaction Party and to transactions of the type provided for in the Opinion Documents to which such Transaction Party is a party); provided, however, that Applicable Law does not include (i) except for our opinion in paragraph 8 below as to the 1940 Act, any federal or state securities, commodities, insurance, or investment company laws and regulations; (ii) any federal or state labor, pension, or other employee benefit laws and regulations; (iii) any federal or state antitrust, trade or unfair competition laws and regulations; (iv) any federal or state laws and regulations relating to the environment, safety, health, or other similar matters; (v) any laws, rules, and regulations of any county, municipality, subdivision or similar local authority of any jurisdiction or any agency or instrumentality thereof; (vi) any federal or state tax laws or regulations; (vii) any federal or state laws or regulations relating to copyrights, patents, trademarks, or other intellectual property; or (viii) any federal or state laws or regulations relating to usury or otherwise limiting the amount of interest that may be charged.

In connection with the opinions expressed herein, we have examined such documents, records and matters of law as we have deemed necessary for the purposes of such opinions. We

have examined each of the following agreements, instruments and documents (hereinafter called the "Opinion Documents"):

(a) an executed copy of the Credit Agreement;

(b) executed copies of the three Amended and Restated Revolving Notes and the one Revolving Note (the "Notes") delivered to the Lenders on the date hereof;

(c) an executed copy of the Amended and Restated Security Agreement dated as of the date hereof (the "Security Agreement") among the Borrower, the other Transaction Parties party thereto, and the Agent;

(d) an executed copy of the Amended and Restated Pledge Agreement dated as of the date hereof (the "Pledge Agreement"), among the Borrower, the other Transaction Parties party thereto, and the Agent; and

(e) an executed copy of the Amended and Restated Subsidiary Guaranty dated as of the date hereof (the "Guaranty") of the Transaction Parties party thereto for the benefit of the Agent and the Lenders.

We have also examined the financing statements, each naming a Transaction Party as debtor and the Agent as secured party, listed on Exhibit B hereto (collectively, the "Financing Statements").

In addition to reviewing the Opinion Documents and Financing Statements described above, the following (hereinafter called, the "Reliance Materials") have also been reviewed by our firm in connection with this opinion:

(i) a copy of the Certificate of Incorporation of the Borrower certified by the Secretary of State of the State of Delaware on February 13, 2007 and certified by an officer of the Borrower as being complete and correct and in full force and effect as of the date hereof;

(ii) a copy of a certificate dated February 13, 2007 of the Secretary of State of the State of Delaware as to the existence and good standing of the Borrower in the State of Delaware as of such date;

(iii) a copy of a certificate dated February 13, 2007 of the Secretary of State of the State of Texas as to the existence of the Borrower and the filing by the Borrower of an Application for Certificate of Authority, in each case in the State of Texas as of such date; and

(iv) a copy of a certificate dated February 13, 2007 of the Texas Comptroller of Public Accounts as to the good standing of the Borrower in the State of Texas as of such date.

In all such examinations, we have assumed the legal capacity of all natural persons executing documents, the genuineness of all signatures, the authenticity of original and certified documents, and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. As to various questions of fact relevant to the opinions expressed herein, we have relied upon, and assume the accuracy of, representations and warranties contained in the Opinion Documents and certificates and oral or written statements and other information of or from representatives of the Transaction Parties and others and assume compliance on the part of the Transaction Parties with their covenants and agreements contained therein. In connection with the opinions expressed in the first sentence of paragraph 1 below, we have relied solely upon certificates of public officials as to the factual matters and legal conclusions set forth therein. With respect to the opinions expressed in paragraphs 1, 2, and 3 below, our opinions are limited (x) to our actual knowledge, if any, of the specially regulated business activities and properties of the Transaction Parties based solely upon certificates of officers of the Transaction Parties in respect of such matters and without any independent investigation or verification on our part and (y) to only those laws and regulations that, in our experience, are normally applicable to transactions of the type contemplated by the Opinion Documents.

Based upon the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, we are of the opinion that:

1. Existence and Good Standing Opinions. The Borrower is a corporation duly incorporated and existing in good standing under the laws of the State of Delaware and is authorized or qualified to do business and in good standing as a foreign corporation in the State of Texas. Each Transaction Party has the corporate, limited partnership, or limited liability company power and authority to enter into and to incur and perform its obligations under the Opinion Documents to which it is a party.

2. Authorization Opinion. The execution and delivery to the Agent and the Lenders by each Transaction Party of the Opinion Documents to which it is a party and the performance by such Transaction Party of its obligations thereunder have been authorized by all necessary corporate, limited partnership, or limited liability company, as applicable, action by, and partner or member, as applicable, action in respect of, such Transaction Party.

