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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-13011

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

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

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

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(713) 830-9600

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

The number of shares outstanding of the issuer's common stock, as of November 1, 2002 was 37,910,144.

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COMFORT SYSTEMS USA, INC.

INDEX TO FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2002

COMFORT SYSTEMS USA, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

DECEMBER 31, 2001	SEPTEMBER 30, 2002
	(UNAUDITED)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 3,924	$ 10,625
Accounts receivable, less allowance of $9,633 and $5,922	175,028	168,398
Other receivables	5,572	4,132
Inventories	14,553	12,508
Prepaid expenses and other	13,174	8,217
Costs and estimated earnings in excess of billings	19,384	20,359
Assets related to discontinued operations	327,820	1,248
Total current assets	559,455	225,487
PROPERTY AND EQUIPMENT, net	18,812	16,543
GOODWILL	297,033	113,427
OTHER NONCURRENT ASSETS	1,325	13,789
Total assets	$876,625	$ 369,246
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 73	$ 89
Current maturities of notes to affiliates and former owners	2,374	1,500
Accounts payable	57,489	57,915
Accrued compensation and benefits	23,611	23,232
Billings in excess of costs and estimated earnings	26,663	27,713
Income taxes payable	5,606	12,811
Other current liabilities	23,468	25,711
Liabilities related to discontinued operations	140,746	143
Total current liabilities	280,030	149,114
LONG-TERM DEBT, NET OF CURRENT MATURITIES	164,012	450
NOTES TO AFFILIATES AND FORMER OWNERS, NET OF CURRENT MATURITIES	15,569	14,318
OTHER LONG-TERM LIABILITIES	3,193	25
Total liabilities	462,804	163,907
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par, 5,000,000 shares authorized, none issued and outstanding	--	--
Common stock, $.01 par, 102,969,912 shares authorized, 39,258,913 shares issued	393	393
Treasury stock, at cost, 1,749,334 and 1,423,769 shares, respectively	(10,924)	(8,718)
Additional paid-in capital	340,186	338,776
Deferred compensation	--	(532)
Retained earnings (deficit)	84,166	(124,580)
Total stockholders' equity	413,821	205,339
Total liabilities and stockholders' equity	$876,625	$ 369,246

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,	
	2001	2002	2001	2002
REVENUES	$234,070	$214,691	$664,629	$ 616,053
COST OF SERVICES	189,426	174,668	540,493	506,843
Gross profit	44,644	40,023	124,136	109,210
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	35,449	32,046	106,371	95,029
GOODWILL AMORTIZATION	2,056	-	6,170	--
RESTRUCTURING CHARGES	--	--	238	1,878
Operating income	7,139	7,977	11,357	12,303
OTHER INCOME (EXPENSE):				
Interest income	30	20	81	59
Interest expense	(1,870)	(959)	(6,843)	(3,961)
Other	50	115	372	1,229
Other income (expense)	(1,790)	(824)	(6,390)	(2,673)
INCOME BEFORE INCOME TAXES	5,349	7,153	4,967	9,630
INCOME TAX EXPENSE	3,929	3,378	4,639	4,551
INCOME FROM CONTINUING OPERATIONS	1,420	3,775	328	5,079
DISCONTINUED OPERATIONS: Operating income (loss), net of applicable income tax benefit (expense) of $(2,835), $20, $(6,664) and $1,942	4,222	(35)	9,705	(148)
Estimated loss on disposition, including income tax expense of $25,887	--	--	--	(11,156)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	5,642	3,740	10,033	(6,225)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAX BENEFIT OF $26,317	--	--	--	(202,521)
NET INCOME (LOSS)	$ 5,642	$ 3,740	$ 10,033	$(208,746)
INCOME (LOSS) PER SHARE: Basic -- Income from continuing operations	$ 0.04	$ 0.10	$ 0.01	$ 0.14
Discontinued operations -- Income (loss) from operations	0.11	--	0.26	--
Estimated loss on disposition	--	--	--	(0.30)
Cumulative effect of change in accounting principle	--	--	--	(5.37)
Net income (loss)	$ 0.15	$ 0.10	$ 0.27	$ (5.53)
Diluted -- Income from continuing operations	$ 0.04	$ 0.10	$ 0.01	$ 0.13
Discontinued operations -- Income (loss) from operations	0.11	--	0.26	(0.01)
Estimated loss on disposition	--	--	--	(0.29)
Cumulative effect of change in accounting principle	--	--	--	(5.30)
Net income (loss)	$ 0.15	$ 0.10	$ 0.27	$ (5.47)
SHARES USED IN COMPUTING INCOME (LOSS) PER SHARE:				
Basic	37,468	37,834	37,411	37,736
Diluted	37,773	38,131	37,449	38,192

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

COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	TREASURY STOCK SHARES	TREASURY STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPEN-SATION	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 2000	39,258,913	$393	(2,002,629)	$(13,119)	$341,923	$ --	$ 71,042	$ 400,239
Issuance of Treasury Stock: Issuance of Employee Stock Purchase Plan shares	--	--	398,287	2,570	(1,737)	--	--	833
Shares received from sale of businesses	--	--	(144,992)	(375)	--	--	--	(375)
Net income	--	--	--	--	--	--	13,124	13,124
BALANCE AT DECEMBER 31, 2001	39,258,913	393	(1,749,334)	(10,924)	340,186	--	84,166	413,821
Issuance of Treasury Stock: Issuance of shares for options exercised (unaudited)	--	--	234,796	1,454	(779)	--	--	675
Issuance of restricted stock (unaudited)	--	--	200,000	1,239	(413)	(826)	--	--
Shares exchanged in repayment of notes receivable (unaudited)	--	--	(49,051)	(204)	--	--	--	(204)
Shares received from sale of business (unaudited)	--	--	(55,882)	(263)	--	--	--	(263)
Shares received from settlement with former owner (unaudited)	--	--	(4,298)	(20)	--	--	--	(20)
Amortization of deferred compensation (unaudited)	--	--	--	--	(218)	294	--	76
Net loss (unaudited)	--	--	--	--	--	--	(208,746)	(208,746)
BALANCE AT SEPTEMBER 30, 2002 (unaudited)	39,258,913	$393	(1,423,769)	$ (8,718)	$338,776	$(532)	$(124,580)	$ 205,339

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,	
2001	2002	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 5,642	$ 3,740	$ 10,033	$(208,746)
Adjustments to reconcile net income (loss) to net cash provided by operating activities --				
Cumulative effect of change in accounting principle	--	--	--	202,521
Estimated loss on disposition of discontinued operations	--	--	--	11,156
Restructuring charges	--	--	238	1,878
Depreciation and amortization expense	6,130	1,695	18,072	5,570
Bad debt expense	2,258	451	5,041	2,982
Deferred tax expense	(811)	1,943	1,638	3,669
Gain on sale of assets	(66)	(49)	(195)	(950)
Deferred compensation expense	--	14	--	76
Changes in operating assets and liabilities --				
(Increase) decrease in -- Receivables, net	(14,315)	6,731	(8,246)	13,243
Inventories	(589)	662	(477)	2,039
Prepaid expenses and other current assets	(2,217)	(830)	(1,142)	3,610
Costs and estimated earnings in excess of billings	(713)	(22)	(2,547)	(3,250)
Other noncurrent assets	702	(40)	(367)	386
Increase (decrease) in -- Accounts payable and accrued liabilities	13,321	(573)	8,482	(22,241)
Billings in excess of costs and estimated earnings	574	(1,358)	11,803	2,093
Other, net	(144)	(250)	(555)	(229)
Net cash provided by operating activities	9,772	12,114	41,778	13,807
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(1,494)	(974)	(4,642)	(4,044)
Proceeds from sales of property and equipment	106	196	460	1,330
Proceeds from businesses sold, net of cash sold and transaction costs	10	(66)	964	154,499
Net cash provided by (used in) investing activities	(1,378)	(844)	(3,218)	151,785
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on long-term debt	(56,063)	(28,549)	(186,373)	(269,171)
Borrowings of long-term debt	45,385	15,240	146,094	102,904
Proceeds from issuance of common stock	267	--	833	--
Proceeds from exercise of options	--	40	--	675
Net cash used in financing activities	(10,411)	(13,269)	(39,446)	(165,592)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,017)	(1,999)	(886)	--
CASH AND CASH EQUIVALENTS, beginning of period -- continuing operations and discontinued				

operations.....
17,152 12,624 16,021 10,625 -------- -------- -
-------- --------- CASH AND CASH EQUIVALENTS,
end of period..... $ 15,135 $ 10,625 $
15,135 $ 10,625 ======== ======== =========
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The accompanying notes are an integral part of these consolidated financial statements.

COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002
(UNAUDITED)

1. BUSINESS AND ORGANIZATION

Comfort Systems USA, Inc., a Delaware corporation ("Comfort Systems" and collectively with its subsidiaries, the "Company"), is a national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. The Company operates primarily in the commercial and industrial HVAC markets, and performs most of its services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, the Company provides specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related services such as electrical and plumbing. Approximately 52% of the Company's consolidated 2002 revenues were attributable to installation of systems in newly constructed facilities, with the remaining 48% attributable to maintenance, repair and replacement services. The Company's consolidated 2002 revenues related to the following service activities: HVAC -- 74%, plumbing -- 11%, building automation control systems -- 5%, electrical -- 2%, fire protection -- 1% and other -- 7%. These service activities are within the mechanical services industry which is the single industry segment served by Comfort Systems.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These interim statements should be read in conjunction with the historical Consolidated Financial Statements and related notes of Comfort Systems included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2001 (the "Form 10-K").

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which is discussed in Note 4 and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is discussed in Note 3 during the first quarter of 2002. There were no other significant changes in the accounting policies of the Company during the period. For a description of the significant accounting policies of the Company, refer to Note 2 of Notes to Consolidated Financial Statements of Comfort Systems included in the Form 10-K.

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

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

CASH FLOW INFORMATION

Cash paid for interest for the nine months ended September 30, 2001 and 2002 was approximately $16.5 million and $4.5 million, respectively. Cash paid for income taxes for the nine months ended September 30, 2001 and 2002 was approximately $6.3 million and $9.0 million, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company adopted SFAS No. 144 effective January 1, 2002. Under SFAS No. 144, the operating results of companies sold or held for sale meeting certain criteria, as well as any gain or loss on the sale of these operations, are presented as discontinued operations in the Company's statements of operations. See Note 3 for a discussion of the Company's discontinued operations. The operating results for companies which were sold or shut down during 2001 are presented as continuing operations through the date of disposition. The adoption of SFAS No. 144 did affect the presentation of discontinued operations in the consolidated financial statements; however, it did not have a material financial impact on the Company's results of operations, financial position or cash flows.

SEGMENT DISCLOSURE

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

RECLASSIFICATIONS

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

3. DISCONTINUED OPERATIONS

On February 11, 2002, the Company entered into an agreement with Emcor Group, Inc. ("Emcor") to sell 19 operations. This transaction closed on March 1, 2002. Under the terms of the agreement, the total purchase price was $186.25 million, including the assumption by Emcor of approximately $22.1 million of subordinated notes to former owners of certain of the divested companies.

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

An additional $5 million of Emcor's purchase price was deposited into an escrow account to secure potential obligations on the Company's part to indemnify Emcor for future claims and contingencies arising

from events and circumstances prior to closing, all as specified in the transaction documents. Because these escrow funds secure future claims and contingencies, the Company does not know whether it will ultimately receive any of such funds, and if it does, how much it will receive. Therefore, the Company has not recognized a receivable for this escrowed portion of the Emcor transaction purchase price. If the Company ultimately receives any of these escrowed funds, a corresponding gain will be recorded as a component of discontinued operations when received.

The net cash proceeds of approximately $164 million received to date from the Emcor transaction have been used to reduce debt outstanding under the Company's credit facility. An estimated tax liability of $16 million related to this transaction is due in March 2003.

Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which took effect for the Company on January 1, 2002, the operating results of the companies sold to Emcor as well as the loss on the sale of these operations have been presented as discontinued operations in the Company's statements of operations. The Company realized a loss of $10.6 million including related tax expense related to the sale of these operations. As a result of the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," the Company also recognized a goodwill impairment charge related to these operations of $32.4 million, net of taxes, as of January 1, 2002. The reporting of the Company's aggregate goodwill impairment charge in connection with adopting SFAS No. 142 is discussed further in Note 4.

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

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

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

DECEMBER 31,	SEPTEMBER 30, 2001	2002
Accounts receivable, net	$140,768	$ 762
Other current assets	30,477	388
Property and equipment, net	13,968	98
Goodwill, net	141,415	--
Other noncurrent assets	1,192	--
Total assets	$327,820	$1,248
Current maturities of debt and notes	$ 1,262	$ --
Accounts payable	44,077	122
Other current liabilities	68,676	21
Long-term debt and notes	21,842	-
Other long-term liabilities	4,889	--
Total liabilities	$140,746	$ 143

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

NINE MONTHS ENDED SEPTEMBER 30,	2001	2002
Revenues	$504,575	$98,424
Pre-tax income (loss)	$ 16,369	$(2,090)

4. GOODWILL

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

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

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

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

Goodwill balance as of January 1, 2002(a)	$ 438,448
Impairment adjustment	(228,838)
Goodwill related to sale of operations	(96,183)
Goodwill balance as of September 30, 2002	$ 113,427

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

The unaudited results of operations presented below (in thousands) for the three months and nine months ended September 30, 2001 and 2002 reflect the adoption of the non-amortization provisions of SFAS No. 142 effective January 1, 2001 and exclude the impact of the cumulative effect of change in accounting principle recorded in the first quarter of 2002. Therefore, the component of the cumulative effect of change in accounting principle related to the operations sold to Emcor is included in the estimated loss on disposition for purposes of this table.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
Income from continuing operations	$1,420	$3,775	$ 328	$ 5,079
Add: Goodwill amortization, net of tax	1,895	--	5,685	--
Adjusted income from continuing operations	3,315	3,775	6,013	5,079
Discontinued operations -- Operating income (loss), net of tax	4,222	(35)	9,705	(148)
Add: Goodwill amortization, net of tax	758	--	2,274	--
Adjusted operating income (loss), net of tax	4,980	(35)	11,979	(148)
Estimated loss on disposition, including tax	--	--	(45,124)	--
Adjusted net income (loss)	$8,295	$3,740	$17,992	$(40,193)
Adjusted income (loss) per share:				
Basic -- Income from continuing operations	$ 0.09	$ 0.10	$ 0.16	$ 0.14
Discontinued operations -- Income (loss) from operations	0.13	--	0.32	--
Estimated loss on disposition	--	--	--	(1.20)
Net income (loss)	$ 0.22	$ 0.10	$ 0.48	$ (1.06)
Diluted -- Income from continuing operations	$ 0.09	$ 0.10	$ 0.16	$ 0.13
Discontinued operations -- Income (loss) from operations	0.13	--	0.32	(0.01)
Estimated loss on disposition	--	--	--	(1.18)
Net income (loss)				

$ 0.22	$ 0.10	$ 0.48	$ (1.06)

5. RESTRUCTURING CHARGES

During the first quarter of 2002, the Company recorded restructuring charges of approximately $1.9 million. These charges included approximately $0.8 million for severance costs primarily associated with the reduction in corporate overhead in light of the Company's smaller size following the Emcor transaction. The severance costs related to the termination of 33 employees, all of whom were terminated as of March 31, 2002. In addition, these charges include approximately $0.7 million for costs associated with decisions to merge or close three smaller divisions and realign regional operating management. These restructuring charges are primarily cash obligations but did include approximately $0.3 million of non-cash writedowns associated with long-lived assets.

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

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

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

NINE MONTHS ENDED SEPTEMBER 30, 2001
Revenues	$ 6,337
Operating loss	$(2,666)

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

	BALANCE AT JANUARY 1, 2002	ADDITIONS	PAYMENTS	BALANCE AT SEPTEMBER 30, 2002
Severance	$ 210	$ 846	$(1,015)	$ 41
Lease termination costs and other	1,148	704	(754)	1,098
Total	$1,358	$1,550	$(1,769)	$1,139

6. LONG-TERM DEBT OBLIGATIONS

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

DECEMBER 31, 2001	SEPTEMBER 30, 2002
	(UNAUDITED)
Revolving credit facility	$163,700
	$ --
Notes to affiliates and former owners	17,943
	15,818
Other	385
	539
Total debt	182,028
	16,357
Less: current maturities	2,447
	1,589
	$179,581
	$14,768

CREDIT FACILITY

The Company's primary current debt financing capacity consists of a $55 million senior credit facility (the "Facility") provided by General Electric Capital Corporation ("GE"), a subsidiary of the General Electric Corporation. The Facility includes a $20 million sublimit for letters of credit. The Facility is secured by substantially all the assets of the Company. The Facility was entered into on October 11, 2002 and replaces the Company's previous revolving credit facility with a group of banks, which was scheduled to expire in January 2003. The Facility consists of two parts: a term loan and a revolving credit facility.

The term loan under the Facility (the "Term Loan") is $15 million, which the Company borrowed upon the closing of Facility on October 11, 2002. The Term Loan must be repaid in quarterly installments over five years beginning December 31, 2002. The amount of each quarterly installment increases annually.

The Facility requires certain prepayments of the Term Loan. Approximately half of any free cash flow (primarily cash from operations less capital expenditures) in excess of scheduled principal payments and voluntary prepayments must be used to pay down the Term Loan. This requirement is measured annually based on full-year results. The Company has not reflected any additional prepayments in current maturities of debt in connection with this requirement as it cannot yet determine if there is a significant probability that cash flows measured through yearend 2002 will require such prepayments. In addition, proceeds in excess of $250,000 from any individual asset sales, or in excess of $1 million for a full year's asset sales, must be used to pay down the Term Loan. Proceeds from asset sales that are less than these individual transaction or annual aggregate levels must also be used to pay down the Term Loan unless they are reinvested in long-term assets within six months of the receipt of such proceeds.

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

The Facility also includes a three-year revolving credit facility (the "Revolving Loan") that allows the Company to borrow up to $40 million in addition to the Term Loan.

INTEREST RATES AND FEES

The Company has a choice of two interest rate options for borrowings under the Facility. Under one option, the interest rate is determined based on the higher of the Federal Funds Rate plus 0.5% or the prime rate of at least 75% of the US's 30 largest banks, as published each business day by the Wall Street Journal.

An additional margin of 2.25% is then added to the higher of these two rates for borrowings under the Revolving Loan, while an additional margin of 2.75% is added to the higher of these two rates for borrowings under the Term Loan.

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

The rates underlying these interest rate options are floating interest rates determined by the broad financial markets, meaning they can and do move up and down from time to time. The Facility requires that the Company enter into agreements to convert these floating interest rate terms on at least half of the Term Loan to fixed rate terms by December 10, 2002. Depending on their ultimate terms, such agreements might qualify as "derivatives" for financial reporting purposes. If so, any increases or decreases in the value of such agreements resulting from changes in market interest rates in any given period will be reflected in interest expense for that period, even though the agreements may not have been terminated and settled in cash during the period. Such adjustments are known as mark-to-market adjustments.

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

The Company also incurred certain financing and professional costs in connection with the arrangement and the closing of the Facility. These costs will be amortized to interest expense over the term of the Facility in the amount of approximately $0.3 million per quarter. To the extent prepayments of the Term Loan are made, the Company may have to accelerate amortization of these deferred financing and professional costs.

In connection with the Facility, the Company granted GE a warrant to purchase 409,051 shares of Company common stock for nominal consideration. In addition, GE may "put," or require the Company to repurchase, these shares at the higher of market price, appraised price or book value per share, during the fifth and final year of the Facility -- October 11, 2006 to October 11, 2007. This put may be accelerated under certain circumstances including a change of control of the Company, full repayment of amounts owing under the Facility, or a public offering of shares by the Company. This warrant and put are discussed in greater detail in Note 8, "Stockholders' Equity." The value of this warrant and put as of the start of the Facility of $2.9 million will be reflected as a discount of the Company's obligation under the Facility and will be amortized over the term of the Facility, as described above. The value of this warrant and put will change over time, principally in response to changes in the market price of the Company's common stock. The warrant and the put qualify as a derivative for financial reporting purposes. Accordingly, such changes in the value of the warrant and put in any given period will be reflected in interest expense for that period, even though the warrant and put may not have been terminated and settled in cash during the period. Such adjustments are known as mark-to-market adjustments.

The interest rate that the Company currently pays on the Term Loan is 7.5% per annum. This rate does not include amortization of debt financing and arrangement costs, or mark-to-market adjustments for derivatives.

The interest rate that the Company currently pays on the Revolving Loan is 7.0% per annum. This rate does not include amortization of debt financing and arrangement costs, or mark-to-market adjustments for derivatives.

RESTRICTIONS AND COVENANTS

Borrowings under the Facility are specifically limited by the Company's ratio of total debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA") and by the Company's ratio of EBITDA less taxes and capital expenditures to interest expense and scheduled principal payments, also known as the

fixed charge coverage ratio. The Facility's definition of debt for purposes of the ratio of total debt to EBITDA includes aggregate letters of credit outstanding less $10 million.

The definition of EBITDA under the Facility excludes certain items, generally noncash amounts and transactions reported in Other Income and Expense, that are otherwise included in the determination of earnings under generally accepted accounting principles in the Company's financial statements. As such, EBITDA as determined under the Facility's definition could be less than EBITDA as derived from the Company's financial statements in the future. The Company is currently not aware of any items that would result in EBITDA as determined under the Facility's definition being significantly less than EBITDA as derived from the Company's financial statements in the future.

The financial covenants under the Facility are summarized below. EBITDA amounts are in thousands.

FINANCIAL COVENANTS			
MAXIMUM DEBT TO EBITDA RATIO	MINIMUM FIXED CHARGE COVERAGE	MINIMUM TRAILING 12 MONTHS INTEREST COVERAGE	
QUARTER ENDING	EBITDA	EBITDA	
ACTUAL			
September 30, 2002	$30,014	0.54	5.11
COVENANT			
September 30, 2002	$25,650	1.75	2.30
December 31, 2002	$25,650	1.75	2.30
March 31, 2003	$27,000	1.75	2.50
June 30, 2003	$27,000	1.75	2.50
September 30, 2003	$27,000	1.50	2.70
December 31, 2003	$27,000	1.50	2.70
March 31, 2004	$29,000	1.50	3.00
June 30, 2004	$29,000	1.50	3.00
September 30, 2004	$29,000	1.25	3.00
December 31, 2004	$29,000	1.25	3.00
All quarters thereafter	$31,000	1.25	3.00

The Company must achieve $6,042 of EBITDA in the fourth quarter of 2002 to remain in compliance with the minimum trailing twelve months EBITDA covenant shown above.

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

NOTES TO AFFILIATES AND FORMER OWNERS

Subordinated notes were issued to former owners of certain purchased companies as part of the consideration used to acquire their companies. These notes had an outstanding balance of $15.8 million as of September 30, 2002. In October 2002, $10.7 million of this balance was repaid with proceeds from the Term Loan. As of November 1, 2002, a balance of $4.7 million remains outstanding on these notes, substantially all of which is due in April 2003. The remaining notes bear interest, payable quarterly, at an interest rate of

10.0%. As these notes were refinanced with proceeds from the Term Loan, they are reflected as long-term as of September 30, 2002, net of amounts that are current under the Term Loan.

AMOUNTS OUTSTANDING AND CAPACITY

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

	UNUSED CAPACITY AS OF SEPTEMBER 30, 2002	AS OF NOVEMBER 1, 2002	AS OF NOVEMBER 1, 2002
Revolving loan	$ -	$ -	$ 3,700
Term loan	$18,546	--	15,000
Notes to affiliates	n/a	15,818	4,746
Other debt	n/a	539	533
Total debt	n/a	16,357	23,979
Less: discount on Facility	18,546	-	(2,930)
Total debt, net of discount	n/a	$16,357	$21,049
	$18,546		

7. COMMITMENTS AND CONTINGENCIES

CLAIMS AND LAWSUITS

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

SELF-INSURANCE

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

8. STOCKHOLDERS' EQUITY

RESTRICTED STOCK GRANT

The Company awarded 200,000 shares of restricted stock to its Chief Executive Officer on March 22, 2002 under its 2000 Equity Incentive Plan. The shares are subject to forfeiture if the Company does not meet certain performance measures for the twelve-month period ending March 31, 2003 or if the executive leaves voluntarily or is terminated for cause. Such forfeiture provisions lapse upon achievement of the performance measures and pro rata over a four-year period. Compensation expense relating to this grant will be charged to earnings over the four-year period. The initial value of the award was established based on the market price on the date of grant. The unearned compensation is shown as a reduction of stockholders' equity in the accompanying consolidated balance sheet and is being amortized against earnings based upon the market

value of the stock until the achievement of performance measures for the twelve-month period ending March 31, 2003 is determined. The value of the stock grant remaining after this determination will be amortized ratably over the remaining three years of the restricted period.

RESTRICTED COMMON STOCK

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

Each share of Restricted Voting Common Stock will automatically convert to Common Stock on a share-for-share basis (i) in the event of a disposition of such share of Restricted Voting Common Stock by the holder thereof (other than a distribution which is a distribution by a holder to its partners or beneficial owners, or a transfer to a related party of such holders (as defined in Sections 267, 707, 318 and/or 4946 of the Internal Revenue Code of 1986, as amended)), (ii) in the event any person acquires beneficial ownership of 15% or more of the total number of outstanding shares of Common Stock of the Company, or (iii) in the event any person offers to acquire 15% or more of the total number of outstanding shares of Common Stock of the Company. After July 1, 1998, the Board of Directors may elect to convert any remaining shares of Restricted Voting Common Stock into shares of Common Stock in the event 80% or more of the originally outstanding shares of Restricted Voting Common Stock have been previously converted into shares of Common Stock. As of September 30, 2002, there were 1,156,112 shares of Restricted Voting Common Stock remaining.

EARNINGS PER SHARE

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

Options to purchase 3.3 million shares of the Company's Common Stock ("Common Stock") at prices ranging from $3.86 to $21.44 per share and options to purchase 2.7 million shares of Common Stock at prices ranging from $4.24 to $21.44 per share were outstanding for the three months and nine months ended September 30, 2002, respectively, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the Common Stock. Options to purchase 4.0 million shares of Common Stock at prices ranging from $3.63 to $21.44 per share were outstanding for the three months and nine months ended September 30, 2001, but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the Common Stock.

Diluted EPS is also computed by adjusting both net earnings and shares outstanding as if the conversion of the convertible subordinated notes occurred on the first day of the year. The convertible subordinated notes had an anti-dilutive effect during the three months ended September 30, 2001 and the nine months ended September 30, 2001 and 2002, and therefore, are not included in the diluted EPS calculations. The convertibility provisions of the remaining convertible subordinated notes expired during the first quarter of 2002.