3. Approvals; Other Required Actions. The execution and delivery to the Agent and the Lenders by each Transaction Party of the Opinion Documents to which it is a party and the performance by such Transaction Party of its obligations thereunder do not require under Applicable Law any filing or registration by such Transaction Party with, or approval or consent to such Transaction Party of, any Governmental Authority that has not been made or obtained except (a) those required in the ordinary course of business in connection with the performance by such Transaction Party of its obligations under certain covenants contained in the Opinion Documents to which it is a party and to perfect security interests, if any, granted by such Transaction Party thereunder, (b) pursuant to securities and other laws that may be applicable to the disposition of any collateral subject thereto, (c) other filings under securities laws, and (d) filings, registrations, consents or approvals in each case not required to be made or obtained by the date hereof.

4. Execution, Delivery, and Enforceability Opinion. Each Opinion Document has been duly executed and delivered on behalf of each Transaction Party signatory thereto. Each Opinion document constitutes, with respect to each Transaction Party that is a party thereto, a legal, valid and binding obligation of such Transaction Party, enforceable against such Transaction Party in accordance with its terms.

5. "No Violation" Opinions. The execution and delivery to the Agent and the Lenders by each Transaction Party of the Opinion Documents to which it is a party and the performance by such Transaction Party of its obligations thereunder do not violate (a) any provision of the certificate or articles of incorporation, certificate of formation, certificate of limited partnership, bylaws, limited liability company agreement, operating agreement, partnership agreement, or other organizational documents of such Transaction Party, (b) any Applicable Law, or (c) any agreement binding upon such Transaction Party or its property that is listed on Schedule 2 to the Officer's Certificate attached as Exhibit C hereto or (d) any court decree or order binding upon such Transaction Party or its property that is listed on Schedule 1 to the Officer's Certificate attached as Exhibit C hereto; provided that we express no opinion with respect to any violation not readily ascertainable from the face of any such agreement, decree or order, or arising under or based upon any cross default provision insofar as it relates to a default under an agreement not so identified to us, or arising under or based upon any covenant or other provision of a financial or numerical nature or requiring computation).

6. No Creation of Liens Opinion. The execution and delivery to the Agent and the Lenders by each Transaction Party of the Opinion Documents to which it is a party and the performance by such Transaction Party of its obligations thereunder, will not result in or require the creation or imposition of any security interest or lien upon any of its properties pursuant to the provisions of any agreement binding upon such Transaction Party or its properties that is listed on the attached Exhibit C, other than security interests or liens in favor of the Agent created under any of the Opinion Documents or arising under applicable law.

7. Margin Regulations Opinion. The borrowings by the Borrower under the Credit Agreement, the application of the proceeds thereof as provided in the Credit Agreement, and the grant of security interests under the Pledge Agreement and the Security Agreement will not violate Regulation T, U or X of the Board of Governors of the Federal Reserve System (the "Margin Regulations").

8. Investment Company Act Opinion. Based solely on facts certified to us by the Transaction Parties, no Transaction Party is required to register as an "investment company" (under, and as defined in, the Investment Company Act of 1940, as amended (the "1940 Act")), and no Transaction Party is a company controlled by a company required to register as such under the 1940 Act.

9. Creation of Security Interests Opinion. The Security Agreement creates in favor of the Agent, as security for the Secured Obligations, a valid security interest in each Transaction Party's rights in the Collateral (as defined in the Security Agreement) to the extent a security interest in such Collateral may be created under Article 9 of the Texas UCC (the "Article 9 Collateral").

10. Central Filing Perfection Opinions. Upon the effective filing of the Delaware Financing Statements with the Secretary of State of Delaware (the "Delaware Filing Office"), the Agent will have, for the benefit of the Agent and the Lenders, a perfected security interest in that portion of the Article 9 Collateral described therein in which a security interest may be perfected by filing a financing statement with the Delaware Filing Office under the Delaware UCC (the "Delaware Filing Collateral"). Upon the effective filing of the Texas Financing Statements with the Secretary of State of Texas (the "Texas Filing Office"), the Agent will have, for the benefit of itself and the Lenders, a perfected security interest in that portion of the Article 9 Collateral described therein in which a security interest may be perfected by filing a financing statement with the Texas Filing Office under the Texas UCC (the "Texas Filing Collateral").

11. Perfection of Security Interests in Certificated Securities by Control. When each Transaction Party that has granted to the Agent for the benefit of itself and the Lenders a security interest in certificated securities (as defined in the Texas UCC) pursuant to the Security Agreement delivers to the Agent in the State of Texas each of the certificates representing such certificated securities, together with an instrument of transfer or assignment related to any such certificated security which is a registered certificated security, duly indorsed in blank by an authorized officer of such Transaction Party, the Agent for the benefit of the Agent and the Lenders will have perfected security interests in such certificated securities under the Texas UCC.

12. Article 9 Priority Opinion re Certificated Securities. The security interest of the Agent in Article 9 Collateral constituting certificated securities, to the extent perfected by “control” as described in our paragraph 11 above, will be prior to a security interest of any other secured party created under Article 9 of the Texas UCC in such certificated securities, assuming no other secured party has perfected its security interest in such certificated securities by control prior to the date the Agent’s interest becomes perfected by control and assuming that no other secured party claims control through the Agent.