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,	
2001	2002	2001	2002
Common shares outstanding, end of period	37,510	37,835	37,510	37,835
Effect of using weighted average common shares outstanding	(42)	(1)	(99)	(99)
Shares used in computing earnings per share -- basic	37,468	37,834	37,411	37,736
Effect of shares issuable under stock plans based on the treasury stock method	305	297	38	456
Shares used in computing earnings per share -- diluted	37,773	38,131	37,449	38,192

WARRANT

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

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

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

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

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

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

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

INTRODUCTION

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

The Company is a national provider of comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. The Company operates primarily in the commercial and industrial HVAC markets, and performs most of its services within office buildings, retail centers, apartment complexes, manufacturing plants, and healthcare, education and government facilities. In addition to standard HVAC services, the Company provides specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related services such as electrical and plumbing. Approximately 52% of the Company's consolidated 2002 revenues were attributable to installation of systems in newly constructed facilities, with the remaining 48% attributable to maintenance, repair and replacement services. The Company's consolidated 2002 revenues related to the following service activities: HVAC -- 74%, plumbing -- 11%, building automation control systems -- 5%, electrical -- 2%, fire protection -- 1% and other -- 7%. These service activities are within the mechanical services industry which is the single industry segment served by Comfort Systems.

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

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

Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to estimated costs and, therefore, revenues. Such revisions are frequently based on estimates and subjective assessments. The effects of these revisions are recognized in the period in which the revisions are determined. When such revisions lead to a conclusion that a loss will be recognized on a contract, the full

amount of the estimated ultimate loss is recognized in the period such a conclusion is reached, regardless of what stage of completion the contract has reached. Depending on the size of a particular project, variations from estimated project costs could have a significant impact on the Company's operating results.

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

Approximately 52% of the Company's consolidated 2002 revenues were attributable to installation of systems in newly constructed facilities. As a result, if general economic activity in the U.S. slows significantly from current levels, and leads to a corresponding decrease in new nonresidential building construction, the Company's operating results could suffer.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under this new standard, which is discussed in "Results of Operations" and "New Accounting Pronouncements" below, new requirements for assessing whether goodwill assets have been impaired involve market-based information. This information, and its use in assessing goodwill, entails some degree of subjective assessments. Additionally, amortization of goodwill has been discontinued in 2002 operating results as a result of this standard.

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under this new standard, the operating results of companies which were sold or held for sale as of September 30, 2002, have been reported as discontinued operations in the accompanying consolidated statements of operations. However, the operating results for companies which were sold or shut down during 2001 are presented as continuing operations through the date of disposition.

RESULTS OF OPERATIONS (IN THOUSANDS)

THREE MONTHS ENDED SEPTEMBER 30, NINE MONTHS ENDED SEPTEMBER 30, ---------- ---------- ---------- ---------- 2001 2002 2001 2002 ---------- ---------- ---------- ---------- Revenues..... $234,070 100.0% $214,691 100.0% $664,629 100.0% $ 616,053 100.0% Cost of services..... 189,426 80.9% 174,668 81.4% 540,493 81.3% 506,843 82.3% -------- --- ----- -------- --------- Gross profit..... 44,644 19.1% 40,023 18.6% 124,136 18.7% 109,210 17.7% Selling, general and administrative expenses..... 35,449 15.1% 32,046 14.9% 106,371 16.0% 95,029 15.4% Goodwill amortization..... 2,056 0.9% -- -- 6,170 0.9% -- - - Restructuring charges..... -- -- -- -- 238 -- 1,878 0.3% -------- -------- -------- -------- -------- -------- - Operating income..... 7,139 3.0% 7,977 3.7% 11,357 1.7% 12,303 2.0% Other expense, net..... (1,790) 0.8% (824) (0.4)% (6,390) (1.0)% (2,673) (0.4)% -------- -------- - ------- --------- Income before income taxes..... 5,349 2.3% 7,153 3.3% 4,967 0.7% 9,630 1.6% Income tax expense..... 3,929

3,378 4,639 4,551 --------
-------- -------- --------
- Income from continuing
operations.....
1,420 0.6% 3,775 1.8% 328
-- 5,079 0.8% Discontinued
operations -- Operating
results, net of
tax.....
4,222 (35) 9,705 (148)
Estimated loss on
disposition, net of
tax..... --
-- -- (11,156) Cumulative
effect of change in
accounting principle, net
of tax..... -- -
- -- (202,521) -------- --
------ -------- ---------
Net income
(loss)..... $ 5,642 $
3,740 $ 10,033 $(208,746)
======== ======== ========
=========

Revenues -- Revenues decreased $19.4 million, or 8.3%, to $214.7 million for the third quarter of 2002 and decreased $48.6 million, or 7.3%, to $616.1 million for the first nine months of 2002 compared to the same periods in 2001. The 8.3% decline in revenues for the quarter was comprised of a 7.6% decline in revenues at

ongoing operations and a 0.7% decline in revenues related to operations that were sold or shut down during 2001. The 7.3% decline in revenues for the first nine months of 2002 was comprised of a 6.4% decline in revenues at ongoing operations and a 0.9% decline in revenues related to operations that were sold or shut down during 2001.

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

Backlog primarily contains installation, retrofit project work and service and maintenance agreements. These projects generally last less than a year. Service work and short duration projects are generally billed as performed and therefore do not flow through backlog. Accordingly, backlog represents only a portion of the Company's revenues for any given future period, and it represents revenues that are likely to be reflected in the Company's operating results over the next six to twelve months. As a result, the Company believes 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.

The Company's backlog associated with continuing operations as of September 30, 2002 was $475.9 million, a 10.1% increase from September 30, 2001 backlog of $432.2 million, and a 2.0% increase from June 30, 2002 backlog of $466.5 million.

Gross Profit -- Gross profit decreased $4.6 million, or 10.4%, to $40.0 million for the third quarter of 2002 and decreased $14.9 million, or 12.0%, to $109.2 million for the first nine months of 2002 compared to the same periods in 2001. As a percentage of revenues, gross profit decreased from 19.1% for the three months ended September 30, 2001 to 18.6% for the three months ended September 30, 2002 and decreased from 18.7% for the nine months ended September 30, 2001 to 17.7% for the nine months ended September 30, 2002.

The decline in gross profit for the quarter is primarily due to a more competitive pricing environment as a result of the general economic slowdown which began in the latter part of 2001. This slowdown also resulted in project delays at a number of the Company's operations as decisions to start new construction activities as well as retrofit projects were delayed in the fourth quarter of 2001. These delays significantly affected the Company's revenue volume and profitability during the first part of 2002.

Selling, General and Administrative Expenses ("SG&A") -- SG&A decreased $3.4 million, or 9.6%, to $32.0 million for the third quarter of 2002 and decreased $11.3 million, or 10.7%, to $95.0 million for the first nine months of 2002 compared to the same periods in 2001. As a percentage of revenues, SG&A decreased from 15.1% for the three months ended September 30, 2001 to 14.9% for the three months ended September 30, 2002 and decreased from 16.0% for the nine months ended September 30, 2001 to 15.4% for the nine months ended September 30, 2002. The decrease in SG&A is primarily due to a concerted effort to reduce SG&A throughout the Company. In response to the smaller size of the Company following the sale of 19 units to Emcor as discussed further below under "Discontinued Operations," the Company reduced corporate overhead at the end of the first quarter of 2002. The cost of this workforce reduction is included in restructuring charges recorded in March 2002. The Company has realized lower corporate overhead costs as a result of these steps. In addition, during the second quarter of 2002, the Company reversed $0.8 million of bad debt reserves that were established in the fourth quarter of 2001 related to the Company's receivables with Kmart based upon a post-bankruptcy petition settlement with Kmart.

SG&A as a percentage of revenues for periods prior to the Emcor transaction is higher than historical levels because the financial statements do not allocate any corporate overhead to the discontinued operations. As a result, SG&A for continuing operations reflects substantially the full amount of corporate office overhead that was in place to support the Company's operations prior to the sale of these operations.

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

Restructuring Charges -- During the first quarter of 2002, the Company recorded restructuring charges of approximately $1.9 million. These charges included approximately $0.8 million for severance costs primarily associated with the reduction in corporate overhead in light of the Company's smaller size following the Emcor transaction. The severance costs related to the termination of 33 employees, all of whom were terminated as of March 31, 2002. In addition, these charges include approximately $0.7 million for costs associated with decisions to merge or close three smaller divisions and realign regional operating management. These restructuring charges are primarily cash obligations but did include approximately $0.3 million of non-cash writedowns associated with long-lived assets.

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

Other Expense, Net -- Other expense, net, primarily includes interest expense, and decreased $1.0 million, or 54.0%, to $0.8 million for the third quarter of 2002 and decreased $3.7 million, or 58.2%, to $2.7 million for the first nine months of 2002. A portion of the Company's actual interest expense in both years has been allocated to the discontinued operations caption based upon the Company's net investment in these operations. Therefore, interest expense relating to continuing operations does not reflect the pro forma reduction of interest expense from applying the proceeds from the sale of these operations to reduce debt in any earlier period. Interest expense allocated to the discontinued operations for the three months ended September 30, 2001 was $3.3 million and for the nine months ended September 30, 2001 and 2002 was $11.0 million and $1.5 million, respectively. In addition, first quarter 2002 interest expense in continuing operations includes a non-cash writedown of $0.6 million, before taxes, of loan arrangement costs in connection with the reduction in the Company's borrowing capacity following the Emcor transaction. Other expense, net, for the second quarter of 2002 also includes a gain of $0.6 million on the sale of the residential portion of one of the Company's operations.

Income Tax Expense -- The Company's effective tax rates associated with results from continuing operations for the nine months ended September 30, 2001 and 2002 were 93.4% and 47.3%, respectively. As a result of the discontinuation of goodwill amortization as a result of the adoption of SFAS No. 142 effective January 1, 2002, there is no longer a permanent difference related to the non-deductible goodwill amortization in the 2002 effective tax rate.

Discontinued Operations -- On February 11, 2002, the Company entered into an agreement with Emcor Group, Inc. ("Emcor") to sell 19 operations. This transaction closed on March 1, 2002. Under the terms of the agreement, the total purchase price was $186.25 million, including the assumption by Emcor of approximately $22.1 million of subordinated notes to former owners of certain of the divested companies.

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

An additional $5 million of Emcor's purchase price was deposited into an escrow account to secure potential obligations on the Company's part to indemnify Emcor for future claims and contingencies arising from events and circumstances prior to closing, all as specified in the transaction documents. Because these escrow funds secure future claims and contingencies, the Company does not know whether it will ultimately receive any of such funds, and if it does, how much it will receive. Therefore, the Company has not recognized a receivable for this escrowed portion of the Emcor transaction purchase price. If the Company ultimately receives any of these escrowed funds, a corresponding gain will be recorded as a component of discontinued operations when received.

The net cash proceeds of approximately $164 million received to date from the Emcor transaction have been used to reduce debt outstanding under the Company's credit facility. An estimated tax liability of $16 million related to this transaction is due in March 2003.

Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which took effect for the Company on January 1, 2002, the operating results of the companies sold to Emcor as well as the loss on the sale of these operations have been presented as discontinued operations in the Company's statements of operations. The Company realized a loss of $10.6 million including related tax expense related to the sale of these operations. As a result of the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets," the Company also recognized a goodwill impairment charge related to these operations of $32.4 million, net of taxes, as of January 1, 2002. The reporting of the Company's aggregate goodwill impairment charge in connection with adopting SFAS No. 142 is discussed further below under "Cumulative Effect of Change in Accounting Principle."

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

During the second quarter of 2002, the Company sold a division of one of its operations. The operating loss for this division for the first two quarters of 2002 of $0.3 million, net of taxes, has been reported in discontinued operations under "Operating results, net of tax" in the Company's results of operations. The Company realized a loss of $0.3 million on the sale of this division which is included in "Estimated loss on disposition, net of tax" during the second quarter of 2002 in the Company's results of operations.

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

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

As provided by SFAS No. 142, the transitional impairment loss identified by applying the standard's new, more rigorous valuation methodology upon initial adoption of the standard was reflected as a cumulative effect of a change in accounting principle in the Company's statement of operations. The resulting non-cash charge

was $202.5 million, net of taxes. Impairment charges recognized after the initial adoption, if any, generally are to be reported as a component of operating income.

LIQUIDITY AND CAPITAL RESOURCES

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

For the three months ended September 30, 2002, the Company had positive free cash flow of $11.3 million as compared to $8.4 million for the same period in 2001. The Company has now generated positive free cash flow in nine of the last ten quarters. For the nine months ended September 30, 2002, the Company had positive free cash flow of $11.1 million as compared to $37.6 million for the same period in 2001. The 2001 cash flow amounts include the 19 operations the Company sold to Emcor in 2002. This sale primarily accounts for the lower cash flow amounts in 2002.

The transaction with Emcor provided for a post-closing adjustment based on a final accounting, done after the closing of the transaction, of the net assets of the operations that were sold to Emcor. That accounting indicated that the net assets transferred to Emcor were approximately $7 million greater than a target amount that had been agreed to with Emcor. In accordance with the transaction agreement, Emcor paid the Company that amount, and released $2.5 million that had been escrowed in connection with this element of the transaction during the second quarter. This amount is included in "Proceeds from businesses sold, net of cash sold and transaction costs" in the Company's statement of cash flows.

The proceeds received at the closing of the Emcor transaction, the post-closing adjustment and related escrow received from Emcor, and free cash flow from the Company's operations were all used to reduce the Company's debt.

Credit Facility -- The Company's primary current debt financing capacity consists of a $55 million senior credit facility (the "Facility") provided by General Electric Capital Corporation ("GE"), a subsidiary of the General Electric Corporation. The Facility includes a $20 million sublimit for letters of credit. The Facility is secured by substantially all the assets of the Company. The Facility was entered into on October 11, 2002 and replaces the Company's previous revolving credit facility with a group of banks, which was scheduled to expire in January 2003. The Facility consists of two parts: a term loan and a revolving credit facility.

The term loan under the Facility (the "Term Loan") is $15 million, which the Company borrowed upon the closing of Facility on October 11, 2002. The Term Loan must be repaid in quarterly installments over five years beginning December 31, 2002. The amount of each quarterly installment increases annually. These scheduled payments are recapped below under Amounts Outstanding, Capacity and Maturities.

The Facility requires certain prepayments of the Term Loan. Approximately half of any free cash flow (primarily cash from operations less capital expenditures) in excess of scheduled principal payments and voluntary prepayments must be used to pay down the Term Loan. This requirement is measured annually based on full-year results. The Company has not reflected any additional prepayments in current maturities of debt in connection with this requirement as it cannot yet determine if there is a significant probability that cash flows measured through yearend 2002 will require such prepayments. In addition, proceeds in excess of $250,000 from any individual asset sales, or in excess of $1 million for a full year's asset sales, must be used to pay down the Term Loan. Proceeds from asset sales that are less than these individual transaction or annual aggregate levels must also be used to pay down the Term Loan unless they are reinvested in long-term assets within six months of the receipt of such proceeds.

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

The Facility also includes a three-year revolving credit facility (the "Revolving Loan") that allows the Company to borrow up to $40 million in addition to the Term Loan.

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

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

The rates underlying these interest rate options are floating interest rates determined by the broad financial markets, meaning they can and do move up and down from time to time. The Facility requires that the Company enter into agreements to convert these floating interest rate terms on at least half of the Term Loan to fixed rate terms by December 10, 2002. Depending on their ultimate terms, such agreements might qualify as "derivatives" for financial reporting purposes. If so, any increases or decreases in the value of such agreements resulting from changes in market interest rates in any given period will be reflected in interest expense for that period, even though the agreements may not have been terminated and settled in cash during the period. Such adjustments are known as mark-to-market adjustments.

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

The Company also incurred certain financing and professional costs in connection with the arrangement and the closing of the Facility. These costs will be amortized to interest expense over the term of the Facility in the amount of approximately $0.3 million per quarter. To the extent prepayments of the Term Loan are made, the Company may have to accelerate amortization of these deferred financing and professional costs.

In connection with the Facility, the Company granted GE a warrant to purchase 409,051 shares of Company common stock for nominal consideration. In addition, GE may "put," or require the Company to repurchase, these shares at the higher of market price, appraised price or book value per share, during the fifth and final year of the Facility -- October 11, 2006 to October 11, 2007. This put may be accelerated under certain circumstances including a change of control of the Company, full repayments of amounts owing under the Facility, or a public offering of shares by the Company. This warrant and put are discussed in greater detail in Note 8, "Stockholders' Equity," to the Consolidated Financial Statements. The value of this warrant and put as of the start of the Facility of $2.9 million will be reflected as a discount of the Company's obligation under the Facility and will be amortized over the term of the Facility, as described above. The value of this warrant and put will change over time, principally in response to changes in the market price of the Company's common stock. The warrant and the put qualify as a derivative for financial reporting purposes. Accordingly, such changes in the value of the warrant and put in any given period will be reflected in interest expense for that period, even though the warrant and put may not have been terminated and settled in cash during the period. Such adjustments are known as mark-to-market adjustments.

The interest rate that the Company currently pays on the Term Loan is 7.5% per annum. This rate does not include amortization of debt financing and arrangement costs, or mark-to-market adjustments for derivatives.

The interest rate that the Company currently pays on the Revolving Loan is 7.0% per annum. This rate does not include amortization of debt financing and arrangement costs, or mark-to-market adjustments for derivatives.

Restrictions and Covenants -- Borrowings under the Facility are specifically limited by the Company's ratio of total debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA") and by the Company's ratio of EBITDA less taxes and capital expenditures to interest expense and scheduled principal

payments, also known as the fixed charge coverage ratio. The Facility's definition of debt for purposes of the ratio of total debt to EBITDA includes aggregate letters of credit outstanding less $10 million.

The definition of EBITDA under the Facility excludes certain items, generally noncash amounts and transactions reported in Other Income and Expense, that are otherwise included in the determination of earnings under generally accepted accounting principles in the Company's financial statements. As such, EBITDA as determined under the Facility's definition could be less than EBITDA as derived from the Company's financial statements in the future. The Company is currently not aware of any items that would result in EBITDA as determined under the Facility's definition being significantly less than EBITDA as derived from the Company's financial statements in the future.

The financial covenants under the Facility are summarized below. EBITDA amounts are in thousands.

FINANCIAL COVENANTS			
MAXIMUM DEBT TO EBITDA	MINIMUM FIXED CHARGE COVERAGE	MINIMUM INTEREST COVERAGE	TRAILING 12 MONTHS EBITDA
QUARTER ENDING			
- ACTUAL September 30, 2002	$30,014	0.54	5.11
7.75 COVENANT September 30, 2002	$25,650	1.75	2.30
3.00 December 31, 2002	$25,650	1.75	2.30
3.00 March 31, 2003	$27,000	1.75	2.50
3.00 June 30, 2003	$27,000	1.75	2.50
3.00 September 30, 2003	$27,000	1.50	2.70
3.00 December 31, 2003	$27,000	1.50	2.70
3.00 March 31, 2004	$29,000	1.50	3.00
3.00 June 30, 2004	$29,000	1.50	3.00
3.00 September 30, 2004	$29,000	1.25	3.00
3.00 December 31, 2004	$29,000	1.25	3.00
3.00 All quarters thereafter	$31,000	1.25	3.00
3.00			

The Company must achieve $6,042 of EBITDA in the fourth quarter of 2002 to remain in compliance with the minimum trailing twelve months EBITDA covenant shown above.

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

Notes to Affiliates and Former Owners -- Subordinated notes were issued to former owners of certain purchased companies as part of the consideration used to acquire their companies. These notes had an outstanding balance of $15.8 million as of September 30, 2002. In October 2002, $10.7 million of this balance was repaid with proceeds from the Term Loan. As of November 1, 2002, a balance of $4.7 million remains outstanding on these notes, substantially all of which is due in April 2003. The remaining notes bear interest, payable quarterly, at an interest rate of 10.0%. As these notes were refinanced with proceeds from the Term Loan, they are reflected as long-term as of September 30, 2002, net of amounts that are current under the Term Loan.

Other Commitments -- As is common in the Company's industry, the Company has entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in the Company's balance sheets. The Company's most significant off-balance sheet transactions include

liabilities associated with noncancelable operating leases. The Company also has other off-balance sheet obligations involving letters of credit and surety guarantees.

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

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

Many customers, particularly in connection with new construction, require the Company to post performance and payment bonds issued by a financial institution known as a surety. These bonds provide a guarantee to the customer that the Company will perform under the terms of a contract and that the Company will pay subcontractors and vendors. If the Company fails to perform under a contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. The Company must reimburse the surety for any expenses or outlays it incurs. To date, the Company has not had any significant reimbursements to its surety for bond-related costs. The Company believes that it is unlikely that it will have to fund claims under its surety arrangements in the foreseeable future.

Amounts Outstanding, Capacity and Maturities -- The following recaps the Company's debt amounts outstanding and capacity (in thousands):

	UNUSED CAPACITY AS OF SEPTEMBER 30, 2002	AS OF NOVEMBER 1, 2002	AS OF NOVEMBER 1, 2002
Revolving loan	$ -	$ 3,700	$18,546
Term loan	--	15,000	n/a
Notes to affiliates	15,818	4,746	n/a
Other debt	539	533	n/a
Total debt	16,357	23,979	18,546
Less: discount on Facility	- -	(2,930)	n/a
Total debt, net of discount	$16,357	$21,049	$18,546
Letters of credit	$ 7,063	$ 6,757	$13,243

The following recaps the future maturities of this debt along with other contractual obligations. Debt maturities in this recap are based on amounts outstanding as of November 1, 2002 while operating lease maturities are based on amounts outstanding as of September 30, 2002 (in thousands).

TWELVE MONTHS ENDED SEPTEMBER 30,	2003	2004	2005	2006	2007	THEREAFTER	TOTAL
Revolving loan	$ --	$ --	$ --	$3,700	$ --	$ --	$ 3,700
Term loan	1,500	2,250	3,000	3,750	4,500	15,000	
Notes to affiliates	4,746	--	--	--	--	--	4,746
Other debt	83	114	62	60	57	157	533
Total debt	$ 6,329	$2,364	$6,762	$3,810	$4,557	$ 157	$23,979
Less: discount on Facility	(2,930)						
Total debt, net of discount	$21,049						
Operating lease obligations	$10,589	$8,551	$6,171	$4,901	$3,972	$13,867	$48,051

The Company's letter of credit commitments as of September 30, 2002 expire as follows (in thousands):

TWELVE MONTHS ENDED SEPTEMBER 30,	2003	2004	2005	2006	2007	THEREAFTER	TOTAL
Letters of credit	$6,539	$524	$ --	$ --	$ --	$ --	$7,063

Outlook -- As noted above, the Company has generated positive free cash flow in most recent periods, and it currently has a relatively low level of debt. The Company does have approximately $16 million in tax payments resulting from the Emcor transaction that are due in March 2003. The Company anticipates that free cash flow from operations and borrowing capacity under the Facility will provide the Company with sufficient liquidity to fund these tax payments and to support its operations for the foreseeable future.

The Company currently has $6.8 million in letters of credit outstanding. The Company self insures a significant portion of its workers compensation, auto liability and general liability risks. The Company uses third parties to manage this self insurance and to retain some of these risks. As is customary under such arrangements, these third parties can require letters of credit as security for amounts they fund or risks they might potentially absorb on the Company's behalf. Under its current self-insurance arrangements, the Company expects that it will be required to post approximately $4.8 million in letters of credit before yearend, and approximately $2.4 million per quarter during the first three quarters of 2003. The Company does expect to recover at least $5 million of letters of credit currently outstanding over the next year. However, if the

Company does not recover any of the letters of credit currently outstanding, then based on the potential insurance-related letter of credit requirements described above, the Company may have potential letter of credit requirements of approximately $18.9 million over the next year. In addition, the Company may receive other letter of credit requests in the ordinary course of business, and it may have a net increase in the amount of insurance-related letters of credit it must post when it renews its insurance arrangements in the fourth quarter of next year. Accordingly, the Company's letter of credit requirements over the next year may exceed the current letter of credit sublimit of $20 million under the Company's credit facility. If so, the Company may have to seek additional letter of credit capacity or post different forms of security such as bonds or cash in lieu of letters of credit. The Company believes that its relatively low levels of debt in comparison to its EBITDA and free cash flows would enable it to obtain additional letter of credit capacity or to otherwise meet financial security requirements of third parties if necessary, but there can be no absolute assurance that the Company would be successful in doing so.

As described above, the Company must comply with a number of financial covenants in connection with the Facility. While the Company currently complies with all of the Facility's covenants, the minimum EBITDA covenant is set at levels that leave only moderate room for variance based on the Company's recent

performance. If the Company violates the Facility's minimum EBITDA covenant or any other of the Facility's covenants, it may have to negotiate new borrowing terms under the Facility or obtain new financing. While the Company believes that its relatively low levels of debt in comparison to its EBITDA and free cash flows would enable it to negotiate new borrowing terms under the Facility or to obtain new financing from other sources if necessary, there can be no absolute assurance that the Company would be successful in doing so.

SEASONALITY AND CYCLICALITY

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

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

NEW ACCOUNTING PRONOUNCEMENTS

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company adopted SFAS No. 144 effective January 1, 2002. Under SFAS No. 144, the operating results of companies sold or held for sale meeting certain criteria, as well as any gain or loss on the sale of these operations, are presented as discontinued operations in the Company's statements of operations. See Note 3 of the Consolidated Financial Statements for a discussion of the Company's discontinued operations. The operating results for companies which were sold or shut down during 2001 are presented as continuing operations through the date of disposition. The adoption of SFAS No. 144 did affect the presentation of discontinued operations in the consolidated financial statements; however, it did not have a material financial impact on the Company's results of operations, financial position or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

COMFORT SYSTEMS USA, INC.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. RECENT SALES OF UNREGISTERED SECURITIES

On October 11, 2002 the Company granted a Stock Purchase Warrant (the "Warrant") to General Electric Capital Corporation for 409,051 shares of the Company's stock, at a purchase price per share of $0.01. The Warrant was given as consideration in connection with the Company's long-term debt financing. The Warrant was issued without registration under the Securities Act in reliance on the exemption provided by Section 4(2) of the Securities Act.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1	Credit Agreement dated as of October 11, 2002 by and among the Company, as Borrower, and the other persons party thereto that are designated as credit parties, and General Electric Capital Corporation, as Agent, L/C Issuer and a Lender, and the other financial institutions party thereto, as Lenders. (Filed Herewith).
10.2	Stock Purchase Warrant and Repurchase Agreement dated October 11, 2002 granted by the Company to General Electric Capital Corporation. (Filed Herewith).
10.3	Registration Rights Agreement dated October 11, 2002 by and among the Company and General Electric Capital Corporation. (Filed Herewith).
10.4	Employment Agreement dated November 4, 2002 by and among Comfort Systems USA (Texas), L.P. and Norman C. Chambers. (Filed Herewith).
10.5	Restricted Stock Award Agreement dated November 1, 2002 from the Company to Norman C. Chambers. (Filed Herewith).
99.1	Certification of William F. Murdy, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
99.2	Certification of J. Gordon Beittenmiller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).