The opinions set forth above are subject to the following assumptions and qualifications, and with your permission, all of the following assumptions and statements of reliance have been made without any independent investigation or verification on our part except to the extent, if any, otherwise expressly stated, and we express no opinion with respect to the subject matter or accuracy of the assumptions or items upon which we have relied. Further, whenever our opinion is based on circumstances, matters or facts "to our knowledge after due inquiry" we have relied exclusively on certificates of certain officers of the Transaction Parties as to the existence or non-existence of the circumstances, matters or facts upon which such opinion is based. While we have not made any independent or other investigation or inquiry as to any such circumstances, matters or facts, we have no reason to believe that any such certificate is untrue or inaccurate in any material respect.

(A) Our opinions are subject to (i) applicable bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, voidable preference, moratorium, receivership, conservatorship, arrangement or similar laws, and related regulations and judicial doctrines, affecting creditors' rights and remedies generally, (ii) general principles of equity (including, without limitation, standards of materiality, good faith, fair dealing and reasonableness, equitable defenses, the exercise of judicial discretion and limits on the availability of equitable remedies),

whether such principles are considered in a proceeding at law or in equity, and (iii) the qualification that certain provisions of the Opinion Documents may be unenforceable in whole or in part under the laws (including judicial decisions) of the State of Texas or the United States of America, but the inclusion of such provisions does not affect the validity as against the Transaction Parties party thereto of the Opinion Documents as a whole and the Opinion Documents contain adequate provisions for the practical realization of the principal benefits provided by the Opinion Documents, in each case subject to the other qualifications contained in this letter.

(B) We express no opinion as to the validity or enforceability of any provision in the Opinion Documents:

(i) providing that any person or entity may sell or otherwise dispose of, or purchase, any collateral subject thereto, or enforce any other right or remedy thereunder (including without limitation any self-help or taking-possession remedy), except in compliance with the UCC and other applicable laws;

(ii) establishing standards for the performance of the obligations of good faith, diligence, reasonableness and care prescribed by the Texas UCC or of any of the rights or duties referred to in Section 9.603 of the Texas UCC;

(iii) relating to indemnification, contribution, exculpation or release of liability in connection with violations of any securities laws or statutory duties or public policy, or in connection with willful, reckless or unlawful acts or gross negligence or strict liability of the indemnified, released or exculpated party or the party receiving contribution;

(iv) providing that any person or entity may exercise set-off rights other than in accordance with and pursuant to applicable law;

(v) relating to choice of governing law to the extent that the enforceability of any such provision is to be determined by any court other than a court of the State of Texas or may be subject to constitutional limitations;

(vi) waiving any rights to trial by jury;

(vii) purporting to confer, or constituting an agreement with respect to, personal or subject matter jurisdiction of United States federal courts to adjudicate any matter;

(viii) purporting to create a trust or other fiduciary relationship;

(ix) specifying that provisions may be waived only in writing, to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created that modifies any provision of such Opinion Documents;

(x) giving any person or entity the power to accelerate obligations or to foreclose upon collateral without any notice to the Transaction Party.

(xi) providing for the performance by any guarantor of any of the nonmonetary obligations of any person or entity not controlled by such guarantor;

(xii) providing that decisions by a party are conclusive or may be made in its sole discretion;

(xiii) purporting to create a power of attorney;

(xiv) to the extent it requires any Transaction Party to indemnify any other party to a Document against loss in obtaining the currency due under a Document from a court judgment in another currency;

(xv) relating to arbitration;

(xvi) providing for liquidated damages to the extent that it may be deemed a penalty;

(xvii) providing for restraints on alienation of property and purporting to render transfers of such property void and of no effect or prohibiting or restricting the assignment or transfer of property or rights to the extent that any such prohibition or restriction is ineffective pursuant to Sections 9.406 through 9.409 of the Texas UCC; or

(xviii) relating to integration, statute of frauds or notice of the entire agreement of the parties.

(C) Our opinions as to enforceability are subject to the effect of generally applicable rules of law that:

(i) provide that forum selection clauses in contracts are not necessarily binding on the court(s) in the forum selected; and

(ii) may, where less than all of a contract may be unenforceable, limit the enforceability of the balance of the contract to circumstances in which the unenforceable portion is not an essential part of the agreed exchange, or that permit a court to reserve to itself a decision as to whether any provision of any agreement is severable.

(D) We express no opinion as to the enforceability of any purported waiver, release, variation, disclaimer, consent or other agreement to similar effect (all of the foregoing, collectively, a "Waiver") by any Transaction Party under Opinion Documents to the extent limited by Sections 9.602 or 9.624 of the Texas UCC or other provisions of applicable law (including judicial decisions), or to the extent that such a Waiver applies to a right, claim, duty or defense or a ground for, or a circumstance that would operate as, a discharge or release otherwise existing or occurring as a matter of law (including judicial decisions).

(E) Our opinions in paragraphs 9, 10, 11, and 12 are subject to the following assumptions, qualifications and limitations:

(i) Any security interest in the proceeds of collateral is subject in all respects to the limitations set forth in Section 9.315 of the Texas UCC.

(ii) We express no opinion as to the nature or extent of the rights, or the power to transfer rights, of any Transaction Party in, or title of any Transaction Party to, any collateral under any of the Opinion Documents, or property purporting to constitute such collateral, or the value, validity, enforceability or effectiveness for any purpose of any

such collateral or purported collateral, and we have assumed that each Transaction Party has sufficient rights in, or power to transfer rights in, all such collateral or purported collateral for the security interests provided for under the Opinion Documents to attach. Additionally, we express no opinion as to the nature or extent of the Securities Intermediary's interests or other rights in the securities or other financial assets underlying any Pledged Security Entitlement.

(iii) Other than as expressly noted in paragraphs 9, 10, 11, and 12 above, we express no opinion as to (x) the creation, validity or enforceability of, any pledge, security interest, assignment for security, lien or other encumbrance, as the case may be, that may be created or purported to be created under the Opinion Documents, or (y) the priority of any pledge, security interest, assignment for security, lien or other encumbrance, as the case may be, that may be created or purported to be created under the Opinion Documents. We express no opinion as to security interests in any commercial tort claims.

(iv) In the case of property that becomes collateral under the Opinion Documents after the date hereof, Section 552 of the United States Bankruptcy Code limits the extent to which property acquired by a debtor after the commencement of a case under the United States Bankruptcy Code may be subject to a lien arising from a security agreement entered into by the debtor before the commencement of such case.

(v) We express no opinion as to the enforceability of the security interests under the Opinion Documents in any item of collateral subject to any restriction on or prohibition against transfer contained in or otherwise applicable to such item of collateral or any contract, agreement, license, permit, security, instrument or document constituting, evidencing or relating to such item, except to the extent that any such restriction is rendered ineffective pursuant to any of Sections 9-406 through 9-409, inclusive, of the UCC.

(vi) We call to your attention that Article 9 of the UCC requires the filing of continuation statements within the period of six months prior to the expiration of five years from the date of original filing of financing statements under the UCC in order to maintain the effectiveness of such financing statements and that additional financing statements may be required to be filed to maintain the perfection of security interests if the debtor granting such security interests makes certain changes to its name, or changes its location (including through a change in its jurisdiction of organization) or the location of certain types of collateral all as provided in the UCC.

(vii) We call to your attention that a Transaction Party (as defined in the UCC) other than a debtor may have rights under Part 6 of Article 9 of the UCC.

(viii) With respect to our opinion in paragraph 10 above, we express no opinion with respect to the perfection of any such security interest in any Article 9 Collateral constituting timber to be cut, as extracted collateral, cooperative interests, or property described in Section 9.311(a) of the Texas UCC (including, without limitation, property subject to a certificate-of-title statute), and we express no opinion with respect to the effectiveness of any financing statement filed or purported to be filed as a fixture filing.

(ix) We express no opinion as to the effectiveness of a description of collateral as "all the debtor's assets" or "all the debtor's personal property" or words to similar effect in the Security Agreement for purposes of Sections 9.108 or 9.203 of the Texas UCC.

(x) We express no opinion as to any matter relating to a security interest created or perfected prior to July 1, 2001 or as to the effect of, or compliance with, Article 7 of the Texas UCC or the Delaware UCC.

(xi) We have assumed that each Transaction Party is organized solely under the laws of the state identified as such Transaction Party's jurisdiction of organization in the Reliance Materials related to such Transaction Party and that the Financing Statements contain the correct legal name, mailing address, type of organization, jurisdiction of organization, and organizational identification number of each Transaction Party named therein. We have also assumed that the Financing Statements contain the correct mailing address of the Agent as secured party.

(I) For purposes of our opinions insofar as they relate to each Transaction Party other than the Borrower, acting as a guarantor under the Guaranty, we have assumed that such Transaction Party's obligations under the Opinion Documents are, and would be deemed by a court of competent jurisdiction to be, in furtherance of its corporate purposes, necessary or convenient to the conduct, promotion or attainment of its business, and for its direct or indirect benefit.

(J) For purposes of our opinions above insofar as they relate to any Transaction Party that is not organized under the laws of the State of Texas or the State of Delaware, we have assumed that (i) such Transaction Party is validly existing in good standing in its jurisdiction of organization, has all requisite power and authority, and has obtained all requisite corporate, shareholder, limited liability company, member, limited partnership, partnership, partner, third party and governmental authorizations, consents and approvals, and made all requisite filings and registrations, necessary to execute, deliver and perform the Opinion Documents to which it is a party and to grant the security interests and guaranties contemplated thereby, and that such execution, delivery, performance and grant will not violate or conflict with any law, rule, regulation, order, decree, judgment, instrument or agreement binding upon or applicable to it or its properties, and (ii) the Opinion Documents to which such Transaction Party is a party have been duly executed and delivered by it. To the extent it may be relevant to the opinions expressed herein, we have assumed that (i) the parties to the Opinion Documents (other than the Transaction Parties) have the power to enter into and perform such documents and to consummate the transactions contemplated thereby and that such documents have been duly authorized, executed and delivered by, and constitute legal, valid and binding obligations of, such parties, and (ii) the execution and delivery of the Opinion Documents by each of the parties thereto (other than the Transaction Parties), and the performance of such party's obligations thereunder, does not violate will not violate or conflict with any law, rule, regulation, order, decree, judgment, instrument or agreement binding upon or applicable to it or its properties.