(b) Reports on Form 8-K

None

SIGNATURES

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

COMFORT SYSTEMS USA, INC.

/s/ WILLIAM F. MURDY

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

November 4, 2002

/s/ J. GORDON BEITTENMILLER

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

November 4, 2002

CERTIFICATION

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

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated November 4, 2002

/s/ WILLIAM F. MURDY

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

CERTIFICATION

I, J. Gordon Beittenmiller, Executive Vice President and Chief Financial Officer, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated November 4, 2002

/s/ J. GORDON BEITTENMILLER

J. Gordon Beittenmiller
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

EXHIBIT DESCRIPTION OF EXHIBIT -	-----	----------
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	Restricted Stock Award Agreement dated November 1, 2002 from the Company to Norman C. Chambers. (Filed Herewith).
99.1	Certification of William F. Murdy, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).
99.2	Certification of J. Gordon Beittenmiller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002. (Filed herewith).

EXHIBIT 10.1

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CREDIT AGREEMENT

DATED AS OF OCTOBER 11, 2002

by and among

COMFORT SYSTEMS USA, INC.,
as Borrower,

and

THE OTHER PERSONS PARTY HERETO THAT
ARE DESIGNATED AS CREDIT PARTIES,

and

GENERAL ELECTRIC CAPITAL CORPORATION,
as Agent, L/C Issuer and a Lender,

and

THE OTHER FINANCIAL INSTITUTIONS PARTY HERETO,
as Lenders

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CREDIT AGREEMENT

This CREDIT AGREEMENT is dated as of October 11, 2002 and entered into by and among Comfort Systems USA, Inc., a Delaware corporation ("Borrower"), the other persons designated as "Credit Parties" on the signature pages hereof, the financial institutions who are or hereafter become parties to this Agreement as Lenders, and GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation (in its individual capacity "GE Capital"), as the initial L/C Issuer and as Agent.

RECITALS:

WHEREAS, Borrower desires that Lenders extend a term credit facility and a revolving credit facility to Borrower to fund the repayment of certain indebtedness of Borrower, to provide working capital financing for Borrower and its Subsidiaries and to provide funds for other general corporate purposes of Borrower and its Subsidiaries; and

WHEREAS, Borrower desires to secure all of its Obligations (as hereinafter defined) under the Loan Documents (as hereinafter defined) by granting to Agent, for the benefit of Agent and Lenders, a security interest in and lien upon substantially all of its personal property and certain of its owned real property; and

WHEREAS, each of Borrower's Subsidiaries is willing to guaranty all of the Obligations of Borrower and to grant to Agent, for the benefit of Agent and Lenders, a security interest in and lien upon substantially all of its personal property and certain of its owned real property to secure the Obligations; and

WHEREAS, all capitalized terms herein shall have the meanings ascribed thereto in Annex A hereto which is incorporated herein by reference.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, Borrower, Credit Parties, Lenders and Agent agree as follows:

SECTION 1.
AMOUNTS AND TERMS OF LOANS

1.1 Loans. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of Borrower and the other Credit Parties contained herein:

(a) Term Loan. Each Term Lender agrees, severally and not jointly, to lend to Borrower in one draw, on the Closing Date, its Pro Rata Share of the aggregate amount of

$15,000,000 (the "Term Loan"). Borrower shall repay the Term Loan through periodic payments on the dates and in the amounts indicated below ("Scheduled Installments").

Date	Scheduled Installment
December 31, 2002	$ 375,000.00
March 31, 2003	$ 375,000.00
June 30, 2003	$ 375,000.00
September 30, 2003	$ 375,000.00
December 31, 2003	$ 562,500.00
March 31, 2004	$ 562,500.00
June 30, 2004	$ 562,500.00
September 30, 2004	$ 562,500.00
December 31, 2004	$ 750,000.00
March 31, 2005	$ 750,000.00
June 30, 2005	$ 750,000.00
September 30, 2005	$ 750,000.00
December 31, 2005	$ 937,500.00
March 31, 2006	$ 937,500.00
June 30, 2006	$ 937,500.00
September 30, 2006	$ 937,500.00
December 31, 2006	$ 1,125,000.00
March 31, 2007	$ 1,125,000.00
June 30, 2007	$ 1,125,000.00
Fifth Anniversary of the Closing Date	$ 1,125,000.00

The final installment shall in all events equal the entire remaining principal balance of the Term Loan. Amounts borrowed under this Section 1.1(a) and repaid may not be reborrowed.

The Term Loan shall be evidenced by promissory notes substantially in the form of Exhibit 1.1(a) (each a "Term Note" and, collectively, the "Term Notes"), and Borrower shall execute and deliver each Term Note to the applicable Term Lender. Each Term Note shall represent the

obligation of Borrower to pay the amount of the applicable Term Lender's Term Loan Commitment, together with interest thereon.

(b) Revolving Loans.

Each Revolving Lender agrees, severally and not jointly, to make available to Borrower from time to time until the Commitment Termination Date its Pro Rata Share of advances (each a "Revolving Credit Advance") requested by Borrower hereunder. The Pro Rata Share of the Revolving Loan of any Revolving Lender shall not at any time exceed its separate Revolving Loan Commitment and the outstanding principal amount of the Revolving Loans (including Swing Line Loans) shall not at any time exceed the aggregate Revolving Loan Commitments. Revolving Credit Advances may be repaid and reborrowed; provided, that the amount of any Revolving Credit Advance to be made at any time shall not exceed Borrowing

Availability. All Revolving Loans shall be repaid in full on the Commitment Termination Date. Borrower shall execute and deliver to each Revolving Lender a note to evidence the Revolving Loan Commitment of that Revolving Lender. Each note shall be in the principal amount of the Revolving Loan Commitment of the applicable Revolving Lender, dated the Closing Date and substantially in the form of Exhibit 1.1(b)(i) (each a "Revolving Note" and, collectively, the "Revolving Notes"). If at any time the outstanding Revolving Loans (including the Swing Line Loans) exceed the then Borrowing Availability (any such excess Revolving Loans are herein referred to collectively as "Overadvances"), Lenders shall not be obligated to make Revolving Credit Advances, no additional Letters of Credit shall be issued and first the Swing Line Loans and then the Revolving Loans must be repaid immediately and then Letters of Credit cash collateralized in an amount sufficient to eliminate all Overadvances. All Overadvances shall constitute Index Rate Loans and shall bear interest at the Default Rate. Revolving Loans which are Index Rate Loans may be requested in any amount with one (1) Business Day prior written notice required for funding requests equal to or greater than $5,000,000. For funding requests for such Loans less than $5,000,000, written notice must be provided by 1:00 p.m. (New York time) on the Business Day on which the Loan is to be made. All LIBOR Loans require three (3) Business Days prior written notice. Written notices for funding requests shall be in the form attached as Exhibit 1.1(b)(ii) ("Notice of Revolving Credit Advance").

(c) Swing Line Facility.

(i) Agent shall notify the Swing Line Lender upon Agent's receipt of any Notice of Revolving Credit Advance. Subject to the terms and conditions hereof, the Swing Line Lender may, in its discretion, make available from time to time until the Commitment Termination Date advances (each, a "Swing Line Advance") in accordance with any such notice. The provisions of this Section 1.1(c) shall not relieve Revolving Lenders of their obligations to make Revolving Credit Advances under Section 1.1(b); provided that if the Swing Line Lender makes a Swing Line Advance pursuant to any such notice, such Swing Line Advance shall be in lieu of any Revolving Credit Advance that otherwise may be made by Revolving Lenders pursuant to such notice. Except as provided in Section 1.1(b)(ii) above, the aggregate amount of Swing Line Advances outstanding shall not exceed at any time the lesser of (A) the Swing Line Commitment and (B) Borrowing Availability ("Swing Line Availability"). Until the Commitment Termination Date, Borrower may from time to time borrow, repay and reborrow under this Section 1.1(c). Each Swing Line Advance shall be made pursuant to a Notice of Revolving Credit Advance delivered by Borrower to Agent in accordance with Section 1.1(b). Unless the Swing Line Lender has received at least one (1) Business Day's prior written notice from Requisite Revolving Lenders instructing it not to make a Swing Line Advance, the Swing Line Lender shall, notwithstanding the failure of any condition precedent set forth in Section 7.2, be entitled to fund that Swing Line Advance, and to have each Revolving Lender make Revolving Credit Advances in accordance with Section 1.1(c)(iii) or purchase participating interests in accordance with Section 1.1(c)(iv). Notwithstanding any other provision of this Agreement or the other Loan Documents, the Swing Line Loan shall constitute an Index Rate Loan. Borrower shall repay the aggregate outstanding principal amount of the Swing Line Loan upon demand therefor by Agent. The entire unpaid balance of the Swing Line Loan and all other

noncontingent Obligations shall be immediately due and payable in full in immediately available funds on the Commitment Termination Date if not sooner paid in full.

(ii) Borrower shall execute and deliver to the Swing Line Lender a promissory note to evidence the Swing Line Commitment. Such note shall be in the principal amount of the Swing Line Commitment of the Swing Line Lender, dated the Closing Date and substantially in the form of Exhibit 1.1(c) (the "Swing Line Note"). The Swing Line Note shall represent the obligation of Borrower to pay the amount of the Swing Line Commitment or, if less, the aggregate unpaid principal amount of all Swing Line Advances made to Borrower together with interest thereon as prescribed in Section 1.2.

(iii) The Swing Line Lender, at any time and from time to time in its sole and absolute discretion but no less frequently than once weekly, shall on behalf of Borrower (and Borrower hereby irrevocably authorizes the Swing Line Lender to so act on its behalf) request each Revolving Lender (including the Swing Line Lender) to make a Revolving Credit Advance to Borrower (which shall be an Index Rate Loan) in an amount equal to that Revolving Lender's Pro Rata Share of the principal amount of the Swing Line Loan (the "Refunded Swing Line Loan") outstanding on the date such notice is given. Unless any of the events described in Sections 6.1(f) and 6.1(g) has occurred (in which event the procedures of Section 1.1(c)(iv) shall apply) and regardless of whether the conditions precedent set forth in this Agreement to the making of a Revolving Credit Advance are then satisfied, each Revolving Lender shall disburse directly to Agent, its Pro Rata Share of a Revolving Credit Advance on behalf of the Swing Line Lender, prior to 3:00 p.m. (New York time), in immediately available funds on the Business Day next succeeding the date that notice is given. The proceeds of those Revolving Credit Advances shall be immediately paid to the Swing Line Lender and applied to repay the Refunded Swing Line Loan.

(iv) If, prior to refunding a Swing Line Loan with a Revolving Credit Advance pursuant to Section 1.1(c)(iii), one of the events described in Sections 6.1(f) or 6.1(g) has occurred, then, subject to the provisions of Section 1.1(c)(v) below, each Revolving Lender shall, on the date such Revolving Credit Advance was to have been made for the benefit of Borrower, purchase from the Swing Line Lender an undivided participation interest in the Swing Line Loan in an amount equal to its Pro Rata Share (determined with respect to Revolving Loans) of such Swing Line Loan. Upon request, each Revolving Lender shall promptly transfer to the Swing Line Lender, in immediately available funds, the amount of its participation interest.

(v) Each Revolving Lender's obligation to make Revolving Credit Advances in accordance with Section 1.1(c)(iii) and to purchase participation interests in accordance with Section 1.1(c)(iv) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right that such Revolving Lender may have against the Swing Line Lender, Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of any Default or Event of Default; (C) any inability of Borrower to satisfy the conditions precedent to borrowing set forth in this Agreement at any time or (D) any other circumstance, happening or event whatsoever,

whether or not similar to any of the foregoing. Swing Line Lender shall be entitled to recover, on demand, from each Revolving Lender the amounts required pursuant to Sections 1.1.(c)(iii) or 1.1(c)(iv), as the case may be. If any Revolving Lender does not make available such amounts to Agent or the Swing Line Lender, as applicable, the Swing Line Lender shall be entitled to recover, on demand, such amount on demand from such Revolving Lender, together with interest thereon for each day from the date of non-payment until such amount is paid in full at the Federal Funds Rate for the first two Business Days and at the Index Rate thereafter.

(d) Letters of Credit.

(i) Letter of Credit Facility. The Revolving Loan Commitment may, in addition to advances under the Revolving Loan, be utilized, upon the request of Borrower, for the issuance of Letters of Credit. Immediately upon the issuance by an L/C Issuer of a Letter of Credit, and without further action on the part of Agent or any of the Lenders, each Revolving Lender shall be deemed to have purchased from such L/C Issuer a participation in such Letter of Credit (or in its obligation under a risk participation agreement with respect thereto) equal to such Revolving Lender's Pro Rata Share of the aggregate amount available to be drawn under such Letter of Credit.

(ii) Maximum Amount. The aggregate amount of Letter of Credit Obligations with respect to all Letters of Credit outstanding at any time shall not exceed $20,000,000 ("L/C Sublimit").

(iii) Reimbursement. Borrower shall be irrevocably and unconditionally obligated forthwith without presentment, demand, protest or other formalities of any kind, to reimburse any L/C Issuer on demand in immediately available funds for any amounts paid by such L/C Issuer with respect to a Letter of Credit, including all reimbursement payments, Fees, Charges, costs and expenses paid by such L/C Issuer. Borrower hereby authorizes and directs Agent, at Agent's option, to debit Borrower's account (by increasing the outstanding principal balance of the Revolving Credit Advances) in the amount of any payment made by an L/C Issuer with respect to any Letter of Credit. All amounts paid by an L/C Issuer with respect to any Letter of Credit that are not immediately repaid by Borrower with the proceeds of a Revolving Credit Advance or otherwise shall bear interest at the interest rate applicable to Revolving Loans which are Index Rate Loans plus, at the election of Agent or Requisite Revolving Lenders, an additional two percent (2.00%) per annum. Each Revolving Lender agrees to fund its Pro Rata Share of any Revolving Loan made pursuant to this Section 1.1(d)(iii). In the event Agent elects not to debit Borrower's account by increasing the outstanding principal balance of the Revolving Credit Advances and Borrower otherwise fails to reimburse the L/C Issuer in full on the date of any payment in respect of a Letter of Credit, Agent shall promptly notify each Revolving Lender of the amount of such unreimbursed payment and the accrued interest thereon and each Revolving Lender, on the next Business Day prior to 3:00 p.m. (New York time), shall deliver to Agent an amount equal to its Pro Rata Share thereof in same day funds. Each Revolving Lender hereby absolutely and unconditionally agrees to pay to the L/C Issuer upon demand by the L/C Issuer such Revolving Lender's Pro Rata Share of each payment made by the L/C Issuer in respect of a Letter of Credit and not immediately reimbursed

by Borrower or satisfied through a debit of Borrower's account. Each Revolving Lender acknowledges and agrees that its obligations pursuant to this subsection in respect of Letters of Credit are absolute and unconditional and shall not be affected by any circumstance whatsoever, including setoff, counterclaim, the occurrence and continuance of a Default or an Event of Default or any failure by Borrower to satisfy any of the conditions set forth in Section 7.2. If any Revolving Lender fails to make available to the L/C Issuer the amount of such Revolving Lender's Pro Rata Share of any payments made by the L/C Issuer in respect of a Letter of Credit as provided in this Section 1.1(d)(iii), the L/C Issuer shall be entitled to recover such amount on demand from such Revolving Lender together with interest at the Index Rate.

(iv) Request for Letters of Credit. Borrower shall give Agent at least three (3) Business Days prior written notice specifying the date a Letter of Credit is requested to be issued, the amount and the name and address of the beneficiary and a description of the transactions proposed to be supported thereby. If Agent informs Borrower that the L/C Issuer cannot issue the requested Letter of Credit directly, Borrower may request that L/C Issuer arrange for the issuance of the requested Letter of Credit under a risk participation agreement with another financial institution reasonably acceptable to Agent, L/C Issuer and Borrower. The issuance of any Letter of Credit under this Agreement shall be subject to the conditions that the Letter of Credit (i) supports a transaction entered into in the ordinary course of business of Borrower and (ii) is in a form, is for an amount and contains such terms and conditions as are reasonably satisfactory to the L/C Issuer and, in the case of standby letters of credit, Agent. The initial notice requesting the issuance of a Letter of Credit shall be accompanied by the form of the Letter of Credit and the Master Standby Agreement or Master Documentary Agreement, as applicable, and an application for a letter of credit, if any, then required by the L/C Issuer completed in a manner satisfactory to such L/C Issuer. If any provision of any application or reimbursement agreement is inconsistent with the terms of this Agreement, then the provisions of this Agreement, to the extent of such inconsistency, shall control.

(v) Expiration Dates of Letters of Credit. The expiration date of each Letter of Credit shall be on a date which is not later than the earlier of (a) one year from its date of issuance or (b) the thirtieth (30th) day prior to the date set forth in clause (a) of the definition of the term Commitment Termination Date. Notwithstanding the foregoing, a Letter of Credit may provide for automatic extensions of its expiration date for one (1) or more successive one (1) year periods provided that the L/C Issuer has the right to terminate such Letter of Credit on each such annual expiration date and no renewal term may extend the term of the Letter of Credit to a date that is later than the thirtieth (30th) day prior to the date set forth in clause (a) of the definition of the term Commitment Termination Date. The L/C Issuer may elect not to renew any such Letter of Credit and, upon direction by Agent or Requisite Revolving Lenders, shall not renew any such Letter of Credit at any time during the continuance of an Event of Default, provided that, in the case of a direction by Agent or Requisite Revolving Lenders, the L/C Issuer receives such directions prior to the date notice of non-renewal is required to be given by the L/C Issuer and the L/C Issuer has had a reasonable period of time to act on such notice.

(vi) Obligations Absolute. The obligation of Borrower to reimburse the L/C Issuer, Agent and Lenders for payments made in respect of Letters of Credit issued by

the L/C Issuer shall be unconditional and irrevocable and shall be paid under all circumstances strictly in accordance with the terms of this Agreement, including the following circumstances: (a) any lack of validity or enforceability of any Letter of Credit; (b) any amendment or waiver of or any consent or departure from all or any of the provisions of any Letter of Credit or any Loan Document; (c) the existence of any claim, set-off, defense or other right which Borrower, any of its Subsidiaries or Affiliates or any other Person may at any time have against any beneficiary of any Letter of Credit, Agent, any L/C Issuer, any Lender or any other Person, whether in connection with this Agreement, any other Loan Document or any other related or unrelated agreements or transactions; (d) any draft or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; (e) payment under any Letter of Credit against presentation of a draft or other document that does not substantially comply with the terms of such Letter of Credit; or (f) any other act or omission to act or delay of any kind of any L/C Issuer, Agent, any Lender or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this Section 1.1(d)(vi), constitute a legal or equitable discharge of Borrower's obligations hereunder.

(vii) Obligations of L/C Issuers. Each L/C Issuer (other than GE Capital) hereby agrees that it will not issue a Letter of Credit hereunder until it has provided Agent with written notice specifying the amount and intended issuance date of such Letter of Credit and Agent has returned a written acknowledgment of such notice to L/C Issuer. Each L/C Issuer (other than GE Capital) further agrees to provide to Agent: (a) a copy of each Letter of Credit issued by such L/C Issuer promptly after its issuance; (b) a weekly report summarizing available amounts under Letters of Credit issued by such L/C Issuer, the dates and amounts of any draws under such Letters of Credit, the effective date of any increase or decrease in the face amount of any Letters of Credit during such week and the amount of any unreimbursed draws under such Letters of Credit; and (c) such additional information reasonably requested by Agent from time to time with respect to the Letters of Credit issued by such L/C Issuer. Without limiting the generality of the foregoing, it is expressly understood and agreed by Borrower that the absolute and unconditional obligation of Borrower to Agent and Lenders hereunder to reimburse payments made under a Letter of Credit will not be excused by the gross negligence or willful misconduct of the L/C Issuer. However, the foregoing shall not be construed to excuse an L/C Issuer from liability to Borrower to the extent of any direct damages (as opposed to consequential damages, with Borrower hereby waiving all claims for any consequential damages to the extent permitted by applicable law) suffered by Borrower that are subject to indemnification under the Master Standby Agreement or the Master Documentary Agreement.

(e) Funding Authorization. The proceeds of all Loans made pursuant to this Agreement subsequent to the Closing Date are to be funded by Agent by wire transfer to the account designated by Borrower below (the "Disbursement Account"):

Bank: Bank One, NA
Dallas, Texas
ABA#: 1110006
Account #: 18241407

Account Name: Comfort Systems USA, Inc.
Concentration Account

Borrower shall provide Agent with written notice of any change in the foregoing instructions at least three (3) Business Days before the desired effective date of such change.

1.2 Interest and Applicable Margins.

(a) Borrower shall pay interest to Agent, for the ratable benefit of Lenders, in accordance with the various Loans being made by each Lender, in arrears on each applicable Interest Payment Date, at the following rates: (i) with respect to the Revolving Credit Advances which are designated as Index Rate Loans (and for all other Obligations not otherwise set forth below), the Index Rate plus the Applicable Revolver Index Margin per annum or, with respect to Revolving Credit Advances which are designated as LIBOR Loans, the applicable LIBOR Rate plus the Applicable Revolver LIBOR Margin per annum; (ii) with respect to such portion of the Term Loan designated as an Index Rate Loan, the Index Rate plus the Applicable Term Loan Index Margin per annum or, with respect to such portion of the Term Loan designated as a LIBOR Loan, the applicable LIBOR Rate plus the Applicable Term Loan LIBOR Margin per annum; and (iii) with respect to the Swing Line Loan, the Index Rate plus the Applicable Revolver Index Margin per annum.

The Applicable Margins are as follows:

Applicable Revolver Index Margin	2.25%
Applicable Revolver LIBOR Margin	3.25%
Applicable Term Loan Index Margin	2.75%
Applicable Term Loan LIBOR Margin	3.75%
Applicable L/C Margin	3.25%
Applicable Unused Line Fee Margin	0.50%

(b) If any payment on any Loan becomes due and payable on a day other than a Business Day, the maturity thereof will be extended to the next succeeding Business Day (except as set forth in the definition of LIBOR Period) and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension.

(c) All computations of Fees calculated on a per annum basis and interest shall be made by Agent on the basis of a 360-day year, in each case for the actual number of days occurring in the period for which such Fees and interest are payable. The Index Rate is a floating rate determined for each day. Each determination by Agent of an interest rate and Fees hereunder shall be final, binding and conclusive on Borrower, absent manifest error.

(d) So long as an Event of Default has occurred and is continuing under Section 6.1(a), (f) or (g) and without notice of any kind, or so long as any other Event of Default has occurred and is continuing and at the election of Agent (or upon the written request of Requisite Lenders) confirmed by written notice from Agent to Borrower, the interest rates applicable to the Loans and the Letter of Credit Fee shall be increased by two percentage points (2%) per annum above the rates of interest or the rate of such Fee otherwise applicable hereunder ("Default Rate"), and all outstanding Obligations shall bear interest at the Default Rate applicable to such Obligations. Interest and Letter of Credit Fees at the Default Rate shall accrue from the initial date of such Event of Default until that Event of Default is cured or waived and shall be payable upon demand, but in any event, shall be payable on the next regularly scheduled payment date set forth herein for such Obligation.

(e) Borrower shall have the option to (i) request that any Revolving Credit Advance be made as a LIBOR Loan, (ii) convert at any time all or any part of outstanding Loans (other than the Swing Line Loan) from Index Rate Loans to LIBOR Loans, (iii) convert any LIBOR Loan to an Index Rate Loan, subject to payment of the LIBOR Breakage Fee in accordance with Section 1.3(d) if such conversion is made prior to the expiration of the LIBOR Period applicable thereto, or (iv) continue all or any portion of any Loan (other than the Swing Line Loan) as a LIBOR Loan upon the expiration of the applicable LIBOR Period and the succeeding LIBOR Period of that continued Loan shall commence on the first day after the last day of the LIBOR Period of the Loan to be continued. Any Loan or group of Loans having the same proposed LIBOR Period to be made or continued as, or converted into, a LIBOR Loan must be in a minimum amount of $1,000,000 and integral multiples of $500,000 in excess of such amount. Any such election must be made by 1:00 p.m. (New York time) on the 3rd Business Day prior to (1) the date of any proposed Revolving Credit Advance which is to bear interest at the LIBOR Rate, (2) the end of each LIBOR Period with respect to any LIBOR Loans to be continued as such, or (3) the date on which Borrower wishes to convert any Index Rate Loan to a LIBOR Loan for a LIBOR Period designated by Borrower in such election. If no election is received with respect to a LIBOR Loan by 1:00 p.m. (New York time) on the 3rd Business Day prior to the end of the LIBOR Period with respect thereto, that LIBOR Loan shall be converted to an Index Rate Loan at the end of its LIBOR Period. Borrower must make such election by notice to Agent in writing, by fax or overnight courier. In the case of any conversion or continuation, such election must be made pursuant to a written notice (a "Notice of Conversion/Continuation") in the form of Exhibit 1.2(e). No Loan shall be made, converted into

or continued as a LIBOR Loan, if an Event of Default has occurred and is continuing and Agent or Requisite Lenders have determined not to make or continue any Loan as a LIBOR Loan as a result thereof. For the period from the Closing Date until the earlier of (i) 45 days after the Closing Date or (ii) completion of primary syndication as determined by Agent, no Loan may be made as or converted into a LIBOR Loan having an interest period of greater than one-month, and to the extent that additional Lenders are brought into the syndicate and become party to this Agreement during any such one-month interest period, Borrower shall pay the LIBOR Breakage Fee to Agent for the benefit of all Lenders that funded or were prepared to fund any such one-month LIBOR Loan.

(f) Notwithstanding anything to the contrary set forth in this Section 1.2, if a court of competent jurisdiction determines in a final order that the rate of interest payable hereunder exceeds the highest rate of interest permissible under law (the "Maximum Lawful Rate"), then so long as the Maximum Lawful Rate would be so exceeded, the rate of interest payable hereunder shall be equal to the Maximum Lawful Rate; provided, however, that if at any time thereafter the rate of interest payable hereunder is less than the Maximum Lawful Rate, Borrower shall continue to pay interest hereunder at the Maximum Lawful Rate until such time as the total interest received by Agent, on behalf of Lenders, is equal to the total interest that would have been received had the interest rate payable hereunder been (but for the operation of this paragraph) the interest rate payable since the Closing Date as otherwise provided in this Agreement. Thereafter, interest hereunder shall be paid at the rate(s) of interest and in the manner provided in Sections 1.2(a) through (e), unless and until the rate of interest again exceeds the Maximum Lawful Rate, and at that time this paragraph shall again apply. In no event shall the total interest received by any Lender pursuant to the terms hereof exceed the amount that such Lender could lawfully have received had the interest due hereunder been calculated for the full term hereof at the Maximum Lawful Rate. If the Maximum Lawful Rate is calculated pursuant to this paragraph, such interest shall be calculated at a daily rate equal to the Maximum Lawful Rate divided by the number of days in the year in which such calculation is made. If, notwithstanding the provisions of this Section 1.2(f), a court of competent jurisdiction shall determine by a final, non-appealable order that a Lender has received interest hereunder in excess of the Maximum Lawful Rate, Agent shall, to the extent permitted by applicable law, promptly apply such excess as specified in Section 1.5(e) and thereafter shall refund any excess to Borrower or as such court of competent jurisdiction may otherwise order.

1.3 Fees.

(a) Fee Letter. Borrower shall pay to GE Capital, individually, the Fees specified in that certain fee letter of even date herewith between Borrower and GE Capital (the "GE Capital Fee Letter"), at the times specified for payment therein.

(b) Unused Line Fee. As additional compensation for the Revolving Lenders, Borrower shall pay to Agent, for the ratable benefit of such Lenders, in arrears, on the first Business Day of each calendar quarter prior to the Commitment Termination Date and on the Commitment Termination Date, a fee for Borrower's non-use of available funds in an amount equal to the Applicable Unused Line Fee Margin per annum multiplied by the difference

between (x) the Maximum Amount (as it may be reduced from time to time and as then in effect) and (y) the average for the period of the daily closing balances of the Revolving Loan and the Swing Line Loan outstanding during the period for which such Fee is due.

(c) Letter of Credit Fee. Borrower agrees to pay to Agent for the benefit of Revolving Lenders, as compensation to such Revolving Lenders for Letter of Credit Obligations incurred hereunder, (i) all costs and expenses incurred by Agent or any Lender on account of such Letter of Credit Obligations, and (ii) for each month during which any Letter of Credit Obligation shall remain outstanding, a fee (the "Letter of Credit Fee") computed at a rate per annum equal to the Applicable L/C Margin per annum and calculated on the basis of a 360-day year on the maximum amount available from time to time to be drawn under the applicable Letter of Credit. Such fee shall be paid to Agent for the benefit of the Revolving Lenders in arrears, on the first day of each calendar quarter and on the Commitment Termination Date. In addition, Borrower shall pay to any L/C Issuer, on demand, such fees (including all per annum fees), charges and expenses of such L/C Issuer in respect of the issuance, negotiation, acceptance, amendment, transfer and payment of such Letter of Credit or otherwise payable pursuant to the application and related documentation under which such Letter of Credit is issued.

(d) LIBOR Breakage Fee. Upon (i) any default by Borrower in making any borrowing of, conversion into or continuation of any LIBOR Loan following Borrower's delivery to Agent of any LIBOR Loan request in respect thereof or (ii) any payment of a LIBOR Loan on any day that is not the last day of the LIBOR Period applicable thereto (including as set forth in Section 1.2(e) hereof) (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), Borrower shall pay Agent, for the benefit of all Lenders that funded or were prepared to fund any such LIBOR Loan, the LIBOR Breakage Fee.

(e) Expenses and Attorneys Fees. Borrower agrees to promptly pay all reasonable fees, charges, costs and expenses (including reasonable attorneys' fees and expenses and the allocated cost of internal legal staff) incurred by Agent in connection with any matters contemplated by or arising out of the Loan Documents, in connection with the examination, review, due diligence investigation, documentation, negotiation, closing and syndication of the transactions contemplated herein and in connection with the continued administration of the Loan Documents including any amendments, modifications, consents and waivers. Borrower agrees to promptly pay reasonable documentation charges assessed by Agent for amendments, waivers, consents and any of the documentation prepared by Agent's internal legal staff. Borrower agrees to promptly pay all reasonable fees, charges, costs and expenses (including reasonable fees, charges, costs and expenses of attorneys, auditors (whether internal or external), appraisers, consultants and advisors and the allocated cost of internal legal staff) incurred by Agent in connection with any Event of Default, work-out or action to enforce any Loan Document or to collect any payments due from Borrower or any other Credit Party. In addition, in connection with any work-out or action to enforce any Loan Document or to collect any payments due from Borrower or any other Credit Party, Borrower agrees to promptly pay all reasonable fees, charges, costs and expenses incurred by Lenders for one (1) counsel acting for all Lenders other than Agent. All fees, charges, costs and expenses for which Borrower is

responsible under this Section 1.3(e) shall be deemed part of the Obligations when incurred, payable upon demand or in accordance with the final sentence of Section 1.4 and secured by the Collateral.

1.4 Payments. All payments by Borrower of the Obligations shall be without deduction, defense, setoff or counterclaim and shall be made in same day funds and delivered to Agent, for the benefit of Agent and Lenders, as applicable, by wire transfer to the following account or such other place as Agent may from time to time designate in writing.

ABA No. 0210010
Account Number 502-328
Bankers Trust Company
New York, New York
ACCOUNT NAME: GECC/CAF DEPOSITORY
Reference: GE Capital re: Comfort Systems USA, Inc.

Borrower shall receive credit on the day of receipt for funds received by Agent by 2:00 p.m. (New York time). In the absence of timely receipt, such funds shall be deemed to have been paid on the next Business Day. Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, the payment may be made on the next succeeding Business Day and such extension of time shall be included in the computation of the amount of interest and Fees due hereunder.

Borrower hereby authorizes Lenders to make Revolving Credit Advances, on the basis of their Pro Rata Shares, or Swing Line Advances for the payment of Scheduled Installments, interest, Fees and expenses, Letter of Credit reimbursement obligations and any amounts required to be deposited with respect to outstanding Letter of Credit Obligations pursuant to Section 6.3.

1.5 Prepayments.

(a) Voluntary Prepayments of Loans. At any time, Borrower may prepay the Loans, in whole or in part, without premium or penalty subject to the payment of LIBOR Breakage Fees, if applicable. Prepayments of Term Loans shall be applied in accordance with Section 1.5(e) or as otherwise may be agreed by Requisite Lenders.

(b) Prepayments from Excess Cash Flow. Within one hundred (100) days after the end of each Fiscal Year commencing with the Fiscal Year ended December 31, 2002, Borrower shall prepay the Loans in an amount equal to fifty percent (50%) of the Excess Cash Flow for such Fiscal Year. The calculation shall be based on the audited Financial Statements for Borrower and its Subsidiaries. The payments shall be applied in accordance with Section 1.5(e).

(c) Prepayments from Asset Dispositions. Immediately upon receipt of any Net Proceeds aggregating less than $1,000,000 during any Fiscal Year that are not reinvested as permitted below, Borrower shall apply such Net Proceeds to repay the Revolving Loans then

outstanding (but with no permanent reduction of the Revolving Loan Commitment). On the 180th day after the receipt of any Net Proceeds aggregating less than $1,000,000 during any Fiscal Year that are not reinvested as permitted below, Borrower shall repay the Loans by an amount equal to the amount of such Net Proceeds. The payments shall be applied in accordance with Section 1.5(e). Notwithstanding the foregoing, Borrower may reinvest up to all of the Net Proceeds, within 180 days of receipt thereof, in productive replacement assets of a kind then used or useable in the business of Borrower or a Subsidiary which is a Credit Party. If Borrower does not so reinvest such Net Proceeds within the applicable time period, Borrower shall promptly repay the Loans by an amount equal to the amount of such Net Proceeds not so reinvested. The payments shall be applied in accordance with Section 1.5(e).

(d) Prepayments from Issuance of Securities. Immediately upon the receipt by Borrower or any of its Subsidiaries of the proceeds of the issuance of Stock (other than (1) proceeds from the issuance of Stock to employees, officers, or directors of Borrower as part of a stock option or other similar management incentive plan or program and (2) proceeds of the issuance of Stock to Borrower or any Subsidiary of Borrower), Borrower shall prepay the Loans in an amount equal to such proceeds, net of underwriting discounts and commissions and other reasonable costs associated therewith. The payments shall be applied in accordance with Section 1.5(e).

(e) Application of Proceeds. With respect to the prepayments described in Sections 1.5(a), 1.5(b), 1.5(c) or 1.5(d), such prepayments shall first be applied in payment of the Term Loan in the inverse order of maturity of the Scheduled Installments and, at any time after the Term Loan shall have been prepaid in full, such prepayments shall then be applied to reduce the outstanding principal balance of the Swing Line Loan and then the Revolving Credit Advances (without any corresponding reduction of the Revolving Loan Commitment). Considering each type of Loan being prepaid separately, any such prepayment shall be applied first to Index Rate Loans of the type required to be prepaid before application to LIBOR Loans of the type required to be prepaid, in each case in a manner which minimizes any resulting LIBOR Breakage Fee.

(f) Letter of Credit Obligations. In the event any Letters of Credit are outstanding at the time that the Revolving Loan Commitment is terminated, Borrower shall (1) deposit with Agent for the benefit of all Revolving Lenders cash in an amount equal to 105% of the aggregate outstanding Letter of Credit Obligations to be available to Agent to reimburse payments of drafts drawn under such Letters of Credit and pay any Fees and expenses related thereto and (2) prepay the fee payable under Section 1.3(d) with respect to such Letters of Credit for the full remaining terms of such Letters of Credit. Upon termination of any such Letter of Credit, the unearned portion of such prepaid fee attributable to such Letter of Credit shall be refunded to Borrower.

1.6 Maturity. All of the Obligations shall become due and payable as otherwise set forth herein, but in any event all of the remaining Obligations shall become due and payable upon termination of this Agreement. Until all Obligations have been fully paid and satisfied (other than contingent indemnification obligations to the extent no unsatisfied claim has been

asserted), the Revolving Loan Commitment has been terminated and all Letters of Credit have been terminated or otherwise secured to the satisfaction of Agent, Agent shall be entitled to retain the security interests in the Collateral granted under the Collateral Documents and the ability to exercise all rights and remedies available to them under the Loan Documents and applicable laws. Notwithstanding anything contained in this Agreement to the contrary, upon any termination of the Revolving Loan Commitment, all of the Obligations shall be due and payable.

1.7 Loan Accounts. Agent shall maintain a loan account (the "Loan Account") on its books to record: all Advances and the Term Loans(s), all payments made by Borrower, and all other debits and credits as provided in this Agreement with respect to the Loans or any other Obligations. All entries in the Loan Account shall be made in accordance with Agent's customary accounting practices as in effect from time to time. The balance in the Loan Account, as recorded on Agent's most recent printout or other written statement, shall, absent manifest error, be presumptive evidence of the amounts due and owing to Agent and Lenders by Borrower; provided that any failure to so record or any error in so recording shall not limit or otherwise affect Borrower's duty to pay the Obligations. Agent shall render to Borrower a monthly accounting of transactions with respect to the Loans setting forth the balance of the Loan Account for the immediately preceding month. Unless Borrower notifies Agent in writing of any objection to any such accounting (specifically describing the basis for such objection), within thirty (30) days after the date thereof, each and every such accounting shall, absent manifest error, be deemed final, binding and conclusive on Borrower in all respects as to all matters reflected therein. Only those items expressly objected to in such notice shall be deemed to be disputed by Borrower. Notwithstanding any provision herein contained to the contrary, any Lender may elect (which election may be revoked) to dispense with the issuance of Notes to that Lender and may rely on the Loan Account as evidence of the amount of Obligations from time to time owing to it.

1.8 Yield Protection; Illegality.

(a) Capital Adequacy and Other Adjustments. In the event that any Lender shall have determined that the adoption after the date hereof of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy, reserve requirements or similar requirements or compliance by any Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy, reserve requirements or similar requirements (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction does or shall have the effect of increasing the amount of capital, reserves or other funds required to be maintained by such Lender or any corporation controlling such Lender and thereby reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder, then Borrower shall from time to time within fifteen (15) days after notice and demand from such Lender (together with the certificate referred to in the next sentence and with a copy to Agent) pay to Agent, for the account of such Lender, additional amounts sufficient to compensate such Lender for such reduction. A certificate as to the amount of such cost and showing the basis of the computation of such cost

submitted by such Lender to Borrower and Agent shall, absent manifest error, be final, conclusive and binding for all purposes.

(b) Increased LIBOR Funding Costs; Illegality. Notwithstanding anything to the contrary contained herein, if the introduction of or any change in any law, rule, regulation, treaty or directive (or any change in the interpretation thereof) shall make it unlawful, or any central bank or other Governmental Authority shall assert that it is unlawful, for any Lender to agree to make or to make or to continue to fund or maintain any LIBOR Loan, then, unless that Lender is able to make or to continue to fund or to maintain such LIBOR Loan at another branch or office of that Lender without, in that Lender's opinion, adversely affecting it or its Loans or the income obtained therefrom, on notice thereof and demand therefor by such Lender to Borrower through Agent, (i) the obligation of such Lender to agree to make or to make or to continue to fund or maintain LIBOR Loans shall terminate and (ii) Borrower shall forthwith prepay in full all outstanding LIBOR Loans owing to such Lender, together with interest accrued thereon, unless Borrower, within five (5) Business Days after the delivery of such notice and demand, converts all LIBOR Loans into Index Rate Loans. If, after the date hereof, the introduction of, change in or interpretation of any law, rule, regulation, treaty or directive would impose or increase reserve requirements (other than as taken into account in the definition of LIBOR) or otherwise increase the cost to any Lender of making or maintaining a LIBOR Loan, then Borrower shall from time to time within fifteen (15) days after notice and demand from Agent (together with the certificate referred to in the next sentence) pay to Agent, for the account of all such affected Lenders, additional amounts sufficient to compensate such Lenders for such increased cost. A certificate as to the amount of such cost and showing the basis of the computation of such cost submitted by Agent on behalf of all such affected Lenders to Borrower shall, absent manifest error, be final, conclusive and binding for all purposes.

1.9 Taxes.

(a) No Deductions. Any and all payments or reimbursements made hereunder or under the Notes shall be made free and clear of and without deduction for any and all Charges, taxes, levies, imposts, deductions or withholdings, and all liabilities with respect thereto of any nature whatsoever imposed by any taxing authority, excluding such taxes to the extent imposed on Agent's or a Lender's net income by the jurisdiction in which Agent or such Lender is organized. If Borrower shall be required by law to deduct any such amounts from or in respect of any sum payable hereunder to any Lender or Agent, then the sum payable hereunder shall be increased as may be necessary so that, after making all required deductions, such Lender or Agent receives an amount equal to the sum it would have received had no such deductions been made.

(b) Changes in Tax Laws. In the event that, subsequent to the Closing Date, (1) any changes in any existing law, regulation, treaty or directive or in the interpretation or application thereof, (2) any new law, regulation, treaty or directive enacted or any interpretation or application thereof, or (3) compliance by Agent or any Lender with any request or directive (whether or not having the force of law) from any Governmental Authority:

(i) does or shall subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement, the other Loan Documents or any Loans made or Letters of Credit issued hereunder, or change the basis of taxation of payments to Agent or such Lender of principal, fees, interest or any other amount payable hereunder (except for net income taxes, or franchise taxes imposed in lieu of net income taxes, imposed generally by federal, state or local taxing authorities with respect to interest or commitment Fees or other Fees payable hereunder or changes in the rate of tax on the overall net income of Agent or such Lender); or

(ii) does or shall impose on Agent or any Lender any other condition or increased cost in connection with the transactions contemplated hereby or participations herein;

And the result of any of the foregoing is to increase the cost to Agent or any such Lender of issuing any Letter of Credit or making or continuing any Loan hereunder, as the case may be, or to reduce any amount receivable hereunder, then, in any such case, Borrower shall promptly pay to Agent or such Lender, upon its demand, any additional amounts necessary to compensate Agent or such Lender, on an after-tax basis, for such additional cost or reduced amount receivable, as determined by Agent or such Lender with respect to this Agreement or the other Loan Documents. If Agent or such Lender becomes entitled to claim any additional amounts pursuant to this Section 1.9(b), it shall promptly notify Borrower of the event by reason of which Agent or such Lender has become so entitled. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Agent or such Lender to Borrower (with a copy to Agent) shall, absent manifest error, be final, conclusive and binding for all purposes.

(c) Foreign Lenders. Each Lender organized under the laws of a jurisdiction outside the United States (a "Foreign Lender") shall provide to Borrower and Agent a properly completed and executed IRS Form W-8BEN or Form W-8ECI or other applicable form, certificate or document prescribed by the IRS of the United States certifying as to such Foreign Lender's entitlement to such exemption with respect to payments to be made to such Foreign Lender under this Agreement and under the Notes (a "Certificate of Exemption"). Prior to becoming a Lender under this Agreement and within fifteen (15) days after a reasonable written request of Borrower or Agent from time to time thereafter, each Foreign Lender that becomes a Lender under this Agreement shall provide a Certificate of Exemption to Borrower and Agent. If a Foreign Lender is entitled to an exemption with respect to payments to be made to such Foreign Lender under this Agreement and does not provide a Certificate of Exemption to Borrower and Agent within the time periods set forth in the preceding sentence, Borrower shall withhold taxes from payments to such Foreign Lender at the applicable statutory rates and Borrower shall not be required to pay any additional amounts as a result of such withholding, provided that all such withholding shall cease upon delivery by such Foreign Lender of a Certificate of Exemption to Borrower and Agent.

SECTION 2.
AFFIRMATIVE COVENANTS

Each Credit Party executing this Agreement jointly and severally agrees as to all Credit Parties that from and after the date hereof and until the Termination Date:

2.1 Compliance With Laws and Contractual Obligations. Each Credit Party will (a) comply with and shall cause each of its Subsidiaries to comply with (i) the requirements of all applicable laws, rules, regulations and orders of any Governmental Authority (including, without limitation, laws, rules, regulations and orders relating to taxes, employer and employee contributions, securities, employee retirement and welfare benefits, environmental protection matters and employee health and safety) as now in effect and which may be imposed in the future in all jurisdictions in which any Credit Party or any of its Subsidiaries is now doing business or may hereafter be doing business and (ii) the obligations, covenants and conditions contained in all Contractual Obligations of such Credit Party or any of its Subsidiaries other than those laws, rules, regulations, orders and provisions of such Contractual Obligations the noncompliance with which could not be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, and (b) maintain or obtain and shall cause each of its Subsidiaries to maintain or obtain all licenses, qualifications and permits now held or hereafter required to be held by such Credit Party or any of its Subsidiaries, for which the loss, suspension, revocation or failure to obtain or renew, could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. This Section 2.1 shall not preclude any Credit Party or its Subsidiaries from contesting any taxes or other payments, if they are being diligently contested in good faith in a manner which stays enforcement thereof and if appropriate expense provisions have been recorded in conformity with GAAP, subject to Section 3.2.

2.2 Maintenance of Properties; Insurance. Each Credit Party will maintain or cause to be maintained in good repair, working order and condition all material properties used in the business of such Credit Party and its Subsidiaries, ordinary wear and tear excepted, and will make or cause to be made all appropriate repairs, renewals and replacements thereof. Each Credit Party will maintain or cause to be maintained, with financially sound and reputable insurers, public liability and property damage insurance with respect to its business and properties and the business and properties of its Subsidiaries against loss or damage of the kinds customarily carried or maintained by corporations of established reputation engaged in similar businesses and in amounts acceptable to Agent and will deliver evidence thereof to Agent. The Credit Parties will maintain business interruption insurance providing for an aggregate annual coverage limit for business interruption and property loss in an amount not less than $25,000,000. Each Credit Party shall cause Agent, pursuant to endorsements and/or assignments in form and substance reasonably satisfactory to Agent, to be named as lender's loss payee in the case of casualty insurance, additional insured in the case of all liability insurance and assignee in the case of all business interruption insurance, in each case for the benefit of Agent and Lenders. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than 30 days' prior written notice to Agent in the event of cancellation of such policy. Each Credit Party represents and warrants that it and each of its Subsidiaries currently maintains all material properties as set forth above and maintains all insurance described above. In the event any Credit Party fails to provide Agent with evidence of the insurance coverage required by this Agreement, Agent may purchase insurance at such Credit Party's expense to protect Agent's interests in the Collateral. This insurance may, but need not, protect such Credit Party's interests. The coverage purchased by Agent may not pay any claim made by such Credit Party or any claim that is made against such Credit Party in connection with the Collateral. Such Credit Party may later cancel any insurance purchased by Agent, but only after providing Agent with evidence that such Credit Party has obtained insurance as required by this Agreement. If Agent purchases insurance for the Collateral, such Credit Party will be responsible for the costs of that insurance, including interest and other Charges imposed by Agent in connection with the placement of the insurance, until the effective date of the cancellation or expiration of the insurance. The costs of the insurance may be added to the Obligations. The costs of the insurance may be more than the cost of insurance such Credit Party is able to obtain on its own.

2.3 Inspection; Lender Meeting. Each Credit Party shall permit any authorized representatives of Agent to visit, audit and inspect any of the properties of such Credit Party and its Subsidiaries, including its and their financial and accounting records, and to make copies and take extracts therefrom, and to discuss its and their affairs, finances and business with its and their officers and certified public accountants, at such reasonable times during normal business hours and as often as may be reasonably requested. Representatives of each Lender will be permitted to accompany representatives of Agent during each visit, inspection and discussion referred to in the immediately preceding sentence. Without in any way limiting the foregoing, each Credit Party will participate and will cause key management personnel of each Credit Party and its Subsidiaries to participate in a meeting with Agent and Lenders at least once during each year, which meeting shall be held at such time and such place as may be reasonably requested by Agent.

2.4 Organizational Existence. Except as otherwise permitted by Section 3.6, each Credit Party will and will cause its Subsidiaries to at all times preserve and keep in full force and effect its organizational existence and all rights and franchises material to its business.

2.5 Environmental Matters. Each Credit Party shall and shall cause each of its Subsidiaries to: (a) conduct its operations and keep and maintain its Real Estate in compliance with all Environmental Laws and Environmental Permits other than noncompliance that could not reasonably be expected to have a Material Adverse Effect; (b) implement any and all investigation, remediation, removal and response actions that are commercially necessary to maintain the value and marketability of the Real Estate or commercially reasonable to otherwise comply with Environmental Laws and Environmental Permits pertaining to the presence, generation, treatment, storage, use, disposal, transportation or Release of any Hazardous Material on, at, in, under, above, to, from or about any of its Real Estate; (c) notify Agent promptly after such Credit Party or any Subsidiary thereof becomes aware of any violation of Environmental Laws or Environmental Permits or any Release on, at, in, under, above, to, from or about any Real Estate that is reasonably likely to result in Environmental Liabilities to a Credit Party or its Subsidiaries in excess of $50,000; and (d) promptly forward to Agent a copy of any order, notice, request for information or any communication or report received by such Credit Party or any Subsidiary thereof in connection with any such violation or Release or any other matter relating to any Environmental Laws or Environmental Permits that could reasonably be expected to result in Environmental Liabilities in excess of $50,000, in each case whether or not the Environmental Protection Agency or any Governmental Authority has taken or threatened any action in connection with any such violation, Release or other matter. If Agent at any time has a reasonable basis to believe that there may be a violation of any Environmental Laws or Environmental Permits by any Credit Party or any Subsidiary thereof or any Environmental Liability arising thereunder, or a Release of Hazardous Materials on, at, in, under, above, to, from or about any of its Real Estate, that, in each case, could reasonably be expected to have a Material Adverse Effect, then each Credit Party and its Subsidiaries shall, upon Agent's written request (i) cause the performance of such environmental audits including subsurface sampling of soil and groundwater, and preparation of such environmental reports, at Borrower's expense, as Agent may from time to time reasonably request, which shall be conducted by reputable environmental consulting firms reasonably acceptable to Agent and shall be in form and substance reasonably acceptable to Agent, and (ii) permit Agent or its representatives to have access to all Real Estate for the purpose of conducting such environmental audits and testing as Agent deems appropriate, including subsurface sampling of soil and groundwater. Borrower shall reimburse Agent for the costs of such audits and tests and the same will constitute a part of the Obligations secured hereunder.

2.6 Landlords' Agreements, Mortgagee Agreements, Bailee Letters and Real Estate Purchases. Each Credit Party shall use reasonable efforts to obtain a landlord's agreement, mortgagee agreement or bailee letter, as applicable, from the lessor of each leased property, mortgagee of owned property or bailee with respect to any warehouse, processor or converter facility or other location where Collateral with a value in excess of $250,000 is stored or located, which agreement or letter shall contain a waiver or subordination of all Liens or claims that the landlord, mortgagee or bailee may assert against the Collateral at that location, and shall

otherwise be reasonably satisfactory in form and substance to Agent. After the Closing Date, no additional new real property or new warehouse space (i.e. real property or warehouse space in addition to that real property or warehouse space leased as of the Closing Date) where any Collateral with a value in excess of $250,000 shall be located shall be leased by any Credit Party or any Subsidiary without the prior written consent of Agent which consent shall not be unreasonably withheld or delayed, or, unless and until a satisfactory landlord agreement or bailee letter, as appropriate, shall first have been obtained with respect to such location. Each Credit Party shall and shall cause its Subsidiaries to timely and fully pay (including allowance for any applicable grace periods) and perform their payment obligations (other than payment obligations in an aggregate maximum amount not to exceed $250,000 which may be withheld from payment to the extent that good faith disputes exist) and to fully perform their other material obligations under all leases and other agreements with respect to each leased location or public warehouse where any Collateral is or may be located.

2.7 Further Assurances.

(a) Each Credit Party shall, from time to time, execute such guaranties, financing statements, documents, security agreements and reports as Agent or Requisite Lenders at any time may reasonably request to evidence, perfect or otherwise implement the guaranties and security for repayment of the Obligations contemplated by the Loan Documents.

(b) In the event any Credit Party acquires a fee simple ownership interest in real property having a value in excess of $1,000,000 after the Closing Date, such Credit Party shall deliver to Agent a fully executed mortgage or deed of trust over such real property in form and substance satisfactory to Agent, together with such title insurance policies, surveys, appraisals, evidence of insurance, legal opinions relating to the mortgage, environmental assessments and other documents and certificates as shall be required by Agent.