(K) For purposes of the opinions set forth in paragraph 7 above, we have assumed that (i) neither the Agent nor any of the Lenders has or will have the benefit of any agreement or arrangement (excluding the Opinion Documents) pursuant to which any extensions of credit to any Transaction Party are directly or indirectly secured by "margin stock" (as defined under the

Margin Regulations), (ii) neither the Agent nor any of the Lenders nor any of their respective affiliates has extended or will extend any other credit to any Transaction Party directly or indirectly secured by margin stock, and (iii) neither the Agent nor any of the Lenders has relied or will rely upon any margin stock as collateral in extending or maintaining any extensions of credit pursuant to the Credit Agreement.

(L) Our opinions are limited to those expressly set forth herein, and we express no opinions by implication.

(M) We express no opinion as to the compliance or noncompliance, or the effect of the compliance or noncompliance, of each of the addressees or any other person or entity with any state or federal laws or regulations (including, without limitation, the policies, procedures, guidelines, and practices of any regulatory authority with respect thereto) applicable to each of them by reason of their status as or affiliation with a federally insured depository institution, a financial holding company, a bank holding company, a state-chartered non-federally insured depository institution, a securities dealer, an investment company or an insurance company, except as expressly set forth in paragraph 7 above.

(N) Our opinions in paragraphs 9, 10, 11, and 12 are limited to Articles 8 and 9 of the Texas UCC and Delaware UCC, and therefore such opinions do not address laws of jurisdictions other than Texas and Delaware, and of Texas and Delaware except for Articles 8 and 9 of the Texas UCC and the Delaware UCC. Further, we express no opinion under the choice of law rules of the Texas UCC or the Delaware UCC with respect to the law governing perfection and priority of any security interests. Insofar as our opinions relate to the Federal Book-Entry Regulations, such opinions are limited to regulations published in the Code of Federal Regulations, without regard to any interpretations, operating circulars or other communications from the Department of the Treasury, the Board of Governors of the Federal Reserve System, any Federal Reserve Bank, the Department of Housing and Urban Development or any other federal agency or instrumentality.

(O) Our opinions as to any matters governed by the Delaware UCC are based solely upon our review of the Delaware UCC as published in the Delaware Uniform Commercial Code Annotated, 2006-2007 Edition, published by Lexis Nexis, Matthew Bender & Company, Inc., maintained in the library of our firm's Houston office and reflecting that it was copyrighted in 2006, without any review or consideration of any decisions or opinions of courts or other adjudicative bodies or governmental authorities of the State of Delaware, whether or not reported or summarized in the foregoing publication.

(P) Insofar as our opinion in paragraph 4 above relates to the enforceability under Texas law of the choice of law provisions contained in the Opinion Documents selecting Texas law as the governing law thereof, it is rendered in reliance upon Section 35.51 of the Texas Business and Commerce Code. To our knowledge, no Texas court has construed Section 35.51 in a published judicial decision and, therefore, our opinions (x) are limited by any subsequent judicial interpretation thereof and (y) assume the constitutionality of such statute. In addition, insofar as such opinions relate to the enforceability of the choice of law provisions contained in the Opinion Documents, we (i) express no opinion as to the choice of governing law with respect to (A) any issue or matter as to which Section 35.51 does not apply or (B) any issue or matter that another Texas statute (such as Section 1.301(b) of the Texas UCC), or a federal statute, provides is governed by the laws of another jurisdiction, and (ii) note that any such enforceability

may be subject to constitutional limitations and the exercise of judicial discretion in favor of another jurisdiction

(V) This opinion has been prepared in accordance with the customary practice of lawyers who regularly give and lawyers who regularly advise recipients regarding opinions of this kind, and our opinions herein are to be interpreted in accordance with the *Legal Opinion Principles*, 53 Bus. Law 831.

We are qualified to practice law in the State of Texas and we do not purport to express an opinion on any laws other than Applicable Law. The opinions expressed herein are solely for the benefit of the addressees hereof and of any other person or entity becoming a Lender or Agent under and in accordance with the provisions of the Credit Agreement, in each case above, in connection with the transaction referred to herein and may not be relied on by such addressees or such other persons or entities for any other purpose or in any manner or for any purpose by any other person or entity. This opinion letter is rendered as of the date set forth above. We expressly disclaim any obligation to update this letter after such date.