(c) Each Credit Party shall (i) cause each Person, upon its becoming a Subsidiary of such Credit Party (provided that this shall not be construed to constitute consent by any of the Lenders to any transaction not expressly permitted by the terms of this Agreement), promptly to guaranty the Obligations and to grant to Agent, for the benefit of Agent and Lenders, a security interest in the personal and mixed property of such Person and owned real property having a value in excess of $1,000,000 of such Person to secure the Obligations and (ii) contemporaneously with taking the actions under clause (i) hereof, pledge, or cause to be pledged, to Agent, for the benefit of Agent and Lenders, all of the Stock of such Subsidiary to secure the Obligations. The documentation for such guaranty, security and pledge shall be substantially similar to the Loan Documents executed concurrently herewith with such modifications as are reasonably requested by Agent. In the case of any foreign Subsidiary, the sole requirement shall be for each Credit Party to pledge, or cause to be pledged, to Agent, for the benefit of Agent and Lenders, 65% of the Stock of such foreign Subsidiary to secure the Obligations.

2.8 Interest Rate Agreement. Within sixty (60) days after the Closing Date, Borrower shall enter into, and shall thereafter maintain, Interest Rate Agreements providing for interest

rate protection (1) for an aggregate amount of at least fifty percent (50%) of the principal amount of the Term Loan, as from time to time then outstanding, (2) for a term expiring no earlier than one (1) year after the Closing Date and (3) with other terms and conditions reasonably satisfactory to Agent.

2.9 Cash Management System. On or prior to the Closing Date, Borrower and each Credit Party will establish and shall maintain until the Termination Date, the cash management systems described in Annex F (the "Cash Management System").

SECTION 3.
NEGATIVE COVENANTS

Each Credit Party executing this Agreement jointly and severally agrees as to all Credit Parties that from and after the date hereof until the Termination Date:

3.1 Indebtedness. The Credit Parties shall not and shall not cause or permit their Subsidiaries directly or indirectly to create, incur, assume, or otherwise become or remain directly or indirectly liable with respect to any Indebtedness (other than pursuant to a Contingent Obligation permitted under Section 3.4) except:

(a) the Obligations;

(b) intercompany Indebtedness arising from loans made by Borrower to any Subsidiary which is a Credit Party to fund working capital requirements of such Subsidiaries in the ordinary course of business; provided, however, that all such Indebtedness shall be evidenced by promissory notes having terms reasonably satisfactory to Agent, the sole originally executed counterparts of which shall be pledged and delivered to Agent, for the benefit of Agent and Lenders, as security for the Obligations (the "Intercompany Notes");

(c) the unsecured, Subordinated Debt in a total amount not to exceed $15,900,000 through the 30th day after the Closing Date and $7,950,000 thereafter in the aggregate at any time outstanding;

(d) Indebtedness not to exceed $500,000 in the aggregate at any time outstanding secured by purchase money Liens or incurred with respect to Capital Leases;

(e) Subordinated Debt (i.e. so-called "seller paper") incurred in connection with and to the extent permitted in connection with a Permitted Acquisition pursuant to Section 3.6 (including, without limitation, subsections 3.6(iv) and (vi));

(f) Indebtedness in respect of the Interest Rate Agreements contemplated by Section 2.8;

(g) Indebtedness in respect of deferred software licensing fees in connection with Borrower or any Credit Party licensing software in the ordinary course of business consistent

with past practices in a total amount not to exceed $1,000,000 in the aggregate of any time outstanding;

(h) unsecured Indebtedness consisting of industrial revenue bonds in a total amount not to exceed $300,000 in the aggregate at any time outstanding; and

(i) any other unsecured Indebtedness not to exceed $1,000,000 in the aggregate at any time outstanding.

3.2 Liens and Related Matters.

(a) No Liens. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any property or asset of such Credit Party or any such Subsidiary, whether now owned or hereafter acquired, or any income or profits therefrom, except Permitted Encumbrances (including, without limitation, those Liens constituting Permitted Encumbrances existing on the date hereof and renewals and extensions thereof, as set forth on Schedule 3.2).

(b) No Negative Pledges. Except with respect to specific property to be sold pursuant to an executed agreement with respect to an Asset Sale expressly permitted under Section 3.7, the Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly enter into or assume any agreement (other than the Loan Documents) prohibiting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired (it being understood, however, that the Credit Parties may incur Indebtedness in respect of purchase money financing and Capital Leases to the extent permitted under Section 3.1(d)).

(c) No Restrictions on Subsidiary Distributions to Borrower. Except as provided elsewhere in this Agreement, the Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any such Subsidiary to: (1) pay dividends or make any other distribution on any of such Subsidiary's Stock owned by Borrower or any other Subsidiary; (2) pay any Indebtedness owed to Borrower or any other Subsidiary; or (3) make loans or advances to Borrower or any other Subsidiary.

3.3 Investments. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly make or own any Investment in any Person except:

(a) Borrower and its Subsidiaries may make and own Investments in Cash Equivalents subject to Control Agreements in favor of Agent; provided that such Cash Equivalents are not subject to setoff rights;

(b) Borrower may make intercompany loans to other Credit Parties to the extent permitted under Section 3.1;

(c) Borrower and its Subsidiaries may make loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business not to exceed $500,000 in the aggregate at any time outstanding;

(d) Borrower and its Subsidiaries may make capital contributions after the Closing Date to their wholly-owned domestic Subsidiaries which are Credit Parties in an amount not to exceed $250,000 in the aggregate during the term of this Agreement; and

(e) other Investments by the Credit Parties in an amount not exceeding $500,000 in the aggregate at any time outstanding.

3.4 Contingent Obligations. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly create or become or be liable with respect to any Contingent Obligation except:

(a) Letter of Credit Obligations;

(b) those resulting from endorsement of negotiable instruments for collection in the ordinary course of business;

(c) those existing on the Closing Date and described in Schedule 3.4;

(d) those arising under indemnity agreements to title insurers to cause such title insurers to issue to Agent mortgagee title insurance policies;

(e) those arising with respect to customary indemnification obligations incurred in connection with Asset Dispositions permitted hereunder;

(f) those incurred in the ordinary course of business consistent with past practices with respect to surety, performance and return-of-money bonds and other similar obligations, those incurred in accordance with customary practice for appeal bonds, and those incurred by the Borrower's subsidiaries in favor of the Borrower's sureties which have provided bonds to the Borrower in accordance with the foregoing provisions of this Section 3.4(f);

(h) those incurred with respect to Indebtedness permitted by Section 3.1 provided that any such Contingent Obligation is subordinated to the Obligations to the same extent as the Indebtedness to which it relates is subordinated to the Obligations;

(i) those incurred in connection with customary retainage provisions and customary warranty provisions entered into in the ordinary course of business consistent with past practices;

(j) those resulting from guarantees by a Credit Party of an obligation of another Credit Party; provided, that, the underlying obligation is otherwise permitted under the terms and conditions of this Agreement;

(k) those resulting from guarantees by Borrower of the obligations of another Credit Party to the extent such guarantees are given in lieu of surety bonds in the ordinary course of business consistent with past practices;

(l) those incurred in the ordinary course of business in connection with insurance programs;

(m) Contingent Obligations in respect of (i) the Interest Rate Agreements contemplated by Section 2.8 and (ii) other non-speculative Interest Rate Agreements hedging interest rate exposure with respect to the Loans; and

(n) any other Contingent Obligation not expressly permitted by clauses (a) through (m) above, so long as any such other Contingent Obligations support obligations with aggregate exposure not to exceed $1,000,000 at any time outstanding.

3.5 Restricted Payments. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly declare, order, pay, make or set apart any sum for any Restricted Payment, except that:

(a) Wholly-owned Subsidiaries of Borrower may make Restricted Payments to Borrower;

(b) Borrower may make regularly scheduled cash interest payments pursuant to the terms of the Subordinated Debt; provided that no Default or Event of Default exists at the time of any such Restricted Payment or would occur as a result thereof, and may repurchase the Subordinated Debt as expressly permitted under this Agreement.

3.6 Restriction on Fundamental Changes. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly: (a) amend, modify or waive any term or provision of its organizational documents, including its articles of incorporation, certificates of designations pertaining to preferred stock, by-laws, partnership agreement or operating agreement unless required by law or unless the amendment, modification, or waiver would not adversely affect any Credit Party, any Subsidiary of any Credit Party, Agent or any Lender; (b) enter into any transaction of merger or consolidation except, upon not less than five (5) Business Days prior written notice to Agent, any wholly-owned Subsidiary of Borrower may be merged with or into Borrower (provided that Borrower is the surviving entity) or any other wholly-owned Subsidiary of Borrower; (c) liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution); or (d) acquire by purchase or otherwise all or any substantial part of

the business or assets of any other Person. Notwithstanding the foregoing, Borrower or through a newly formed Subsidiary that is a Credit Party or an existing Subsidiary that is a Credit Party may acquire all or substantially all of the assets (by way of an asset acquisition or Stock acquisition) of any Person (the "Target") (in each case, a "Permitted Acquisition") subject to the satisfaction of each of the following conditions:

(i) Agent shall receive at least 30 Business Days' prior written notice of such proposed Permitted Acquisition, which notice shall include a reasonably detailed description of such proposed Permitted Acquisition;

(ii) such Permitted Acquisition shall only involve assets located in the United States or Canada and comprising a business, or those assets of a business, of the type engaged in by Borrower and its Subsidiaries as of the Closing Date, and which business would not subject Agent or any Lender to regulatory or third party approvals in connection with the exercise of its rights and remedies under this Agreement or any other Loan Documents other than approvals applicable to the exercise of such rights and remedies with respect to Borrower and its Subsidiaries prior to such Permitted Acquisition;

(iii) such Permitted Acquisition shall be consensual and shall have been approved by the Target's board of directors;

(iv) no additional Indebtedness, Guaranteed Indebtedness, Contingent Obligations or other liabilities shall be incurred, assumed or otherwise be reflected on a consolidated balance sheet of Borrower and its Subsidiaries and Target after giving effect to such Permitted Acquisition, except (A) Loans made hereunder, (B) Subordinated Debt (i.e., so-called "seller paper" acquired in connection with a Permitted Acquisition), provided, that (a) the terms of such Subordinated Debt shall be acceptable to Agent and (b) Borrower and the other Credit Parties shall be in compliance with the terms of this Section 3.6, including, but not limited to, clause (ix) below and all of the other provisions of this Agreement, including, without limitation, Section 3.1(c), (C) Contingent Obligations of the Target to the extent such contingent obligations are permitted under the terms of Section 3.4, (D) purchase money financing and Capital Lease Obligations to the extent such purchase money financing and Capital Lease Obligations are permitted under the terms of Section 3.1; and (E) ordinary course trade payables and other ordinary course liabilities, accrued expenses, deferred revenue and "overbillings" with respect to customer deposits and unsecured Indebtedness of the Target to the extent no Default or Event of Default has occurred and is continuing or would result after giving effect to such Permitted Acquisition;

(v) the sum of all amounts payable (including all (a) transaction costs, (b) Indebtedness incurred or assumed in connection therewith or otherwise reflected on a consolidated balance sheet of Borrower and its Subsidiaries and Target, (c) liabilities (but only to the extent that there is negative working capital) incurred or assumed in connection therewith or otherwise reflected on a consolidated balance sheet of Borrower and its Subsidiaries and Target, and (d) Contingent Obligations incurred or assumed in connection therewith or otherwise reflected on a consolidated balance sheet of Borrower and its Subsidiaries and Target) in

connection with any such single Permitted Acquisition shall not exceed $5,000,000 and for all Permitted Acquisitions shall not exceed $10,000,000 during any period of twelve consecutive months;

(vi) the Target shall not have incurred an operating loss for the trailing twelve-month period preceding the date of the Permitted Acquisition, as determined based upon the Target's financial statements completed within sixty (60) days prior to the date of consummation of such Permitted Acquisition;

(vii) the business and assets acquired in such Permitted Acquisition shall be free and clear of all Liens (other than Permitted Encumbrances);

(viii) at or prior to the closing of any Permitted Acquisition, Agent will be granted a first priority perfected Lien (subject to Permitted Encumbrances) in all assets acquired pursuant thereto (other than owned real estate with a value of $1,000,000 or less) and Borrower and its Subsidiaries and the Target shall have executed such documents and taken such actions as may be required by Agent in connection therewith;

(ix) Concurrently with delivery of the notice referred to in clause (i) above, Borrower shall have delivered to Agent, in form and substance reasonably satisfactory to Agent:

(A) a pro forma consolidated balance sheet, income statement and cash flow statement of Borrower and its Subsidiaries (the "Acquisition Pro Forma"), based on recent financial statements, which shall be complete and shall fairly present in all material respects the assets, liabilities, financial condition and results of operations of Borrower and its Subsidiaries in accordance with GAAP consistently applied, but taking into account such Permitted Acquisition and the funding of all Loans in connection therewith, and such Acquisition Pro Forma shall reflect that (x) average daily excess Borrowing Availability for the 45-day period preceding the consummation of such Permitted Acquisition would have exceeded $10,000,000 on a pro forma basis (after giving effect to such Permitted Acquisition and all Loans funded in connection therewith as if made on the first day of such period) and the Acquisition Projections (as hereinafter defined) shall reflect that excess Borrowing Availability of $10,000,000 shall continue for at least 45 days after the consummation of such Permitted Acquisition, and (y) on a pro forma basis, no Event of Default has occurred and is continuing or would result after giving effect to such Permitted Acquisition and Borrower would have been in compliance with the financial covenants set forth in Section 4 for the four quarter period reflected in the Compliance and Excess Cash Flow Certificate most recently delivered to Agent pursuant to Section 4.6(l) prior to the consummation of such Permitted Acquisition (after giving effect to such Permitted Acquisition and all Loans funded in connection therewith as if made on the first day of such period);

(B) updated versions of the most recently delivered Projections prepared in accordance with the Projections and otherwise on a basis reasonably satisfactory to Agent (the "Acquisition Projections") and based upon historical financial data of a recent date reasonably satisfactory to Agent, taking into account such Permitted Acquisition; and

(C) a certificate of the chief financial officer of Borrower and its Subsidiaries to the effect that: (w) Borrower and Borrower, the other Credit Parties and their Subsidiaries, taken as a whole, will be Solvent upon the consummation of the Permitted Acquisition; (x) the Acquisition Pro Forma fairly presents the financial condition of Borrower and its Subsidiaries (on a consolidated basis) as of the date thereof after giving effect to the Permitted Acquisition; (y) the Acquisition Projections are based upon assumptions believed to be reasonable at the time the certificate is delivered and based upon the historical performance of Borrower and its Subsidiaries and the Target and show that Borrower and its Subsidiaries shall continue to be in compliance with the financial covenants set forth in Section 4 for the shorter of the 3-year period thereafter or the period ending on October 11, 2007; and (z) Borrower and its Subsidiaries have completed their due diligence investigation with respect to the Target and such Permitted Acquisition, which investigation was conducted in a manner similar to that which would have been conducted by a prudent purchaser of a comparable business and the results of which investigation were delivered to Agent;

(x) on or prior to the date of such Permitted Acquisition, Agent shall have received, in form and substance reasonably satisfactory to Agent, copies of the acquisition agreement and related agreements and instruments, and all opinions, certificates, lien search results and other documents reasonably requested by Agent, including those specified in the last sentence of Section 2.6;

(xi) on or prior to the date of such Permitted Acquisition, Agent shall have received, in form and substance reasonably satisfactory to Agent, environmental assessments with respect to any real property to be acquired; and

(xii) at the time of such Permitted Acquisition and after giving effect thereto, no Default or Event of Default has occurred and is continuing.

3.7 Disposal of Assets or Subsidiary Stock. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly convey, sell, lease, sublease, transfer or otherwise dispose of, or grant any Person an option to acquire, in one transaction or a series of related transactions, any of its property, business or assets, whether now owned or hereafter acquired, except for (a) sales of inventory in the ordinary course of business and dispositions of obsolete equipment not used or useful in the business and (b) Asset Dispositions by Borrower and its Subsidiaries if all of the following conditions are met: (i) the market value of assets sold or otherwise disposed of in any single transaction or series of related transactions does not exceed $250,000 and the aggregate market value of assets sold or otherwise disposed of in any Fiscal Year does not exceed $1,000,000; (ii) the consideration received is at least equal to the fair market value of such assets; (iii) the sole consideration received is cash; (iv) the Net Proceeds of such Asset Disposition are applied to the extent, if any, required by Section 1.5(c); (v) after giving effect to the Asset Disposition and the repayment of Indebtedness, if any, with the proceeds thereof, Borrower is in compliance on a pro forma basis with the covenants set forth in Section 4 recomputed for the most recently ended quarter for which information is available and is in compliance with all other terms and conditions of this Agreement; and (vi) no Default or Event of Default then exists or would result from such Asset Disposition.

3.8 Transactions with Affiliates. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any management, consulting, investment banking, advisory or other similar services) with any Affiliate or with any director, officer or employee of any Credit Party, except (a) as set forth on Schedule 3.8, (b) transactions in the ordinary course of and pursuant to the reasonable requirements of the business of any such Credit Party or any of its Subsidiaries and upon fair and reasonable terms which are no less favorable to any such Credit Party or any of its Subsidiaries than would be obtained in a comparable arm's length transaction with a Person that is not an Affiliate, (c) payment of reasonable compensation and benefits to officers and employees for services actually rendered to any such Credit Party or any of its Subsidiaries and (d) payment of reasonable director's fees to non-officers of Borrower who are directors.

3.9 Conduct of Business. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly engage in any business other than businesses conducted on the date hereof and businesses reasonably related or incidental thereto.

3.10 Changes Relating to Indebtedness. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly change or amend the terms of any of its Indebtedness permitted by Section 3.1 (c) and (e) if the effect of such amendment is to: (a) increase the interest rate on such Indebtedness; (b) make earlier the dates upon which payments of principal or interest are due on or principal amount of such Indebtedness; (c) add or make more restrictive any covenant or event of default with respect to such Indebtedness; (d) change the redemption or prepayment provisions of such Indebtedness in a manner adverse to any Credit Party, any Subsidiary of any Credit Party, Agent, or any Lender; (e) change the subordination provisions thereof (or the subordination terms of any guaranty thereof); (f) change or amend any other term if such change or amendment would increase the obligations of the obligor or confer additional rights on the holder of such Indebtedness in a manner adverse to any Credit Party or Lenders; (g) increase the portion of interest payable in cash with respect to any Indebtedness for which interest is payable by the issuance of payment-in-kind notes or is permitted to accrue; (h) otherwise adversely affect Borrower or any other Credit Party; or (i) otherwise adversely affect Agent or Lenders or Borrower's ability to repay the Obligations.

3.11 Fiscal Year. No Credit Party shall change its Fiscal Year or permit any of its Subsidiaries to change their respective fiscal years.

3.12 Press Release; Public Offering Materials. Each Credit Party executing this Agreement agrees that neither it nor its Affiliates will in the future issue any press releases or other public disclosure, including any prospectus, proxy statement or other materials filed with any Governmental Authority relating to a public offering of the Stock of any Credit Party, using the name of GE Capital or its affiliates or referring to this Agreement, the other Loan Documents or the Related Transactions Documents without at least two (2) Business Days' prior notice to GE Capital and without the prior written consent of GE Capital unless (and only to the extent that) such Credit Party or Affiliate is required to do so under law and then, in any event, such Credit Party or Affiliate will consult with GE Capital before issuing such press release or other

public disclosure. Each Credit Party consents to the publication by Agent or any Lender of a tombstone or similar advertising material relating to the financing transactions contemplated by this Agreement. Agent or such Lender shall provide a draft of any such tombstone or similar advertising material to each Credit Party for review and comment prior to the publication thereof. Agent reserves the right to provide to industry trade organizations information necessary and customary for inclusion in league table measurements.

3.13 Subsidiaries. The Credit Parties shall not and shall not cause or permit their Subsidiaries to directly or indirectly establish, create or acquire any new Subsidiary unless such Subsidiary shall become a Credit Party hereunder. Such Subsidiary that becomes a Credit Party hereunder shall execute such guaranties, financing statements, documents, security agreements, other collateral documents and reports as Agent at any time may reasonably request as contemplated by the provisions of Section 2.7 hereof.

3.14 Bank Accounts. The Credit Parties shall not and shall not cause or permit their Subsidiaries to establish any new bank accounts other than in compliance with the provisions of Annex F hereto.

3.15 Hazardous Materials. The Credit Parties shall not and shall not cause or permit their Subsidiaries to cause or permit a Release of any Hazardous Material on, at, in, under, above, to, from or about any of the Real Estate where such Release would (a) violate in any respect, or form the basis for any Environmental Liabilities by the Credit Parties or any of their Subsidiaries under, any Environmental Laws or Environmental Permits in a manner that could reasonably be expected to, either individually or in the aggregate, results in costs in excess of $250,000 or (b) otherwise adversely impact the value or marketability of any of the Real Estate or any of the Collateral, other than such violations or Environmental Liabilities that could not reasonably be expected to have a Material Adverse Effect.

3.16 ERISA. The Credit Parties shall not and shall not cause or permit any ERISA Affiliate to, cause or permit to occur an ERISA Event to the extent such ERISA Event could reasonably be expected to have a Material Adverse Effect.

3.17 Sale-Leasebacks. The Credit Parties shall not and shall not cause or permit any of their Subsidiaries to engage in any sale-leaseback, synthetic lease or similar transaction involving any of its assets.

3.18 Prepayments of Other Indebtedness. No Credit Party shall, directly or indirectly, voluntarily purchase, redeem, defease or prepay any principal of, premium, if any, interest or other amount payable in respect of any Indebtedness, other than (i) the Obligations; (ii) Indebtedness secured by a Permitted Encumbrance if the asset securing such Indebtedness has been sold or otherwise disposed of in accordance with Section 3.7(b), (iii) Indebtedness secured by a Permitted Encumbrance which is repaid solely with the proceeds of new Indebtedness with the same maturity or a maturity beyond the maturity of the Indebtedness repaid; provided that (a) such new Indebtedness is otherwise permitted pursuant to Section 3.1 hereof, (b) any asset securing such Indebtedness is the same asset which supported such repaid Indebtedness, and (c)

there shall be no net costs, fees, penalties or other similar expenses incurred in connection therewith, (iv) other Indebtedness in an aggregate amount not to exceed $50,000 during the term of the Agreement; provided that no Default or Event of Default shall have then occurred or be continuing or would result after giving effect thereto; (v) intercompany Indebtedness reflecting amounts owing to Borrower or one of its Subsidiaries and (vi) the repurchase and retirement or other prepayment in full of all of the Subordinated Debt at or prior to the maturity thereof in April 2003 for a purchase price not to exceed par (i.e. no premium shall be paid); provided, that, with respect to clause (vi) hereof each of the following is satisfied: (a) Borrower shall be in compliance with all of the provisions of Section 4 both before making any such repurchase and retirement or prepayment in full and on a pro forma basis after giving effect thereto; (b) Borrower shall have excess Borrowing Availability of at least $7,500,000 both before giving effect to such repurchase and retirement or prepayment in full and after giving effect thereto; (c) no Default or Event of Default shall have occurred and be continuing or would result after giving effect to such repurchase and retirement or prepayment in full; and (d) the terms and conditions of such repurchase and retirement or prepayment in full shall otherwise be reasonably satisfactory to Agent.

SECTION 4.
FINANCIAL COVENANTS/REPORTING

Borrower covenants and agrees that from and after the date hereof until the Termination Date, Borrower shall perform and comply with, and shall cause each of the other Credit Parties to perform and comply with, all covenants in this Section 4 applicable to such Person.

4.1 Lease Limits. Borrower will not and will not permit any of its Subsidiaries directly or indirectly to become or remain liable in any way, whether directly or by assignment or as a guarantor or other surety, for the obligations of the lessee under any operating lease, synthetic lease or similar off-balance sheet financing, if the aggregate amount of all rents (or substantially equivalent payments) paid by Borrower and its Subsidiaries under all such leases would exceed $25,000,000 in any Fiscal Year of Borrower.

4.2 Minimum EBITDA. Borrower and its Subsidiaries on a consolidated basis shall have, at the end of each Fiscal Quarter set forth below, EBITDA for the 12-month period then ended of not less than the following:

Period	EBITDA
September 30, 2002	$ 25,650,000
December 31, 2002	$ 25,650,000
March 31, 2003	$ 27,000,000
June 30, 2003	$ 27,000,000
September 30, 2003	$ 27,000,000
December 31, 2003	$ 27,000,000
March 31, 2004	$ 29,000,000

June 30, 2004	$29,000,000
September 30, 2004	$29,000,000
December 31, 2004	$29,000,000
March 31, 2005 and each Fiscal Quarter thereafter	$31,000,000

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

2.30 to 1.0 for the Fiscal Quarter ending September 30, 2002;
2.30 to 1.0 for the Fiscal Quarter ending December 31, 2002;
2.50 to 1.0 for the Fiscal Quarter ending March 31, 2003;
2.50 to 1.0 for the Fiscal Quarter ending June 30, 2003;
2.70 to 1.0 for the Fiscal Quarter ending September 30, 2003;
2.70 to 1.0 for the Fiscal Quarter ending December 31, 2003; and
3.00 to 1.0 for each Fiscal Quarter ending thereafter.

4.4 Minimum Interest Coverage Ratio. Borrower and its Subsidiaries on a consolidated basis shall have at the end of each and every Fiscal Quarter, an Interest Coverage Ratio for the 12-month period then ended of not less than 3.00 to 1.0.

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

1.75 to 1.0 for the Fiscal Quarter ending September 30, 2002;
1.75 to 1.0 for the Fiscal Quarter ending December 31, 2002;
1.75 to 1.0 for the Fiscal Quarter ending March 31, 2003;
1.75 to 1.0 for the Fiscal Quarter ending June 30, 2003;
1.50 to 1.0 for the Fiscal Quarter ending September 30, 2003;
1.50 to 1.0 for the Fiscal Quarter ending December 31, 2003;
1.50 to 1.0 for the Fiscal Quarter ending March 31, 2004;
1.50 to 1.0 for the Fiscal Quarter ending June 30, 2004;
1.25 to 1.0 for each Fiscal Quarter ending thereafter.

4.6 Financial Statements and Other Reports. Borrower will maintain, and cause each of its Subsidiaries to maintain, a system of accounting established and administered in accordance with sound business practices to permit preparation of Financial Statements in conformity with GAAP (it being understood that monthly Financial Statements are not required to have footnote disclosures). Borrower will deliver each of the Financial Statements and other reports described below to Agent (and each Lender in the case of the Financial Statements and other reports described in Sections 4.6 (a), (b), (d), (e), (f), (g), (h) and (l)).