Very truly yours,

/s/ Bracewell & Giuliani LLP
BRACEWELL & GIULIANI LLP

Exhibit A

OPINION SUBSIDIARIES

	Entity
1.	ACI Mechanical, Inc.
2.	ARC Comfort Systems USA, Inc.
3.	Accurate Air Systems, L.P.
4.	Accu-Temp GP, Inc.
5.	Accu-Temp LP, Inc.
6.	AIRTEMP, Inc.
7.	Atlas-Accurate Holdings, L.L.C.
8.	Atlas Comfort Systems USA, L.P.
9.	Batchelor's Mechanical Contractors, Inc.
10.	BCM Controls Corporation.
11.	California Comfort Systems USA, Inc.
12.	Climate Control, Inc.
13.	Comfort Systems USA (Arkansas), Inc.
14.	Comfort Systems USA (Atlanta), Inc.
15.	Comfort Systems USA (Baltimore), Inc.
16.	Comfort Systems USA (Bristol), Inc.
17.	Comfort Systems USA (Carolinas), Inc.
18.	Comfort Systems USA (Florida), Inc.
19.	Comfort Systems USA G.P., Inc.
20.	Comfort Systems USA (Hartford), Inc.
21.	Comfort Systems USA (Intermountain), Inc.
22.	Comfort Systems USA National Accounts, LLC
23.	Comfort Systems USA (Ohio), Inc.
24.	Comfort Systems USA (Pasadena), L.P.
25.	Comfort Systems USA (Southeast), Inc.
26.	Comfort Systems USA (Syracuse), Inc.
27.	Comfort Systems USA (Texas), L.P.
28.	Comfort Systems USA (Twin Cities), Inc.
29.	Comfort Systems USA (Western Michigan), Inc.
30.	CS53 Acquisition Corp.
31.	Design Mechanical Incorporated
32.	Eastern Heating & Cooling, Inc.
33.	Eastern Refrigeration Co., Inc.
34.	Granite State Holdings Company, Inc.
35.	Granite State Plumbing & Heating, LLC
36.	H & M Mechanical, Inc.
37.	Helm Corporation
38.	Hess Mechanical Corporation
39.	Hudson River Heating and Cooling, Inc.
40.	H-VAC Supply, L.L.C.
41.	Hydrokool, L.L.C.
42.	J & J Mechanical, Inc.
43.	James Air Conditioning Enterprise Inc.
44.	Martin Heating, Inc.
45.	Mechanical Technical Services, L.P.
46.	MJ Mechanical Services, Inc.
47.	North American Mechanical, Inc.
48.	Quality Air Heating & Cooling, Inc.
49.	Quality Professional Employer Organization LLC
50.	S. I. Goldman Company, Inc.
51.	S.M. Lawrence Company, Inc.
52.	SA Associates, Inc.
53.	Salmon & Alder, LLC
54.	Seasonair, Inc.
55.	Sheren Plumbing & Heating, Inc.
56.	Temp-Right Service, Inc.
57.	The Capital Refrigeration Company
58.	Tri-City Mechanical, Inc.
59.	Western Building Services, Inc.

Exhibit B

FINANCING STATEMENTS

"Delaware Financing Statements" shall mean the UCC-1 financing statements filed against each of the debtors listed below in the Office of the Secretary of State of Delaware:

	Debtor	Filing Jurisdiction
1.	Accu-Temp GP, Inc.	Delaware
2.	Accu-Temp LP, Inc.	Delaware
3.	ACI Mechanical, Inc.	Delaware
4.	AirTemp, Inc.	Delaware
5.	ARC Comfort Systems USA, Inc.	Delaware
6.	Atlas-Accurate Holdings, L.L.C.	Delaware
7.	Climate Control, Inc.	Delaware
8.	Comfort Systems USA (Arkansas), Inc.	Delaware
9.	Comfort Systems USA (Baltimore), Inc.	Delaware
10.	Comfort Systems USA (Bristol), Inc.	Delaware
11.	Comfort Systems USA (Carolinas), Inc.	Delaware
12.	Comfort Systems USA (Florida), Inc.	Delaware
13.	Comfort Systems USA (Hartford), Inc.	Delaware
14.	Comfort Systems USA (Southeast), Inc.	Delaware
15.	Comfort Systems USA G.P., Inc.	Delaware
16.	CS53 Acquisition Corp.	Delaware
17.	Design Mechanical, Inc.	Delaware
18.	Granite State Holdings Company, Inc.	Delaware
19.	Granite State Plumbing & Heating LLC	Delaware
20.	H&M Mechanical, Inc.	Delaware
21.	Hess Mechanical Corporation	Delaware
22.	Hudson River Heating and Cooling, Inc.	Delaware
23.	HydroKool, L.L.C.	Delaware
24.	MJ Mechanical Services, Inc.	Delaware
25.	North American Mechanical, Inc.	Delaware
26.	Quality Professional Employer Organization LLC	Delaware
27.	S.I. Goldman Company, Inc.	Delaware
28.	Sheren Plumbing & Heating, Inc.	Delaware
29.	Temp-Right Service, Inc.	Delaware
30.	The Capital Refrigeration Company	Delaware

"Texas Financing Statements" shall mean the UCC-1 financing statements filed against each of the debtors listed below in the Office of the Secretary of State of Texas:

	Debtor	Filing Jurisdiction
1.	Accurate Air Systems, L.P.	Texas
2.	Atlas Comfort Systems USA, L.P.	Texas
3.	Comfort Systems USA (Pasadena), L.P.	Texas
4.	Comfort Systems USA (Texas), L.P.	Texas
5.	Mechanical Technical Services, L.P.	Texas

Exhibit C

OFFICER'S CERTIFICATE

[See attached.]

OFFICER’S CERTIFICATE

The undersigned is a duly authorized officer of Comfort Systems USA, Inc. (the “Borrower”) and hereby executes and delivers this certificate to Bracewell & Giuliani LLP (“B&G”) and the Agent and the Lenders described below, in connection with the opinion to be delivered by B&G on the date hereof (the “B&G Opinion”) pursuant to the Amended and Restated Credit Agreement dated as of February 20, 2007 (the “Credit Agreement”) among the Borrower, the financial institutions parties thereto from time to time as Lenders (the “Lenders”) and Wachovia Bank, N.A. as agent for such Lenders (the “Agent”). The terms “Guarantor” and “Guarantors” shall have the meanings given such term in the B&G Opinion.

The undersigned certifies to the best of his/her knowledge:

1. Due inquiry has been made by the undersigned of all persons deemed necessary or appropriate to verify or confirm the statements contained herein.

2. The Borrower and each Guarantor:

a. is not and does not hold itself out as being engaged primarily, and does not propose to engage primarily, in the business of investing, reinvesting, or trading in securities;

b. is not engaged and does not propose to engage in the business of issuing face-amount certificates of the installment type, and has not been engaged in such business and has no such certificate outstanding;

c. is not engaged and does not propose to engage in the business of investing, reinvesting, owning, holding or trading in securities, and does not own or propose to acquire investment securities, having a value exceeding 40% of its total assets (exclusive of government securities and cash items) on an unconsolidated basis; and

d. is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying “margin stock”.

For the purpose of the preceding sentence, the term “investment securities” means all securities other than government securities and securities issued by majority owned subsidiaries of the owner which are not engaged in, have not engaged in, and do not propose to engage in, any of the following business: (a) the business of investing, reinvesting, or trading in securities; (b) the business of issuing face-amount certificates of the installment type; or (c) the business of investing, reinvesting, owning, holding or trading in securities, and owning or proposing to acquire investment securities having a value exceeding 40% of the value of such total assets (exclusive of government securities and cash items) on an unconsolidated basis. The United States of America Securities and Exchange Commission has not issued an order (or taken any action with respect to considering or issuing such an order) declaring or determining any person to control the Borrower or any Guarantor within the meaning of the Investment Company Act of 1940, as amended.

4. (a) There are no material orders, judgments, writs, injunctions, awards or decrees of any court, arbitrator or governmental authority applicable to the Borrower or any Guarantor except those listed on Schedule 1 hereto, and (b) neither the Borrower nor any Guarantor is a party to, nor are any such party's assets bound by, any material indenture, material lease, or other material agreement except those listed on Schedule 2 hereto.

5. B&G is entitled to rely upon any certificates delivered in connection with the Opinion Documents.

This Officer's Certificate is dated as of the 20th day of February, 2007.

Comfort Systems USA, Inc.

By: /s/ William George III

William George III
Executive Vice President, Chief Financial Officer and Assistant Secretary

Schedule 1
to Officer's Certificate

Material Orders, Judgments, Writs, Injunctions, Awards or Decrees

None.

Schedule 2
to Officer's Certificate

Material Agreements

1. The Amended and Restated Credit Agreement dated as of February 20, 2007 among the Borrower, the Lenders party thereto, and Wachovia Bank, N.A. as administrative agent for such Lenders, and the other documents related to the transaction contemplated therein.

2. The Underwriting, Indemnity, and Security Agreement dated as of October 23, 2003 among the Borrower, the Guarantors, Federal Insurance Company and Arch Insurance Company, as amended by the First Amendment to Underwriting, Indemnity, and Security Agreement dated as of March 1, 2005, the Second Amendment to Underwriting, Indemnity, and Security Agreement dated as of June 30, 2005, and the Third Amendment to Underwriting, Indemnity, and Security Agreement dated As of September 29, 2006.

COMFORT SYSTEMS USA, INC.