(a) Monthly Financials. As soon as available and in any event within thirty (30) days after the end of each month (including the last month of Borrower's Fiscal Year), Borrower will deliver (1) the consolidated balance sheet of BORROWER and its Subsidiaries, as at the end of such month, and the related consolidated statements of income, stockholders' equity and cash flow for such month and for the period from the beginning of the then current Fiscal Year of Borrower to the end of such month, and (2) in the case of income statements, a report setting forth in comparative form the corresponding figures for the corresponding periods of the previous Fiscal Year and the corresponding figures from the most recent Projections for the current Fiscal Year delivered pursuant to Section 4.6(f).

(b) Year-End Financials. As soon as available and in any event within ninety (90) days after the end of each Fiscal Year of Borrower, Borrower will deliver (1) the consolidated and consolidating balance sheets of Borrower and its Subsidiaries, as at the end of such year, and the related consolidated and consolidating statements of income, stockholders' equity and cash flow for such Fiscal Year, (2) a schedule of the outstanding Indebtedness for borrowed money of Borrower and its Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan and (3) a report with respect to the consolidated Financial Statements from a firm of Certified Public Accountants selected by Borrower and reasonably acceptable to Agent, which report shall be prepared in accordance with Statement of Auditing Standards No. 58 (the "Statement") "Reports on Audited Financial Statements" and such report shall be "Unqualified" (as such term is defined in such Statement).

(c) Accountants' Reports. Reasonably promptly following receipt thereof, Borrower will deliver copies of all significant reports submitted by Borrower's firm of certified public accountants in connection with each annual, interim or special audit or review of any type of the Financial Statements or related internal control systems of Borrower or its Subsidiaries made by such accountants, including any comment letter submitted by such accountants to management in connection with their services.

(d) EBITDA Availability Certificate. As soon as available and in any event within fifteen (15) Business Days after the end of each month, and from time to time upon the request of Agent, Borrower will deliver an EBITDA Availability Certificate (in substantially the same form as Exhibit 4.6(d), the "EBITDA Availability Certificate") as at the last day of such period.

(e) Management Report. Together with each delivery of Financial Statements of Borrower pursuant to Sections 4.6(a) and (b), Borrower will deliver a management report (1) describing the operations and financial condition of Borrower and its Subsidiaries for the month then ended and the portion of the current Fiscal Year then elapsed (or for the Fiscal Year then ended in the case of year-end financials) and (2) discussing the reasons for any significant variations. The information above shall be presented in reasonable detail and shall be certified by the chief financial officer of Borrower to the effect that such information fairly presents the results of operations and financial condition of Borrower and its Subsidiaries as at the dates and for the periods indicated.

(f) Projections; Annual Budget. As soon as available and in any event no later than 45 days after the end of each Fiscal Year, Borrower will deliver Projections of Borrower and its Subsidiaries for the forthcoming three (3) Fiscal Years, year by year, and for the forthcoming Fiscal Year, Fiscal Quarter by Fiscal Quarter. As soon as available, but not later than 45 days after the end of each Fiscal Year, Borrower will deliver an annual operating plan for Borrower, as certified by the Chief Financial Officer of Borrower, for the following Fiscal Year, which (i) includes a statement of all of the material assumptions on which such plan is based, (ii) includes quarterly balance sheets, income statements and statements of cash flow for the following year, (iii) integrates sales, gross profits, operating expenses, operating profit, cash flow projections and Borrowing Availability projections, all prepared on the same basis and in similar detail as that on which operating results are reported (and in the case of cash flow projections, representing management's good faith estimates of future financial performance based on historical performance), and including plans for Capital Expenditures; and (iv) includes a management discussion and analysis.

(g) SEC Filings and Press Releases. With reasonable promptness following their becoming available, Borrower will deliver copies of (1) all Financial Statements, reports, notices and proxy statements sent or made available by Borrower or any of its Subsidiaries to its Stockholders, (2) all regular and periodic reports and all registration statements and prospectuses, if any, filed by Borrower or any of its Subsidiaries with any securities exchange or with the Securities and Exchange Commission, any Governmental Authority or any private regulatory

authority, and (3) all press releases and other statements made available by Borrower or any of its Subsidiaries to the public concerning developments in the business of any such Person.

(h) Events of Default, Etc. Promptly upon any officer of Borrower obtaining knowledge of any of the following events or conditions, Borrower shall deliver copies of all notices given or received by Borrower or any of its Subsidiaries with respect to any such event or condition and a certificate of Borrower's chief executive officer or chief financial officer specifying the nature and period of existence of such event or condition and what action Borrower or any of its Subsidiaries has taken, is taking and proposes to take with respect thereto: (1) any condition or event that constitutes, or which would reasonably be expected to result in the occurrence of, an Event of Default or Default; (2) any notice that any Person has given to Borrower or any of its Subsidiaries or any other action taken with respect to a claimed default or event or condition of the type referred to in Section 6.1(b); (3) any event or condition that could reasonably be expected to result in any Material Adverse Effect; or (4) any default or event of default with respect to any Indebtedness in excess of $50,000 in principal amount, either individually or in the aggregate, of Borrower or any of its Subsidiaries.

(i) Litigation. Reasonably promptly following any executive officer of any Credit Party obtaining knowledge of (1) the institution of any action, charge, claim, demand, suit, proceeding, petition, governmental investigation, tax audit or arbitration now pending or, to the best knowledge of such Credit Party after due inquiry, threatened against or affecting any Credit Party or any of its Subsidiaries or any property of any Credit Party or any of its Subsidiaries ("Litigation") not previously disclosed by Borrower to Agent that would reasonably be expected to, either individually or in the aggregate, result in a cost in excess of $500,000 or (2) any material development in any action, suit, proceeding, governmental investigation or arbitration at any time pending against or affecting any Credit Party or any property of any Credit Party which, in each case, would reasonably be expected to have a Material Adverse Effect, Borrower will reasonably promptly give notice thereof to Agent and provide such other information as may be reasonably available to them to enable Agent and its counsel to evaluate such matter.

(j) Notice of Corporate and other Changes. Borrower shall provide reasonably prompt written notice of (1) all jurisdictions in which a Credit Party becomes qualified after the Closing Date to transact business, (2) any change after the Closing Date in the authorized and issued Stock of any Credit Party or any Subsidiary of any Credit Party, other than issuances of Stock to employees, officers or directors of Borrower as part of a stock option or other similar management incentive plan or program, or any amendment to their articles or certificate of incorporation, by-laws, partnership agreement or other organizational documents, (3) any Subsidiary created or acquired by any Credit Party or any of its Subsidiaries after the Closing Date, such notice, in each case, to identify the applicable jurisdictions, capital structures or Subsidiaries, as applicable, and (4) any other event that occurs after the Closing Date which would cause any of the representations and warranties in Section 5 of this Agreement or in any other Loan Document to be untrue or misleading in any material respect. The foregoing notice requirement shall not be construed to constitute consent by any of the Lenders to any transaction referred to above which is not expressly permitted by the terms of this Agreement.

(k) Other Information. With reasonable promptness, Borrower will deliver such other information and data with respect to any Credit Party or any Subsidiary of any Credit Party as from time to time may be reasonably requested by Agent.

(l) Compliance and Excess Cash Flow Certificate. Together with each delivery of Financial Statements of Borrower and its Subsidiaries pursuant to Sections 4.6(a) (but only to the extent delivered at the end of a month that is also the end of a Fiscal Quarter or Fiscal Year) and Section 4.6(b), Borrower will deliver a fully and properly completed Compliance and Excess Cash Flow Certificate (in substantially the same form as Exhibit 4.6(l) (the "Compliance and Excess Cash Flow Certificate") signed by Borrower's chief executive officer or chief financial officer.

(m) Taxes. Borrower shall provide reasonably prompt written notice of (i) the execution or filing with the IRS or any other Governmental Authority of any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any Charges by any Credit Party or any of its Subsidiaries and (ii) any agreement by any Credit Party or any of its Subsidiaries or request directed to any Credit Party or any of its Subsidiaries to make any adjustment under IRC Section 481(a), by reason of a change in accounting method or otherwise, which could reasonably be expected to have a Material Adverse Effect.

4.7 Accounting Terms; Utilization of GAAP for Purposes of Calculations Under Agreement. For purposes of this Agreement, all accounting terms not otherwise defined herein shall have the meanings assigned to such terms in conformity with GAAP. Financial statements and other information furnished to Agent pursuant to Section 4.6 or any other section (unless specifically indicated otherwise) shall be prepared in accordance with GAAP as in effect at the time of such preparation; provided that no Accounting Change shall affect financial covenants, standards or terms in this Agreement; provided further that Borrower shall prepare footnotes to the Financial Statements required to be delivered hereunder that show the differences between the Financial Statements delivered (which reflect such Accounting Changes) and the basis for calculating financial covenant compliance (without reflecting such Accounting Changes).

SECTION 5.
REPRESENTATIONS AND WARRANTIES

To induce Agent and Lenders to enter into the Loan Documents, to make Loans and to issue or cause to be issued Letters of Credit, Borrower and the other Credit Parties executing this Agreement, jointly and severally, represent, warrant and covenant to Agent and each Lender that the following statements are and, after giving effect to the Related Transactions, will remain true, correct and complete until the Termination Date with respect to all Credit Parties.

5.1 Disclosure. No representation or warranty of any Credit Party contained in this Agreement, the Financial Statements referred to in Section 5.5, the other Related Transactions Documents or any other document, certificate or written statement furnished to Agent or any Lender by or on behalf of any such Person for use in connection with the Loan Documents or the

Related Transactions Documents contains any untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements contained herein or therein, when taken as a whole, not misleading in light of the circumstances in which the same were made.

5.2 No Material Adverse Effect. As of the Closing Date, since December 31, 2001 there have been no events or changes in facts or circumstances affecting any Credit Party or any of its Subsidiaries which individually or in the aggregate have had or could reasonably be expected to have a Material Adverse Effect and that have not been disclosed herein or in the attached Disclosure Schedules.

5.3 No Conflict. The consummation of the Related Transactions does not and will not violate or conflict with any laws, rules, regulations or orders of any Governmental Authority or violate, conflict with, result in a breach of, or constitute a default (with due notice or lapse of time or both) under any Contractual Obligation or organizational documents of any Credit Party or any of its Subsidiaries except if such violations, conflicts, breaches or defaults could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

5.4 Organization, Powers, Capitalization and Good Standing.

(a) Organization and Powers. Each of the Credit Parties and each of their Subsidiaries is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and qualified to do business in all states where such qualification is required except where failure to be so qualified could not reasonably be expected to have a Material Adverse Effect. The jurisdiction of organization and all jurisdictions in which each Credit Party is qualified to do business on the Closing Date are set forth on Schedule 5.4(a). Each of the Credit Parties and each of their Subsidiaries has all requisite organizational power and authority to own and operate its properties, to carry on its business as now conducted and proposed to be conducted, to enter into each Related Transactions Document to which it is a party and to incur the Obligations, grant liens and security interests in the Collateral and carry out the Related Transactions.

(b) Capitalization. As of the Closing Date: (i) the authorized Stock of each of the Borrower's Subsidiaries is as set forth on Schedule 5.4(b); (ii) all issued and outstanding Stock of each of the Credit Parties and each of their Subsidiaries is duly authorized and validly issued, fully paid and nonassessable, and on such Stock was issued in compliance with all applicable state, federal and foreign laws concerning the issuance of securities; (iii) all issued and outstanding Stock of each of the Credit Parties, other than the Borrower (as to which no representation and warranty is made under this clause (iii)), and each of their Subsidiaries is free and clear of all liens other than those in favor of Agent, for the benefit of itself and lenders; (iv) the identity of the holders of the Stock of each of the Borrower's Subsidiaries and the percentage of their fully-diluted ownership of the Stock of each of the Subsidiaries is set forth on Schedule 5.4(b); and (v) no Stock of any of the Borrower's Subsidiaries, other than those described above, are issued and outstanding. Except as provided in Schedule 5.4(b), as of the

Closing Date, there are no preemptive or other outstanding rights, options, warrants, conversion rights or similar agreements or understandings for the purchase or acquisition from any Credit Party or any of their Subsidiaries of any Stock of any such entity.

(c) Binding Obligation. This Agreement is, and the other Related Transactions Documents when executed and delivered will be, the legally valid and binding obligations of the applicable parties thereto, each enforceable against each of such parties, as applicable, in accordance with their respective terms.

(d) Compliance with Laws. Each Credit Party represents and warrants that it (i) is in compliance and each of its Subsidiaries is in compliance with the requirements of all applicable laws, rules, regulations and orders of any Governmental Authority and the obligations, conditions and covenants contained in all Contractual Obligations other than those laws, rules, regulations, orders and provisions of such Contractual Obligations the noncompliance with which could not be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, and (ii) maintains and each of its Subsidiaries maintains all material licenses, qualifications and permits referred to in Section 2.1.

5.5 Financial Statements and Projections. All Financial Statements concerning Borrower and its respective Subsidiaries which have been or will hereafter be furnished to Agent pursuant to this Agreement, including those listed below, have been or will be prepared in accordance with GAAP consistently applied (except as disclosed therein) and presented and will present fairly in all material respects the financial condition of the entities covered thereby as at the dates thereof and the results of their operations for the periods then ended, subject to, in the case of unaudited Financial Statements, the absence of footnotes and normal year-end adjustments.

(a) The consolidated balance sheet at December 31, 2001 and the related statements of income and cash flows of Borrower and its Subsidiaries, for the Fiscal Year then ended, audited by Ernst & Young LLP.

(b) The consolidated balance sheet at June 30, 2002 and the related statements of income and cash flows of Borrower and its Subsidiaries for the six (6) months then ended.

(c) The consolidated balance sheet at August 31, 2002 and the related statements of income and cash flows of Borrower and its Subsidiaries for the eight (8) months then ended.

The Projections delivered on or prior to the Closing Date and the updated Projections delivered pursuant to Section 4.6(h) represent and will represent as of the date thereof the good faith estimate of Borrower and its senior management based on assumptions believed to be reasonable at the time the Projections were delivered.

5.6 Intellectual Property. Each of the Credit Parties and its Subsidiaries owns, is licensed to use or otherwise has the right to use, all Intellectual Property necessary for the

conduct of its business as currently conducted that is material to the condition (financial or other), business or operations of such Credit Party and its Subsidiaries and all such material Intellectual Property is identified on Schedule 5.6 and fully protected and/or duly and properly registered, filed or issued in the appropriate office and jurisdictions for such registrations, filings or issuances. Except as disclosed in Schedule 5.6, the use of such Intellectual Property by the Credit Parties and their Subsidiaries and the conduct of their businesses does not and has not been alleged by any Person to infringe on the rights of any Person in a manner that could reasonably be expected to have a Material Adverse Effect.

5.7 Investigations, Audits, Etc. As of the Closing Date, except as set forth on Schedule 5.7, no Credit Party or any of their Subsidiaries is the subject of any review or audit by the IRS or any governmental investigation concerning the violation or possible violation of any law.

5.8 Employee Matters. Except as set forth on Schedule 5.8, (a) on the Closing Date no Credit Party or Subsidiary of a Credit Party nor any of their respective employees is subject to any collective bargaining agreement, (b) on the Closing Date no petition for certification or union election is pending with respect to the employees of any Credit Party or any of their Subsidiaries and no union or collective bargaining unit has sought such certification or recognition with respect to the employees of any Credit Party or any of their Subsidiaries, (c) there are no strikes, slowdowns, work stoppages or controversies pending or, to the best knowledge of any Credit Party after due inquiry, threatened between any Credit Party or any of their Subsidiaries and its respective employees, other than employee grievances arising in the ordinary course of business which could not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect and (d) hours worked by and payment made to employees of each Credit Party and each of their Subsidiaries comply with the Fair Labor Standards Act and each other federal, state, local or foreign law applicable to such matters, other than those the noncompliance with which could not be reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as set forth on Schedule 5.8, on the Closing Date, neither Borrower nor any of its Subsidiaries is party to an employment contract with any officer or director thereof.

5.9 Solvency. (a) The Borrower is Solvent; and

(b) The Borrower, each of the other Credit Parties and their Subsidiaries, taken as a whole, are Solvent.

5.10 Litigation; Adverse Facts. Except as set forth on Schedule 5.10, there are no judgments outstanding against any Credit Party or any of its Subsidiaries or affecting any property of any Credit Party or any of its Subsidiaries, nor is there any Litigation pending, or to the best knowledge of any Credit Party threatened, against any Credit Party or any of its Subsidiaries which could reasonably be expected to result in any Material Adverse Effect.

5.11 Use of Proceeds; Margin Regulations.

(a) No part of the proceeds of any Loan will be used for "buying" or "carrying" "margin stock" within the respective meanings of such terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect or for any other purpose that violates the provisions of the regulations of the Board of Governors of the Federal Reserve System. If requested by Agent, each Credit Party will furnish to Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form 0-1, as applicable, referred to in Regulation U.

(b) Borrower shall utilize the proceeds of the Loans solely for the Refinancing (and to pay any related transaction expenses), and for the financing of Borrower's ordinary working capital and general corporate needs. Schedule 5.11 contains a description of Borrower's sources and uses of funds as of the Closing Date, including Loans and Letter of Credit Obligations to be made or incurred on that date, and a funds flow memorandum detailing how funds from each source are to be transferred for particular uses.

5.12 Ownership of Property; Liens. As of the Closing Date, the real estate ("Real Estate") listed in Schedule 5.12 constitutes all of the real property owned, leased, subleased, or used by any Credit Party or any of its Subsidiaries. No Credit Party owns any real estate with a fair market value in excess of $1,000,000 on the Closing Date and Schedule 5.12 lists all material leases of real estate in effect on the Closing Date. Each of the Credit Parties and each of its Subsidiaries owns good and marketable fee simple title to all of its owned material Real Estate, and valid and marketable leasehold interests in all of its leased material Real Estate, and copies of all such material leases have been delivered to Agent. Schedule 5.12 further describes any Real Estate with respect to which any Credit Party or any of its Subsidiaries is a lessor, sublessor or assignor as of the Closing Date. Each of the Credit Parties and each of its Subsidiaries also has good and marketable title to, or valid leasehold interests in, all of its personal property and assets except where such failure could not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect. As of the Closing Date, none of the properties and assets of any Credit Party or any of its Subsidiaries are subject to any Liens other than Permitted Encumbrances, and there are no facts, circumstances or conditions known to Borrower that may result in any Liens (including Liens arising under Environmental Laws) other than Permitted Encumbrances against the properties or assets of any Credit Party or any of its Subsidiaries. Each of the Credit Parties and each of its Subsidiaries has received all deeds, assignments, waivers, consents, nondisturbance and attornment or similar agreements, bills of sale and other documents, and has duly effected all recordings, filings and other actions necessary to establish, protect and perfect in all material respects such Credit Party's or Subsidiary's right, title and interest in and to all such Real Estate and other properties and assets. Schedule 5.12 also describes any purchase options, rights of first refusal or other similar contractual rights pertaining to any Real Estate as of the Closing Date. As of the Closing Date, no portion of any Credit Party's or any of its Subsidiaries' Real Estate has suffered any material damage by fire or other casualty loss that has not heretofore been repaired and restored in all material respects to its original condition or otherwise remedied. As of the Closing Date, all material permits required to have been issued or appropriate to enable the Real Estate to be lawfully occupied and used for all of the purposes for which it is currently occupied and used have been lawfully issued and are in full force and effect.

5.13 Environmental Matters.

(a) Except as set forth in Schedule 5.13, as of the Closing Date: (i) the Real Estate is free of contamination from any Hazardous Material except for such contamination that could not reasonably be expected to adversely impact the value or marketability of such Real Estate and that could not reasonably be expected to result in Environmental Liabilities of the Credit Parties or their Subsidiaries in excess of $250,000 in the aggregate; (ii) no Credit Party and no Subsidiary of a Credit Party has caused or suffered to occur any Release of Hazardous Materials on, at, in, under, above, to, from or about any of their Real Estate that could reasonably be expected, either individually or in the aggregate, to result in costs in excess of $250,000; (iii) the Credit Parties and their Subsidiaries are and have been in compliance with all Environmental Laws, except for such noncompliance that could not reasonably be expected to result in Environmental Liabilities of the Credit Parties or their Subsidiaries in excess of $250,000 in the aggregate (iv) the Credit Parties and their Subsidiaries have obtained, and are in compliance with, all Environmental Permits required by Environmental Laws for the operations of their respective businesses as presently conducted or as proposed to be conducted, except where the failure to so obtain or comply with such Environmental Permits could not reasonably be expected to result in Environmental Liabilities of the Credit Parties or their Subsidiaries in excess of $250,000 in the aggregate, and all such Environmental Permits are valid, uncontested and in good standing; (v) no Credit Party and no Subsidiary of a Credit Party is involved in operations or knows of any facts, circumstances or conditions, including any Releases of Hazardous Materials, that are likely to result in any Environmental Liabilities of such Credit Party or Subsidiary which could reasonably be expected to be in excess of $250,000 in the aggregate, and no Credit Party or Subsidiary of a Credit Party has permitted any current or former tenant or occupant of the Real Estate to engage in any such operations; (vi) there is no Litigation arising under or related to any Environmental Laws, Environmental Permits or Hazardous Material that seeks damages, penalties, fines, costs or expenses in excess of $250,000 in the aggregate or injunctive relief against, or that alleges criminal misconduct by any Credit Party or any Subsidiary of a Credit Party; (vii) no notice has been received by any Credit Party or any Subsidiary of a Credit Party identifying any of them as a "potentially responsible party" or requesting information under CERCLA or analogous state statutes, and to the knowledge of the Credit Parties, there are no facts, circumstances or conditions that may result in any of the Credit Parties or their Subsidiaries being identified as a "potentially responsible party" under CERCLA or analogous state statutes; and (viii) the Credit Parties have provided to Agent copies of all existing environmental reports, reviews and audits and all written information pertaining to actual or potential Environmental Liabilities, in each case relating to any of the Credit Parties or their Subsidiaries.

(b) Each Credit Party hereby acknowledges and agrees that Agent (i) is not now, and has not ever been, in control of any of the Real Estate or affairs of such Credit Party or its Subsidiaries, and (ii) does not have the capacity through the provisions of the Loan Documents or otherwise to influence any Credit Party's or its Subsidiaries' conduct with respect to the ownership, operation or management of any of their Real Estate or compliance with Environmental Laws or Environmental Permits.

5.14 ERISA.

(a) Schedule 5.14 lists all Plans and separately identifies all Pension Plans, including Title IV Plans (other than Multiemployer Plans), ESOPs and Welfare Plans, including all Retiree Welfare Plans. Copies of all such listed Plans, together with a copy of the latest form IRS/DOL 5500-series for each such Plan have been delivered to Agent. Except with respect to Multiemployer Plans, each Qualified Plan has been determined by the IRS to qualify under Section 401 of the IRC, the trusts created thereunder have been determined to be exempt from tax under the provisions of Section 501 of the IRC, and nothing has occurred that would cause the loss of such qualification or tax-exempt status. Except as provided in Schedule 5.14 and except for any Multiemployer Plans, each Plan is in compliance with the material applicable provisions of ERISA and the IRC, including the timely filing of all reports required under the IRC or ERISA, including the statement required by 29 CFR Section 2520.104-23 provided, however, that notwithstanding the foregoing, with respect to any Multiemployer Plans, the foregoing is limited to the knowledge of the Borrower. With respect to any Multiemployer Plan, the determination whether a complete withdrawal has occurred is made under ERISA Section 4203(b). Neither any Credit Party nor ERISA Affiliate has failed to make any contribution or pay any amount due as required by either Section 412 of the IRC or Section 302 of ERISA or the terms of any such Plan. Neither any Credit Party nor ERISA Affiliate has engaged in a "prohibited transaction," as defined in Section 406 of ERISA and Section 4975 of the IRC, in connection with any Plan, that would subject any Credit Party to a material tax on prohibited transactions imposed by Section 502(i) of ERISA or Section 4975 of the IRC.

(b) Except as set forth in Schedule 5.14 or with respect to any Multiemployer Plan: (i) no Title IV Plan has any Unfunded Pension Liability; (ii) no ERISA Event or event described in Section 4062(e) of ERISA with respect to any Title IV Plan has occurred or is reasonably expected to occur; (iii) there are no pending, or to the knowledge of Borrower, threatened claims (other than claims for benefits in the normal course), sanctions, actions or lawsuits, asserted or instituted against any Plan or any Person as fiduciary or sponsor of any Plan that could reasonably be expected, either individually or in the aggregate, to result in costs in excess of $100,000; (iv) within the last five years no Title IV Plan of any Credit Party or ERISA Affiliate has been terminated, whether or not in a "standard termination" as that term is used in Section 404(b)(1) of ERISA, nor has any Title IV Plan of any Credit Party or ERISA Affiliate (determined at any time within the past five years) with Unfunded Pension Liabilities been transferred outside of the "controlled group" (within the meaning of Section 4001(a)(14) of ERISA) of any Credit Party or ERISA Affiliate; (v) except in the case of any ESOP, Stock of all Credit Parties and their ERISA Affiliates makes up, in the aggregate, no more than 10% of fair market value of the assets of any Plan measured on the basis of fair market value as of the Closing Date; and (vi) no liability under any Title IV Plan has been satisfied with the purchase of a contract from an insurance company that is not rated AAA by S&P or an equivalent rating by another nationally recognized rating agency.

(c) With respect to any Multiemployer Plan, (i) no Credit Party or ERISA Affiliate has incurred or reasonably expects to incur any liability as a result of a complete or partial withdrawal from a Multiemployer Plan (ii) to the knowledge of Borrower, no Multiemployer Plan is in reorganization status within the meaning of ERISA Section 4241; (iii) to the knowledge of Borrower, no

Multiemployer Plan is insolvent within the meaning of ERISA Section 4245; and (iv) to the knowledge of the Borrower, there has been no termination of a Multiemployer Plan within the meaning of ERISA Section 4041A.

5.15 Brokers. Except as set forth on Schedule 5.15, no broker or finder acting on behalf of any Credit Party or Affiliate thereof brought about the obtaining, making or closing of the Loans or the Related Transactions, and no Credit Party or Affiliate thereof has any obligation to any Person in respect of any finder's or brokerage fees in connection therewith.

5.16 Deposit and Disbursement Accounts. Schedule 5.16 lists all banks and other financial institutions at which any Credit Party maintains deposit or other accounts as of the Closing Date, including any Disbursement Accounts, and such Schedule correctly identifies the name, address and telephone number of each depository, the name in which the account is held, a description of the purpose of the account, and the complete account number therefor.