Trent T. McKenna
General Counsel

Office of the General Counsel
777 Post Oak Blvd., Suite 500
Houston, Texas 77056
800-723-8431 Toll Free
713-830-9600 Phone
713-830-9659 Fax

February 20, 2007

To each of the Lenders party to the
Credit Agreement described below
and Wachovia Bank, N.A.,
as administrative agent for such Lenders

Ladies and Gentlemen:

I am general counsel to Comfort Systems USA, Inc., a Delaware corporation (the "Company"), and the subsidiaries of the Company (the "Guarantors") in connection with the Amended and Restated Credit Agreement dated as of February 20, 2007 (the "Credit Agreement"), by and among the Company, the financial institutions parties thereto from time to time as Lenders (the "Lenders"), and Wachovia Bank, N.A., a national banking association, as administrative agent for such Lenders (the "Agent"). The Company has requested that I render this opinion pursuant to Section 4.1(g) of the Credit Agreement. Capitalized terms used herein and defined in the Credit Agreement but not defined herein are used herein as therein defined.

In connection with this opinion, I have examined originals or copies of such records and documents as I have deemed necessary and relevant for purposes of this opinion. In addition, I have relied on certificates or comparable documents of public officials and of officers of the Company and the Guarantors as to matters of fact relating to this opinion and have made such investigations of law as I have deemed necessary and relevant as a basis for this opinion. I have assumed (a) the authenticity of all documents and records submitted to me as originals and (b) the conformity to original documents and records of all documents and records submitted to me as copies.

Based on the foregoing and subject to the limitations and assumptions set forth in this opinion, and having due regard for such legal considerations as I deem relevant, I am of the opinion that:

1. The Company and each of the Guarantors that is a corporation is duly incorporated and validly existing as a corporation.

2. Each of the Guarantors that is a limited partnership or a limited liability company is duly formed and validly existing as a limited partnership or limited liability company, as the case may be.

3. The Company and each of the Guarantors is in good standing under the laws of its jurisdiction of incorporation or formation, and is duly qualified or registered and in good standing as a foreign corporation, limited partnership or limited liability company, as the case may be, in those jurisdictions where a failure to do so would constitute a Material Adverse Change.

4. To my knowledge after due inquiry, no litigation, investigation, or administrative proceeding of or before any court, arbitrator, or governmental authority is pending or threatened against the Company or any Guarantor (a) with respect to the Loan Documents or (b) that, if adversely determined, reasonably would be expected to have a material adverse effect on the business or financial condition of the Company and the Guarantors, taken as a whole, after giving effect to any reserves maintained by the Company and the Guarantors for such litigation, investigation, or administrative proceeding.

The foregoing opinion is, with your concurrence, predicated on and qualified in its entirety by the following: I am a member of the Bar of the State of Texas. The foregoing opinion is based on and is limited to the laws of the State of Texas, the General Corporation Law, Limited Liability Company Law and Limited Partnership Law of the State of Delaware, and the relevant federal laws of the United States of America. I render no opinion with respect to the law of any other jurisdiction.

This opinion is to be delivered only to you and your assignees permitted under the Loan Documents and only in connection with the transactions described above and may not be quoted, circulated, or published, in whole or in part, or furnished to any other Person without my prior written consent.

Very truly yours,

By: /s/ Trent T. McKenna
Trent T. McKenna
General Counsel to Comfort Systems USA, Inc.

SCHEDULE 1.1(b)

EXISTING LETTERS OF CREDIT

Obligor	**Date Issued Cancelled or Reduced**	**Maturity Dates**	**January 31, 2007 Notional Amount**
Comfort Systems USA, Inc.	1/14/2004	12/17/2007	$20,287,414.00
Comfort Systems USA, Inc. (Fagan)	2/25/2004	12/31/2007	50,000.00
Comfort Systems USA, Inc. (Fagan)	1/28/2004	12/31/2007	200,000.00
Comfort Systems USA, Inc. (EL Pruitt)	2/5/2004	3/9/2007	106,795.00
Comfort Systems USA, Inc. (Shambaugh)	2/5/2004	4/1/2007	284,468.00
Comfort Systems USA, Inc.	1/28/2004	12/31/2007	90,000.00
Comfort Systems USA, Inc.	11/29/2006	4/30/2008	3,127,011.00
Grand Totals			**$24,145,688.00**

Exhibit 31.1

**RULE 13a-14(a) CERTIFICATION IN
ACCORDANCE WITH SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, William F. Murdy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comfort Systems USA, Inc. (the “Company”);

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

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

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15-d-15(f)) for the registrant and have:

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

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

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

Dated: November 3, 2009

By: /s/ William F. Murdy
William F. Murdy
Chairman of the Board and Chief Executive Officer

Exhibit 31.2

RULE 13a-14(a) CERTIFICATION IN ACCORDANCE WITH SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William George, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comfort Systems USA, Inc. (the “Company”);

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

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

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

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

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

Dated: November 3, 2009

By: /s/ William George
WilliamGeorge
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

I, William F. Murdy, Chairman of the Board and Chief Executive Officer of Comfort Systems USA, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2009 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 3, 2009

By: /s/ William F. Murdy
William F. Murdy
Chairman of the Board and Chief Executive Officer

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002*

I, William George, Executive Vice President and Chief Financial Officer of Comfort Systems USA, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 3, 2009

By: /s/ William George
William George
Executive Vice President and Chief Financial Officer

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* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.