5.17 Agreements and Other Documents. As of the Closing Date, each Credit Party has provided to Agent or its counsel, on behalf of Lenders, access to or accurate and complete copies (or summaries) of all of the following agreements or documents to which it is subject and each of which is listed in Schedule 5.17: supply agreements and purchase agreements not terminable by such Credit Party within sixty (60) days following written notice issued by such Credit Party and involving transactions in excess of $1,000,000 per annum, other than contracts with customers entered into in the ordinary course of business consistent with past practices; leases of Equipment having a remaining term of one year or longer and requiring aggregate rental and other payments in excess of $500,000 per annum; licenses and permits held by the Credit Parties, the absence of which could reasonably be expected to have a Material Adverse Effect; instruments and documents evidencing any Indebtedness or Guaranteed Indebtedness of such Credit Party and any Lien granted by such Credit Party with respect thereto; and instruments and agreements evidencing the issuance of any equity securities, warrants, rights or options to purchase equity securities of such Credit Party.

5.18 Insurance. Schedule 5.18 lists all insurance policies of any nature maintained, as of the Closing Date, for current occurrences by each Credit Party, as well as a summary of the key business terms of each such policy such as deductibles, coverage limits and term of policy.

SECTION 6.
DEFAULT, RIGHTS AND REMEDIES

6.1 Event of Default. "Event of Default" shall mean the occurrence or existence of any one or more of the following:

(a) Payment. (1) Failure to pay any installment or other payment of principal of any Loan when due, or to repay Revolving Loans to reduce their balance to the maximum amount of Revolving Loans then permitted to be outstanding or to reimburse any L/C Issuer for any payment made by such L/C Issuer under or in respect of any Letter of Credit when due or

(2) failure to pay, within two (2) Business Days after the due date, any interest on any Loan or any other amount due under this Agreement or any of the other Loan Documents; or

(b) Default in Other Agreements. (1) Any Credit Party or any of its Subsidiaries fails to pay (i) if no grace period applies, when due or, (ii) if applicable, within any available grace period any principal or interest on Indebtedness (other than the Loans) or any Contingent Obligations or (2) breach or default of any Credit Party or any of its Subsidiaries, or the occurrence of any condition or event, with respect to any Indebtedness (other than the Loans) or any Contingent Obligations, if the effect of such breach, default or occurrence is to cause or to permit the holder or holders then to cause, Indebtedness and/or Contingent Obligations having an individual principal amount or a liquidated claim in excess of $1,000,000 or having an aggregate principal amount in excess of $2,500,000 to become or be declared due prior to their stated maturity or to become a liquidated claim; or

(c) Breach of Certain Provisions. Failure of any Credit Party to perform or comply with any term or condition contained in that portion of Section 2.2 relating to the Credit Parties' obligation to maintain insurance, Section 2.3, Section 3, Section 4.1, 4.2, 4.3 or 4.4; or

(d) Breach of Warranty. Any representation, warranty, certification or other statement made by any Credit Party in any Loan Document or in any statement or certificate at any time given by such Person in writing pursuant or in connection with any Loan Document is false in any material respect (without duplication of materiality qualifiers contained therein) on the date made; or

(e) Other Defaults Under Loan Documents. Any Credit Party defaults in the performance of or compliance with any term contained in this Agreement or the other Loan Documents (other than occurrences described in other provisions of this Section 6.1 for which a different grace or cure period is specified, or for which no cure period is specified and which constitute immediate Events of Default) and such default is not remedied or waived within thirty (30) days, or, in the case of any default in the performance of or failure of any Credit Party to comply with any term or condition contained in Sections 4.6(a) and 4.6(l) (only to the extent such relates to the delivery concurrently with financial statements required by Section 4.6(a)), five (5) Business Days, in the case of any default in the performance of or failure of any Credit Party to comply with any term or condition contained in Section 4.6(d), two (2) Business Days, and in the case of any default in the performance of or failure of any Credit Party to comply with any term or condition contained in Section 4.6(b), 4.6(f) and 4.6(l) (only to the extent it relates to the delivery concurrently with financial statements required by Section 4.6(b)), fifteen (15) days after the earlier of (1) receipt by Borrower of notice from Agent or Requisite Lenders of such default or (2) actual knowledge of Borrower or any other Credit Party of such default; or

(f) Involuntary Bankruptcy; Appointment of Receiver, Etc. (1) A court enters a decree or order for relief with respect to any Credit Party in an involuntary case under the Bankruptcy Code, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (2) the continuance of any of the following events for forty-five (45) days unless dismissed, bonded or discharged: (a) an involuntary case is

commenced against any Credit Party, under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (b) a decree or order of a court for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over any Credit Party, or over all or a substantial part of its property, is entered; or (c) a receiver, trustee or other custodian is appointed without the consent of a Credit Party, for all or a substantial part of the property of the Credit Party; or

(g) Voluntary Bankruptcy; Appointment of Receiver, Etc. (1) any Credit Party commences a voluntary case under the Bankruptcy Code, or consents to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law or consents to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or (2) any Credit Party makes any assignment for the benefit of creditors; or (3) the Board of Directors of any Credit Party adopts any resolution or otherwise authorizes action to approve any of the actions referred to in this Section 6.1(g); or

(h) Judgment and Attachments. Any money judgment, writ or warrant of attachment, or similar process in connection with a judgment (other than those described elsewhere in this Section 6.1) involving (1) an amount in any individual case in excess of $250,000 or (2) an amount in the aggregate at any time in excess of $500,000 (in either case to the extent not adequately covered by insurance as to which the insurance company has acknowledged coverage in writing) is entered or filed against one or more of the Credit Parties or any of their respective assets and remains undischarged, unvacated, unbonded or unstayed for a period of thirty (30) days or in any event later than five (5) Business Days prior to the date of any proposed sale thereunder; or

(i) Dissolution. Any order, judgment or decree is entered against any Credit Party decreeing the dissolution or split up of such Credit Party and such order remains undischarged or unstayed for a period in excess of, in the case of the Borrower, fifteen (15) days or, in the case of any other Credit Party, thirty (30) days; or

(j) Solvency. Any Credit Party ceases to be Solvent, fails to pay its debts as they become due or admits in -------- writing its present or prospective inability to pay its debts as they become due; or

(k) Invalidity of Loan Documents. Any of the Loan Documents for any reason, other than a partial or full release in accordance with the terms thereof, ceases to be in full force and effect or is declared to be null and void, or any Credit Party denies that it has any further liability under any Loan Documents to which it is party, or gives notice to such effect; or

(l) Damage; Casualty. Any event occurs, whether or not insured or insurable, as a result of which revenue-producing activities cease or are substantially curtailed at any facility of any Credit Party generating more than 10% of EBITDA of Borrower and its Subsidiaries for the Fiscal Year preceding such event and such cessation or curtailment continues for more than 15 days; or

(m) Change of Control. A Change of Control occurs; or

(n) Subordinated Indebtedness. The failure of any Credit Party or any creditor of Borrower or any of its Subsidiaries to comply with the terms of any subordination or intercreditor agreement or any subordination provisions of any note or other document running to the benefit of Agent or Lenders, or if any such document becomes null and void or any party denies further liability under any such document or provides notice to that effect.

6.2 Suspension or Termination of Commitments. Upon the occurrence of any Default or Event of Default, Agent may, and at the request of Requisite Revolving Lenders Agent shall, without notice or demand, immediately suspend or terminate all or any portion of Lenders' obligations to make additional Loans or issue or cause to be issued Letters of Credit under the Revolving Loan Commitment; provided that, in the case of a suspension, if the subject condition or event is waived by Requisite Revolving Lenders or cured within any applicable grace or cure period, the Commitments shall be reinstated.

6.3 Acceleration and other Remedies. Upon the occurrence of any Event of Default described in Sections 6.1(f) or 6.1(g), the Commitments shall be immediately terminated and all of the Obligations, including the Revolving Loans, shall automatically become immediately due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or other requirements of any kind, all of which are hereby expressly waived by Borrower, and the Commitment shall thereupon terminate. Upon the occurrence and during the continuance of any other Event of Default, Agent may, and at the request of the Requisite Lenders, Agent shall, by written notice to Borrower (a) reduce the aggregate amount of the Commitments from time to time, (b) declare all or any portion of the Loans and all or any portion of the other Obligations to be, and the same shall forthwith become, immediately due and payable together with accrued interest thereon, (c) terminate all or any portion of the obligations of Agent, L/C Issuers and Lenders to make Revolving Credit Advances and issue Letters of Credit, (d) demand that Borrower immediately deliver cash to Agent for the benefit of L/C Issuers (and Borrower shall then immediately so deliver) in an amount equal to 105% of the aggregate outstanding Letter of Credit Obligations and (e) exercise any other remedies which may be available under the Loan Documents or applicable law. Borrower hereby grants to Agent, for the benefit of L/C Issuers and each Lender with a participation in any Letters of Credit then outstanding, a security interest in such cash collateral to secure all of the Letter of Credit Obligations. Any such cash collateral shall be made available by Agent to L/C Issuers to reimburse L/C Issuers for payments of drafts drawn under such Letters of Credit and any Fees, Charges and expenses of L/C Issuers with respect to such Letters of Credit and the unused portion thereof, after all such Letters of Credit shall have expired or been fully drawn upon, shall be applied to repay any other Obligations. After all such Letters of Credit shall have expired or been fully drawn upon and all Obligations shall have been satisfied and paid in full, the balance, if any, of such cash collateral shall be returned to Borrower. Borrower shall from time to time execute and deliver to Agent such further documents and instruments as Agent may request with respect to such cash collateral.

6.4 Performance by Agent. If any Credit Party shall fail to perform any covenant, duty or agreement contained in any of the Loan Documents, Agent may perform or attempt to perform such covenant, duty or agreement on behalf of such Credit Party after the expiration of any cure or grace periods set forth herein. In such event, such Credit Party shall, at the request of Agent, promptly pay any amount reasonably expended by Agent in such performance or attempted performance to Agent, together with interest thereon at the highest rate of interest in effect upon the occurrence of an Event of Default as specified in Section 1.2(d) from the date of such expenditure until paid. Notwithstanding the foregoing, it is expressly agreed that Agent

shall not have any liability or responsibility for the performance of any obligation of any Credit Party under this Agreement or any other Loan Document.

6.5 Application of Proceeds. Notwithstanding anything to the contrary contained in this Agreement, upon the occurrence and during the continuance of an Event of Default, (a) Borrower irrevocably waives the right to direct the application of any and all payments at any time or times thereafter received by Agent from or on behalf of Borrower, and Agent shall have the continuing and exclusive right to apply and to reapply any and all payments received at any time or times after the occurrence and during the continuance of an Event of Default against the Obligations in such manner as Agent may deem advisable notwithstanding any previous application by Agent and (b) in the absence of a specific determination by Agent with respect thereto, the proceeds of any sale of, or other realization upon, all or any part of the Collateral shall be applied: first, to all Fees, costs and expenses incurred by or owing to Agent and any Lender with respect to this Agreement, the other Loan Documents or the Collateral; second, to accrued and unpaid interest on the Obligations (including any interest which but for the provisions of the Bankruptcy Code, would have accrued on such amounts); third, to the principal amount of the Obligations outstanding (other than Obligations owed to any Lender under an Interest Rate Agreement); and fourth to any other obligations of Borrower owing to Agent or any Lender under the Loan Documents or any Interest Rate Agreement. Any balance remaining shall be delivered to Borrower or to whomever may be lawfully entitled to receive such balance or as a court of competent jurisdiction may direct.

SECTION 7.
CONDITIONS TO LOANS

The obligations of Lenders and L/C Issuers to make Loans and to issue or cause to be issued Letters of Credit are subject to satisfaction of all of the applicable conditions set forth below.

7.1 Conditions to Initial Loans. The obligations of Lenders and L/C Issuers to make the initial Loans and to issue or cause to be issued Letters of Credit on the Closing Date are, in addition to the conditions precedent specified in Section 7.2, subject to the delivery of all documents listed on, the taking of all actions set forth on and the satisfaction of all other conditions precedent listed in the Closing Checklist attached hereto as Annex C, all in form and substance, or in a manner, satisfactory to Agent and Lenders.

7.2 Conditions to All Loans. Except as otherwise expressly provided herein, no Lender or L/C Issuer shall be obligated to fund any Advance or incur any Letter of Credit Obligation, if, as of the date thereof (the "Funding Date"):

(a) any representation or warranty by any Credit Party contained herein or in any other Loan Document is untrue or incorrect in any material respect (without duplication of any materiality qualifier contained therein) as of such date, except to the extent that such representation or warranty expressly relates to an earlier date, and Agent or Requisite Revolving

Lenders have determined not to make such Advance or incur such Letter of Credit Obligation as a result of the fact that such warranty or representation is untrue or incorrect;

(b) any Default or Event of Default has occurred and is continuing or would result after giving effect to any Advance (or the incurrence of any Letter of Credit Obligation), and Agent or Requisite Revolving Lenders shall have determined not to make any Advance or incur any Letter of Credit Obligation as a result of that Default or Event of Default; or

(c) after giving effect to any Advance (or the incurrence of any Letter of Credit Obligations), the outstanding amount of the Revolving Loan would exceed remaining Borrowing Availability (except as provided in Section 1.1(b)(ii)).

The request and acceptance by Borrower of the proceeds of any Advance, the incurrence of any Letter of Credit Obligations or the conversion or continuation of any Loan into, or as, a LIBOR Loan shall be deemed to constitute, as of the date thereof, (i) a representation and warranty by Borrower that the conditions in this Section 7.2 have been satisfied and (ii) a reaffirmation by Borrower of the granting and continuance of Agent's Liens, on behalf of itself and Lenders, pursuant to the Collateral Documents.

SECTION 8.
ASSIGNMENT AND PARTICIPATION

8.1 Assignment and Participations.

(a) Subject to the terms of this Section 8.1, any Lender may make an assignment to a Qualified Assignee of, or sale of participations in, at any time or times, the Loan Documents, Loans, Letter of Credit Obligations and any Commitment or any portion thereof or interest therein, including any Lender's rights, title, interests, remedies, powers or duties thereunder. Any assignment by a Lender shall: (i) require the consent of Agent (which consent shall not be unreasonably withheld or delayed with respect to a Qualified Assignee) and the execution of an assignment agreement (an "Assignment Agreement" substantially in the form attached hereto as Exhibit 8.1 and otherwise in form and substance reasonably satisfactory to, and acknowledged by, Agent); (ii) be conditioned on such assignee Lender representing to the assigning Lender and Agent that it is purchasing the applicable Loans to be assigned to it for its own account, for investment purposes and not with a view to the distribution thereof; (iii) after giving effect to any such partial assignment, the assignee Lender shall have Commitments in an amount at least equal to $5,000,000 and the assigning Lender shall have retained Commitments in an amount at least equal to $5,000,000; (iv) require a payment by the assignor or the assignee to Agent of an assignment fee of $3,500 and (v) so long as no Event of Default has occurred and is continuing, require the consent of Borrower, which shall not be unreasonably withheld or delayed and shall be deemed granted if not objected to within three (3) Business Days following notice thereof to Borrower; provided that no such consent shall be required for an assignment to a Qualified Assignee. Notwithstanding the above, Agent may in its sole and absolute discretion permit any assignment by a Lender to a Person or Persons that are not Qualified Assignees, subject to the approval of Borrower, if no Event of Default has occurred and is continuing. In the case of an

assignment by a Lender under this Section 8.1, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as all other Lenders hereunder. The assigning Lender shall be relieved of its obligations hereunder with respect to its Commitments or assigned portion thereof from and after the date of such assignment. Borrower hereby acknowledges and agrees that any assignment shall give rise to a direct obligation of Borrower to the assignee and that the assignee shall be considered to be a "Lender." In all instances, each Lender's liability to make Loans hereunder shall be several and not joint and shall be limited to such Lender's Pro Rata Share of the applicable Commitment. In the event Agent or any Lender assigns or otherwise transfers all or any part of the Obligations, Agent or any such Lender shall so notify Borrower and Borrower shall, upon the request of Agent or such Lender, execute new Notes in exchange for the Notes, if any, being assigned. Notwithstanding the foregoing provisions of this Section 8.1(a), (a) any Lender may at any time pledge the Obligations held by it and such Lender's rights under this Agreement and the other Loan Documents to a Federal Reserve Bank, (b) any Lender that is an investment fund may assign the Obligations held by it and such Lender's rights under this Agreement and the other Loan Documents to another investment fund managed by the same investment advisor or pledge such Obligations and rights to trustee for the benefit of its investors and (c) any Lender may assign the Obligations to an Affiliate of such Lender or to a Person that is a Lender prior to the date of such assignment.

(b) Any participation by a Lender of all or any part of its Commitments shall be made with the understanding that all amounts payable by Borrower hereunder shall be determined as if that Lender had not sold such participation, and that the holder of any such participation shall not be entitled to require such Lender to take or omit to take any action hereunder except actions directly affecting (i) any reduction in the principal amount of, or interest rate or Fees payable with respect to, any Loan in which such holder participates, (ii) any extension of the scheduled amortization of the principal amount of any Loan in which such holder participates or the final maturity date thereof, and (iii) any release of all or substantially all of the Collateral (other than in accordance with the terms of this Agreement, the Collateral Documents or the other Loan Documents). Solely for purposes of Sections 1.8, 1.9, 8.3 and 9.1, Borrower acknowledges and agrees that a participation shall give rise to a direct obligation of Borrower to the participant and the participant shall be considered to be a "Lender." Except as set forth in the preceding sentence neither Borrower nor any other Credit Party shall have any obligation or duty to any participant. Neither Agent nor any Lender (other than the Lender selling a participation) shall have any duty to any participant and may continue to deal solely with the Lender selling a participation as if no such sale had occurred.

(c) Except as expressly provided in this Section 8.1, no Lender shall, as between Borrower and that Lender, or Agent and that Lender, be relieved of any of its obligations hereunder as a result of any sale, assignment, transfer or negotiation of, or granting of participation in, all or any part of the Loans, the Notes or other Obligations owed to such Lender.

(d) Each Credit Party shall assist each Lender permitted to sell assignments or participations under this Section 8.1 as required to enable the assigning or selling Lender to effect any such assignment or participation, including the execution and delivery of any and all agreements, notes and other documents and instruments as shall be requested and the prompt

preparation of informational materials for, and the participation of management in meetings with, potential assignees or participants, all on a timetable established by Agent in its sole discretion. Each Credit Party executing this Agreement shall certify the correctness, completeness and accuracy of all descriptions of the Credit Parties and their respective affairs contained in any selling materials provided by it and all other information provided by it and included in such materials, except that any Projections delivered by Borrower shall only be certified by Borrower as having been prepared by Borrower in compliance with the representations contained in Section 5.5. Agent shall maintain in its offices located at New York, New York or such other offices as Agent may determine a "register" for recording name, address, commitment and Loans owing to each Lender.

(e) A Lender may furnish any information concerning Credit Parties in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants); provided that such Lender shall obtain from assignees or participants confidentiality covenants substantially equivalent to those contained in Section 9.13.

(f) So long as no Event of Default has occurred and is continuing, no Lender shall assign or sell participations in any portion of its Loans or Commitments to a potential Lender or participant, if, as of the date of the proposed assignment or sale, the assignee Lender or participant would be subject to capital adequacy or similar requirements under Section 1.8(a), increased costs or an inability to fund LIBOR Loans under Section 1.8(b), or withholding taxes in accordance with Section 1.9.

8.2 Agent.

(a) Appointment. Each Lender hereby designates and appoints GE Capital as its Agent under this Agreement and the other Loan Documents, and each Lender hereby irrevocably authorizes Agent to execute and deliver the Collateral Documents and to take such action or to refrain from taking such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers as are set forth herein or therein, together with such other powers as are reasonably incidental thereto. Agent is authorized and empowered to amend, modify, or waive any provisions of this Agreement or the other Loan Documents on behalf of Lenders subject to the requirement that certain of Lenders' consent be obtained in certain instances as provided in this Section 8.2 and Section 9.2. The provisions of this Section 8.2 are solely for the benefit of Agent and Lenders and neither Borrower nor any other Credit Party shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement, Agent shall act solely as agent of Lenders and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for Borrower or any other Credit Party. Agent may perform any of its duties hereunder, or under the Loan Documents, by or through its agents or employees.

(b) Nature of Duties. The duties of Agent shall be mechanical and administrative in nature. Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender. Nothing in this Agreement or any of the Loan Documents, express or implied, is

intended to or shall be construed to impose upon Agent any obligations in respect of this Agreement or any of the Loan Documents except as expressly set forth herein or therein. Each Lender shall make its own independent investigation of the financial condition and affairs of each Credit Party in connection with the extension of credit hereunder and shall make its own appraisal of the creditworthiness of each Credit Party, and Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto (other than as expressly required herein). If Agent seeks the consent or approval of any Lenders to the taking or refraining from taking any action hereunder, then Agent shall send notice thereof to each Lender. Agent shall promptly notify each Lender any time that the Requisite Lenders or Requisite Revolving Lenders have instructed Agent to act or refrain from acting pursuant hereto.

(c) Rights, Exculpation, Etc. Neither Agent nor any of its officers, directors, employees or agents shall be liable to any Lender for any action taken or omitted by them hereunder or under any of the Loan Documents, or in connection herewith or therewith, except that Agent shall be liable to the extent of its own gross negligence or willful misconduct as determined by a final non-appealable order by a court of competent jurisdiction. Agent shall not be liable for any apportionment or distribution of payments made by it in good faith and if any such apportionment or distribution is subsequently determined to have been made in error the sole recourse of any Lender to whom payment was due but not made, shall be to recover from other Lenders any payment in excess of the amount to which they are determined to be entitled (and such other Lenders hereby agree to return to such Lender any such erroneous payments received by them). In no event shall Agent be liable for punitive, special, consequential, incidental, exemplary or other similar damages. In performing its functions and duties hereunder, Agent shall exercise the same care which it would in dealing with loans for its own account, but neither Agent nor any of its agents or representatives shall be responsible to any Lender for any recitals, statements, representations or warranties herein or for the execution, effectiveness, genuineness, validity, enforceability, collectibility, or sufficiency of this Agreement or any of the Loan Documents or the transactions contemplated thereby, or for the financial condition of any Credit Party. Agent shall not be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any of the Loan Documents or the financial condition of any Credit Party, or the existence or possible existence of any Default or Event of Default. Agent may at any time request instructions from Requisite Lenders, Requisite Revolving Lenders or all affected Lenders with respect to any actions or approvals which by the terms of this Agreement or of any of the Loan Documents Agent is permitted or required to take or to grant. If such instructions are promptly requested, Agent shall be absolutely entitled to refrain from taking any action or to withhold any approval and shall not be under any liability whatsoever to any Person for refraining from any action or withholding any approval under any of the Loan Documents until it shall have received such instructions from the Requisite Lenders, Requisite Revolving Lenders or such other portion of the Lenders as shall be prescribed by this Agreement. Without limiting the foregoing, no Lender shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting under this Agreement or any of the other Loan Documents in accordance with the instructions of Requisite Lenders, Requisite Revolving Lenders or all

affected Lenders, as applicable; and, notwithstanding the instructions of Requisite Lenders, Requisite Revolving Lenders or all affected Lenders, as applicable, Agent shall have no obligation to take any action if it believes, in good faith, that such action is deemed to be illegal by Agent or exposes Agent to any liability for which it has not received satisfactory indemnification in accordance with Section 8.2(e).

(d) Reliance. Agent shall be entitled to rely, and shall be fully protected in relying, upon any written or oral notices, statements, certificates, orders or other documents or any telephone message or other communication (including any writing, telex, fax or telegram) believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person, and with respect to all matters pertaining to this Agreement or any of the Loan Documents and its duties hereunder or thereunder. Agent shall be entitled to rely upon the advice of legal counsel, independent accountants, and other experts selected by Agent in its sole discretion.

(e) Indemnification. Lenders will reimburse and indemnify Agent for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including, without limitation, attorneys' fees and expenses), advances or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of this Agreement or any of the Loan Documents or any action taken or omitted by Agent under this Agreement or any of the Loan Documents, in proportion to each Lender's Pro Rata Share, but only to the extent that any of the foregoing is not reimbursed by Borrower; provided, however, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, advances or disbursements to the extent resulting from Agent's gross negligence or willful misconduct as determined by a final non-appealable order by a court of competent jurisdiction. If any indemnity furnished to Agent for any purpose shall, in the opinion of Agent, be insufficient or become impaired, Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against even if so directed by the Requisite Lenders, Requisite Revolving Lenders or such other portion of the Lenders as shall be prescribed by this Agreement until such additional indemnity is furnished. The obligations of Lenders under this Section 8.2(e) shall survive the payment in full of the Obligations and the termination of this Agreement.

(f) GE Capital Individually. With respect to its Commitments hereunder, GE Capital shall have and may exercise the same rights and powers hereunder and is subject to the same obligations and liabilities as and to the extent set forth herein for any other Lender. The terms "Lenders," "Requisite Lenders," "Requisite Revolving Lenders" or any similar terms shall, unless the context clearly otherwise indicates, include GE Capital in its individual capacity as a Lender or one of the Requisite Lenders, or Requisite Revolving Lenders. GE Capital, either directly or through strategic affiliations, may lend money to, acquire equity or other ownership interests in, provide advisory services to and generally engage in any kind of banking, trust or other business with any Credit Party as if it were not acting as Agent pursuant hereto and without any duty to account therefor to Lenders. GE Capital, either directly or through strategic affiliations, may accept fees and other consideration from any Credit Party for services in connection with this Agreement or otherwise without having to account for the same to Lenders. Each Lender acknowledges that GE Capital has obtained certain warrants to obtain equity interests in Borrower and may acquire certain equity

interests in Borrower (whether upon exercise of the warrants or otherwise), and acknowledges the potential conflict of interest of GE Capital, as Agent and as a Lender and as a holder of the warrants and any equity interests of Borrower and consents thereto.

(g) Successor Agent.

(i) Resignation. Agent may resign from the performance of all its agency functions and duties hereunder at any time by giving at least thirty (30) Business Days' prior written notice to Borrower and Lenders. Such resignation shall take effect upon the acceptance by a successor Agent of appointment pursuant to clause (ii) below or as otherwise provided in clause (ii) below.

(ii) Appointment of Successor. Upon any such notice of resignation pursuant to clause (i) above, Requisite Lenders shall appoint a successor Agent which, unless an Event of Default has occurred and is continuing, shall be reasonably acceptable to Borrower. If a successor Agent shall not have been so appointed within the thirty (30) Business Day period referred to in clause (i) above, the retiring Agent, upon notice to Borrower, shall then appoint a successor Agent who shall serve as Agent until such time, if any, as Requisite Lenders appoint a successor Agent as provided above.

(iii) Successor Agent. Upon the acceptance of any appointment as Agent under the Loan Documents by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under the Loan Documents. After any retiring Agent's resignation as Agent, the provisions of this Section 8.2 shall continue to inure to its benefit as to any actions taken or omitted to be taken by it in its capacity as Agent.

(h) Collateral Matters.

(i) Release of Collateral. Lenders hereby irrevocably authorize Agent, at its option and in its discretion, to release or authorize the release of any Lien granted to or held by Agent upon any Collateral (x) upon termination of the Commitments and payment and satisfaction of all Obligations (other than contingent indemnification obligations to the extent no claims giving rise thereto have been asserted) or (y) constituting property being sold or disposed of if Borrower certifies to Agent that the sale or disposition is made in compliance with the provisions of this Agreement (and Agent may rely in good faith conclusively on any such certificate, without further inquiry).

(ii) Confirmation of Authority; Execution of Releases. Without in any manner limiting Agent's authority to act without any specific or further authorization or consent by Lenders (as set forth in Section 8.2(h)(i)), each Lender agrees to confirm in writing, upon request by Agent or Borrower, the authority to release any Collateral conferred upon Agent under clauses (x) and (y) of Section 8.2(h)(i). Upon receipt by Agent of any required confirmation from the Requisite Lenders of its authority to release any particular item or types of

Collateral, and upon at least seven (7) Business Days' prior written request by Borrower, Agent shall (and is hereby irrevocably authorized by Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to Agent upon such Collateral; provided, however, that (x) Agent shall not be required to execute any such document on terms which, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (y) such release shall not in any manner discharge, affect or impair the Obligations or any Liens upon (or obligations of any Credit Party, in respect of), all interests retained by any Credit Party, including the proceeds of any sale, all of which shall continue to constitute part of the Collateral.

(iii) Absence of Duty. Agent shall have no obligation whatsoever to any Lender or any other Person to assure that the property covered by the Collateral Documents exists or is owned by Borrower or any other Credit Party or is cared for, protected or insured or has been encumbered or that the Liens granted to Agent have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Section 8.2(h) or in any of the Loan Documents, it being understood and agreed that in respect of the property covered by the Collateral Documents or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its discretion, given Agent's own interest in property covered by the Collateral Documents as one of the Lenders and that Agent shall have no duty or liability whatsoever to any of the other Lenders, provided that Agent shall exercise the same care which it would in dealing with loans for its own account.

(i) Agency for Perfection. Agent and each Lender hereby appoint each other Lender as agent for the purpose of perfecting Agent's security interest in assets which, in accordance with the Code in any applicable jurisdiction, can be perfected by possession or control. Should any Lender (other than Agent) obtain possession or control of any such assets, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor, shall deliver such assets to Agent or in accordance with Agent's instructions or transfer control to Agent in accordance with Agent's instructions. Each Lender agrees that it will not have any right individually to enforce or seek to enforce any Collateral Document or to realize upon any collateral security for the Loans unless instructed to do so by Agent in writing, it being understood and agreed that such rights and remedies may be exercised only by Agent.

(j) Notice of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default except with respect to defaults in the payment of principal, interest and Fees required to be paid to Agent for the account of Lenders, unless Agent shall have received written notice from a Lender or Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". Agent will notify each Lender of its receipt of any such notice. Agent shall take such action with respect to such Default or Event of Default as may be requested by Requisite Lenders in accordance with Section 6. Unless and until Agent has received any such request, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interests of Lenders.

(k) Lender Actions Against Collateral. Each Lender agrees that it will not take any action, nor institute any actions or proceedings, with respect to the Loans, against Borrower or any Credit Party hereunder or under the other Loan Documents or against any of the Real Estate encumbered by Mortgages without the consent of the Required Lenders. With respect to any action by Agent to enforce the rights and remedies of Agent and the Lenders under this Agreement and the other Loan Documents, each Lender hereby consents to the jurisdiction of the court in which such action is maintained, and agrees to deliver its Notes to Agent to the extent necessary to enforce the rights and remedies of Agent for the benefit of the Lenders under the Mortgages in accordance with the provisions hereof.

8.3 Set Off and Sharing of Payments. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, during the continuance of any Event of Default, each Lender is hereby authorized by Borrower at any time or from time to time, with reasonably prompt subsequent notice to Borrower (any prior or contemporaneous notice being hereby expressly waived) to set off and to appropriate and to apply any and all (A) balances held by such Lender at any of its offices for the account of Borrower or any of its Subsidiaries (regardless of whether such balances are then due to Borrower or its Subsidiaries), and (B) other property at any time held or owing by such Lender to or for the credit or for the account of Borrower or any of its Subsidiaries, against and on account of any of the Obligations; except that no Lender shall exercise any such right without the prior written consent of Agent. Any Lender exercising a right to set off shall purchase for cash (and the other Lenders shall sell) interests in each of such other Lender's Pro Rata Share of the Obligations as would be necessary to cause all Lenders to share the amount so set off with each

other Lender in accordance with their respective Pro Rata Shares. Borrower agrees, to the fullest extent permitted by law, that any Lender may exercise its right to set off with respect to amounts in excess of its Pro Rata Share of the Obligations and upon doing so shall deliver such amount so set off to the Agent for the benefit of all Lenders in accordance with their Pro Rata Shares.

8.4 Disbursement of Funds. Agent may, on behalf of Lenders, disburse funds to Borrower for Loans requested. Each Lender shall reimburse Agent on demand for all funds disbursed on its behalf by Agent, or if Agent so requests, each Lender will remit to Agent its Pro Rata Share of any Loan before Agent disburses same to Borrower. If Agent elects to require that each Lender make funds available to Agent prior to a disbursement by Agent to Borrower, Agent shall advise each Lender by telephone or fax of the amount of such Lender's Pro Rata Share of the Loan requested by Borrower no later than 1:00 p.m. (New York time) on the Funding Date applicable thereto, and each such Lender shall pay Agent such Lender's Pro Rata Share of such requested Loan, in same day funds, by wire transfer to Agent's account on such Funding Date. If any Lender fails to pay the amount of its Pro Rata Share within one (1) Business Day after Agent's demand, Agent shall promptly notify Borrower, and Borrower shall immediately repay such amount to Agent. Any repayment required pursuant to this Section 8.4 shall be without premium or penalty. Nothing in this Section 8.4 or elsewhere in this Agreement or the other Loan Documents, including the provisions of Section 8.5, shall be deemed to require Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its commitments hereunder or to prejudice any rights that Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

8.5 Disbursements of Advances; Payment.

(a) Advances; Payments.

(i) Revolving Lenders shall refund or participate in the Swing Line Loan in accordance with clauses (iii) and (iv) of Section 1.1(c). If the Swing Line Lender declines to make a Swing Line Loan or if Swing Line Availability is zero, Agent shall notify Revolving Lenders, promptly after receipt of a Notice of Revolving Credit Advance and in any event prior to 1:00 p.m. (New York time) on the date such Notice of a Revolving Credit Advance is received, by fax, telephone or other similar form of transmission. Each Revolving Lender shall make the amount of such Lender's Pro Rata Share of such Revolving Credit Advance available to Agent in same day funds by wire transfer to Agent's account as set forth in Section 1.1(e) not later than 3:00 p.m. (New York time) on the requested Funding Date in the case of an Index Rate Loans and not later than 11:00 a.m. (New York time) on the requested Funding Date in the case of a LIBOR Loan. After receipt of such wire transfers (or, in the Agent's sole discretion, before receipt of such wire transfers), subject to the terms hereof, Agent shall make the requested Revolving Credit Advance to Borrower. All payments by each Revolving Lender shall be made without setoff, counterclaim or deduction of any kind.

(ii) At least once each calendar week or more frequently at Agent's election (each, a "Settlement Date"), Agent shall advise each Lender by telephone or fax of the amount of such Lender's Pro Rata Share of principal, interest and Fees paid for the benefit of

Lenders with respect to each applicable Loan. Provided that each Lender has funded all payments and Advances required to be made by it and purchased all participations required to be purchased by it under this Agreement and the other Loan Documents as of such Settlement Date, Agent shall pay to each Lender such Lender's Pro Rata Share of principal, interest and Fees paid by Borrower since the previous Settlement Date for the benefit of such Lender on the Loans held by it. Such payments shall be made by wire transfer to such Lender's account (as specified by such Lender in Annex E or the applicable Assignment Agreement) not later than 2:00 p.m. (New York time) on the next Business Day following each Settlement Date. To the extent that any Lender (a "Non-Funding Lender") has failed to fund all such payments and Advances or failed to fund the purchase of all such participations, Agent shall be entitled to set off the funding short-fall against that Non-Funding Lender's Pro Rata Share of all payments received from Borrower.

(b) Availability of Lender's Pro Rata Share. Agent may assume that each Revolving Lender will make its Pro Rata Share of each Revolving Credit Advance available to Agent on each Funding Date. If such Pro Rata Share is not, in fact, paid to Agent by such Revolving Lender when due, Agent will be entitled to recover such amount on demand from such Revolving Lender without setoff, counterclaim or deduction of any kind. If any Revolving Lender fails to pay the amount of its Pro Rata Share forthwith upon Agent's demand, Agent shall promptly notify Borrower and Borrower shall immediately repay such amount to Agent. Nothing in this Section 8.5(b) or elsewhere in this Agreement or the other Loan Documents shall be deemed to require Agent to advance funds on behalf of any Revolving Lender or to relieve any Revolving Lender from its obligation to fulfill its Commitments hereunder or to prejudice any rights that Borrower may have against any Revolving Lender as a result of any default by such Revolving Lender hereunder. To the extent that Agent advances funds to Borrower on behalf of any Revolving Lender and is not reimbursed therefor on the same Business Day as such Advance is made, Agent shall be entitled to retain for its account all interest accrued on such Advance until reimbursed by the applicable Revolving Lender.

(c) Return of Payments.

(i) If Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Agent from Borrower and such related payment is not received by Agent, then Agent will be entitled to recover such amount from such Lender on demand without setoff, counterclaim or deduction of any kind.

(ii) If Agent determines at any time that any amount received by Agent under this Agreement must be returned to Borrower or paid to any other Person pursuant to any insolvency law or otherwise, then, notwithstanding any other term or condition of this Agreement or any other Loan Document, Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Agent on demand any portion of such amount that Agent has distributed to such Lender, together with interest at such rate, if any, as Agent is required to pay to Borrower or such other Person, without setoff, counterclaim or deduction of any kind.

(d) Non-Funding Lenders. The failure of any Non-Funding Lender to make any Revolving Credit Advance or any payment required by it hereunder, or to purchase any participation in any Swing Line Loan to be made or purchased by it on the date specified therefor shall not relieve any other Lender (each such other Revolving Lender, an "Other Lender") of its obligations to make such Advance or purchase such participation on such date, but neither any Other Lender nor Agent shall be responsible for the failure of any Non-Funding Lender to make an Advance, purchase a participation or make any other payment required hereunder. Notwithstanding anything set forth herein to the contrary, a Non-Funding Lender shall not have any voting or consent rights under or with respect to any Loan Document or constitute a "Lender" or a "Revolving Lender" (or be included in the calculation of "Requisite Lenders", or "Requisite Revolving Lenders" hereunder) for any voting or consent rights under or with respect to any Loan Document.

(e) Dissemination of Information. Agent shall use reasonable efforts to provide Lenders with any notice of Default or Event of Default received by Agent from, or delivered by Agent to, any Credit Party, with notice of any Event of Default of which Agent has actually become aware and with notice of any action taken by Agent following any Event of Default; provided, that Agent shall not be liable to any Lender for any failure to do so.

(f) Actions in Concert. Anything in this Agreement to the contrary notwithstanding, each Lender hereby agrees with each other Lender that no Lender shall take any action to protect or enforce its rights arising out of this Agreement or the Notes (including exercising any rights of setoff) without first obtaining the prior written consent of Agent and Requisite Lenders, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the Notes shall be taken in concert and at the direction or with the consent of Agent or Requisite Lenders. Agent is authorized to issue all notices to be issued by or on behalf of the Lenders with respect to any Subordinated Debt.

SECTION 9.
MISCELLANEOUS

9.1 Indemnities. Borrower agrees to indemnify, pay, and hold Agent, each Lender, each L/C Issuer and their respective officers, directors, employees, agents, accountants, and attorneys (the "Indemnitees") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses (including all reasonable fees and expenses of counsel to such Indemnitees) of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Indemnitee as a result of such Indemnitees being a party to this Agreement or the transactions consummated pursuant to this Agreement or otherwise relating to any of the Related Transactions; provided, that Borrower shall have no obligation to an Indemnitee hereunder with respect to liabilities to the extent resulting from (a) the gross negligence or willful misconduct of that Indemnitee as determined by a court of competent jurisdiction or (b) any claim by an Indemnitee against its accountants or counsel. If and to the extent that the foregoing undertaking may be unenforceable for any reason, Borrower agrees to make the maximum contribution to the payment and satisfaction thereof which is permissible under applicable law.

9.2 Amendments and Waivers.

(a) Except for actions expressly permitted to be taken by Agent, no amendment, modification, termination or waiver of any provision of this Agreement or any other Loan Document, or any consent to any departure by any Credit Party therefrom, shall in any event be effective unless the same shall be in writing and signed by Borrower, and by Requisite Lenders, Requisite Revolving Lenders or all affected Lenders, as applicable. Except as set forth in clauses (b) and (c) below, all such amendments, modifications, terminations or waivers requiring the consent of any Lenders shall require the written consent of Requisite Lenders.

(b) No amendment, modification, termination or waiver of or consent with respect to any provision of this Agreement that waives compliance with the conditions precedent set forth in Section 7.2 to the making of any Loan or the incurrence of any Letter of Credit Obligations shall be effective unless the same shall be in writing and signed by Agent, Requisite Revolving Lenders and Borrower. Notwithstanding anything contained in this Agreement to the contrary, no waiver or consent with respect to any Default or any Event of Default shall be effective for purposes of the conditions precedent to the making of Loans or the incurrence of Letter of Credit Obligations set forth in Section 7.2 unless the same shall be in writing and signed by Agent, Requisite Revolving Lenders and Borrower.

(c) No amendment, modification, termination or waiver shall, unless in writing and signed by Agent and each Lender directly affected thereby: (i) increase the principal amount of any Lender's Commitment (which action shall be deemed only to affect those Lenders whose Commitments are increased and may be approved by Requisite Lenders, including those Lenders whose Commitments are increased); (ii) reduce the principal of, rate of interest on or Fees payable with respect to any Loan or Letter of Credit Obligations of any affected Lender; (iii) extend any scheduled payment date or final maturity date of the principal amount of any Loan of any affected Lender; (iv) waive, forgive, defer, extend or postpone any payment of interest or Fees as to any affected Lender (which action shall be deemed only to affect those Lenders to whom such payments are made); (v) release any Guaranty or, except as otherwise permitted in Section 3.7, release Collateral with a book value exceeding 5% of the book value of all assets in the aggregate in any one (1) year (which action shall be deemed to directly affect all Lenders); (vi) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans that shall be required for Lenders or any of them to take any action hereunder; and (vii) amend or waive this Section 9.2 or the definitions of the terms "Requisite Lenders", or "Requisite Revolving Lenders" insofar as such definitions affect the substance of this Section 9.2. Furthermore, no amendment, modification, termination or waiver affecting the rights or duties of Agent or L/C Issuers under this Agreement or any other Loan Document shall be effective unless in writing and signed by Agent or L/C Issuers, as the case may be, in addition to Lenders required hereinabove to take such action. Each amendment, modification, termination or waiver shall be effective only in the specific instance and for the specific purpose for which it was given. No amendment, modification, termination or waiver shall be required for Agent to take additional Collateral pursuant to any Loan Document. No amendment, modification, termination or waiver of any provision of any Note shall be effective without the written concurrence of the holder of that Note. No notice to or demand on any Credit Party in

any case shall entitle such Credit Party or any other Credit Party to any other or further notice or demand in similar or other circumstances. Any amendment, modification, termination, waiver or consent effected in accordance with this Section 9.2 shall be binding upon each holder of the Notes at the time outstanding and each future holder of the Notes.

9.3 Notices. Any notice or other communication required shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied, sent by overnight courier service or U.S. mail and shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by fax, on the date of transmission if transmitted on a Business Day before 4:00 p.m. New York Time; (c) if delivered by overnight courier, one (1) Business Day after delivery to the courier properly addressed; or (d) if delivered by U.S. mail, four (4) Business Days after deposit with postage prepaid and properly addressed.

Notices shall be addressed as follows:

If to Borrower:	Comfort Systems USA, Inc. 777 Post Oak Blvd., Suite 500 Houston, Texas 77056 ATTN: J. Gordon Beittenmiller Fax: (713) 830-9699
With a copy to:	Comfort Systems USA, Inc. 777 Post Oak Blvd., Suite 500 Houston, Texas 77056 ATTN: William George Fax: (713) 830-9696
If to Agent or GE Capital:	GENERAL ELECTRIC CAPITAL CORPORATION 335 Madison Avenue, 12th Floor New York, NY 10017 ATTN: Comfort Systems USA, Inc. Account Officer Fax: (212) 309-8783
With a copy to:	GENERAL ELECTRIC CAPITAL CORPORATION 201 High Ridge Road Stamford, Connecticut 06927-5100 ATTN: Corporate Counsel Commercial Finance - Merchant Banking Fax: (203) 316-7899

and

GENERAL ELECTRIC CAPITAL
CORPORATION
500 West Monroe Street
Chicago, Illinois 60661
ATTN: Corporate Counsel Commercial
Finance - Merchant Banking
Fax: (312) 441-6876

and

WINSTON & STRAWN
200 Park Avenue
New York, New York 10016
ATTN: William D. Brewer, Esq.
Fax: (212) 294-4700

If to a Lender: To the address set forth on the signature page hereto or in the applicable Assignment Agreement

9.4 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of Agent or any Lender to exercise, nor any partial exercise of, any power, right or privilege hereunder or under any other Loan Documents shall impair such power, right, or privilege or be construed to be a waiver of any Default or Event of Default. All rights and remedies existing hereunder or under any other Loan Document are cumulative to and not exclusive of any rights or remedies otherwise available.

9.5 Marshaling; Payments Set Aside. Neither Agent nor any Lender shall be under any obligation to marshal any assets in payment of any or all of the Obligations. To the extent that Borrower makes payment(s) or Agent enforces its Liens or Agent or any Lender exercises its right of set-off, and such payment(s) or the proceeds of such enforcement or set-off is subsequently invalidated, declared to be fraudulent or preferential, set aside, or required to be repaid by anyone, then to the extent of such recovery, the Obligations or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor, shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or set-off had not occurred.

9.6 Severability. The invalidity, illegality, or unenforceability in any jurisdiction of any provision under the Loan Documents shall not affect or impair the remaining provisions in the Loan Documents.

9.7 Lenders' Obligations Several; Independent Nature of Lenders' Rights. The obligation of each Lender hereunder is several and not joint and no Lender shall be responsible for the obligation or commitment of any other Lender hereunder. In the event that any Lender at any time should fail to make a Loan as herein provided, the Lenders, or any of them, at their sole option, may make the Loan that was to have been made by the Lender so failing to make such

Loan. Nothing contained in any Loan Document and no action taken by Agent or any Lender pursuant hereto or thereto shall be deemed to constitute Lenders to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt.

9.8 Headings. Section and subsection headings are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purposes or be given substantive effect.

9.9 Applicable Law. THIS AGREEMENT AND EACH OF THE OTHER LOAN DOCUMENTS WHICH DOES NOT EXPRESSLY SET FORTH APPLICABLE LAW SHALL BE GOVERNED BY AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.

9.10 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns except that Borrower may not assign its rights or obligations hereunder without the written consent of all Lenders.

9.11 No Fiduciary Relationship; Limited Liability. No provision in the Loan Documents and no course of dealing between the parties shall be deemed to create any fiduciary duty owing to Borrower by Agent or any Lender. Borrower agrees that neither Agent nor any Lender shall have liability to Borrower (whether sounding in tort, contract or otherwise) for losses suffered by Borrower in connection with, arising out of, or in any way related to the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless and to the extent that it is determined that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought as determined by a final non-appealable order by a court of competent jurisdiction. Neither Agent nor any Lender shall have any liability with respect to, and Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

9.12 Construction. Agent, each Lender, Borrower and each other Credit Party acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review the Loan Documents with its legal counsel and that the Loan Documents shall be construed as if jointly drafted by Agent, each Lender, Borrower and each other Credit Party.

9.13 Confidentiality. Agent and each Lender agree to exercise their best efforts to keep confidential any non-public information delivered pursuant to the Loan Documents and identified as such by Borrower and not to disclose such information to Persons other than to potential assignees or participants or to Persons employed by or engaged by Agent a Lender or a Lender's assignees or participants including attorneys, auditors, professional consultants, rating agencies, insurance industry associations and portfolio management services. The

confidentiality provisions contained in this Section 9.13 shall not apply to disclosures (i) required to be made by Agent or any Lender to any regulatory or governmental agency or pursuant to legal process or (ii) consisting of general portfolio information that does not identify Borrower. The obligations of Agent and Lenders under this Section 9.13 shall supersede and replace the obligations of Agent and Lenders under any confidentiality agreement in respect of this financing executed and delivered by Agent or any Lender prior to the date hereof.

9.14 CONSENT TO JURISDICTION. BORROWER AND CREDIT PARTIES HEREBY CONSENT TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN NEW YORK COUNTY, BOROUGH OF MANHATTAN, STATE OF NEW YORK AND IRREVOCABLY AGREE THAT, SUBJECT TO AGENT'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS SHALL BE LITIGATED IN SUCH COURTS. BORROWER AND CREDIT PARTIES EXPRESSLY SUBMIT AND CONSENT TO THE JURISDICTION OF THE AFORESAID COURTS AND WAIVE ANY DEFENSE OF FORUM NON CONVENIENS. BORROWER AND CREDIT PARTIES HEREBY WAIVE PERSONAL SERVICE OF ANY AND ALL PROCESS AND AGREES THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE UPON BORROWER BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, ADDRESSED TO BORROWER, AT THE ADDRESS SET FORTH IN THIS AGREEMENT AND SERVICE SO MADE SHALL BE COMPLETE TEN (10) DAYS AFTER THE SAME HAS BEEN POSTED. IN ANY LITIGATION, TRIAL, ARBITRATION OR OTHER DISPUTE RESOLUTION PROCEEDING RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, ALL DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS OF BORROWER, CREDIT PARTIES OR ANY OF THEIR AFFILIATES SHALL BE DEEMED TO BE EMPLOYEES OR MANAGING AGENTS OF BORROWER OR SUCH CREDIT PARTY FOR PURPOSES OF ALL APPLICABLE LAW OR COURT RULES REGARDING THE PRODUCTION OF WITNESSES BY NOTICE FOR TESTIMONY (WHETHER IN A DEPOSITION, AT TRIAL OR OTHERWISE). BORROWER AND CREDIT PARTIES AGREE THAT AGENT'S OR ANY LENDER'S COUNSEL IN ANY SUCH DISPUTE RESOLUTION PROCEEDING MAY EXAMINE ANY OF THESE INDIVIDUALS AS IF UNDER CROSS-EXAMINATION AND THAT ANY DISCOVERY DEPOSITION OF ANY OF THEM MAY BE USED IN THAT PROCEEDING AS IF IT WERE AN EVIDENCE DEPOSITION. BORROWER AND CREDIT PARTIES IN ANY EVENT WILL USE ALL COMMERCIALLY REASONABLE EFFORTS TO PRODUCE IN ANY SUCH DISPUTE RESOLUTION PROCEEDING, AT THE TIME AND IN THE MANNER REQUESTED BY AGENT OR ANY LENDER, ALL PERSONS, DOCUMENTS (WHETHER IN TANGIBLE, ELECTRONIC OR OTHER FORM) OR OTHER THINGS UNDER THEIR CONTROL AND RELATING TO THE DISPUTE.

9.15 WAIVER OF JURY TRIAL. BORROWER, CREDIT PARTIES, AGENT AND EACH LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS. BORROWER, CREDIT PARTIES, AGENT AND EACH LENDER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL

INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. BORROWER, CREDIT PARTIES, AGENT AND EACH LENDER WARRANT AND REPRESENT THAT EACH HAS HAD THE OPPORTUNITY OF REVIEWING THIS JURY WAIVER WITH LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS.

9.16 Survival of Warranties and Certain Agreements. All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement, the making of the Loans, issuances of Letters of Credit and the execution and delivery of the Notes. Notwithstanding anything in this Agreement or implied by law to the contrary, the agreements of Borrower set forth in Sections 1.3(e), 1.8, 1.9 and 9.1 shall survive the repayment of the Obligations and the termination of this Agreement.

9.17 Entire Agreement. This Agreement, the Notes and the other Loan Documents embody the entire agreement among the parties hereto and supersede all prior commitments, agreements, representations, and understandings, whether oral or written, relating to the subject matter hereof, and may not be contradicted or varied by evidence of prior, contemporaneous, or subsequent oral agreements or discussions of the parties hereto. All Exhibits, Schedules and Annexes referred to herein are incorporated in this Agreement by reference and constitute a part of this Agreement.

9.18 Counterparts; Effectiveness. This Agreement and any amendments, waivers, consents or supplements may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one in the same instrument. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

9.19 Replacement of Lenders. Within fifteen (15) days after receipt by Borrower of written notice and demand from any Lender for payment pursuant to Section 1.8 or 1.9 or, as provided in this Section 9.19(c), in the case of certain refusals by any Lender to consent to certain proposed amendments, modifications, terminations or waivers with respect to this Agreement that have been approved by Requisite Lenders, Requisite Revolving Lenders or all affected Lenders, as applicable (any such Lender demanding such payment or refusing to so consent being referred to herein as an "Affected Lender"), Borrower may, at its option, notify Agent and such Affected Lender of its intention to do one of the following:

(i) Borrower may obtain, at Borrower's expense, a replacement Lender ("Replacement Lender") for such Affected Lender, which Replacement Lender shall be reasonably satisfactory to Agent. In the event Borrower obtains a Replacement Lender that will purchase all outstanding Obligations owed to such Affected Lender and assume its Commitments hereunder within ninety (90) days following notice of Borrower's intention to do so, the Affected Lender shall sell and assign all of its rights and delegate all of its obligations under this

Agreement to such Replacement Lender in accordance with the provisions of Section 8.1, provided that Borrower has reimbursed such Affected Lender for any administrative fee payable pursuant to Section 8.1 and, in any case where such replacement occurs as the result of a demand for payment pursuant to Section 1.8 or 1.9, paid all amounts required to be paid to such Affected Lender pursuant to Section 1.8 or 1.9 through the date of such sale and assignment; or

(ii) Borrower may, with Agent's consent, prepay in full all outstanding Obligations owed to such Affected Lender and terminate such Affected Lender's Pro Rata Share of the Revolving Loan Commitment, in which case the Revolving Loan Commitment will be reduced by the amount of such Pro Rata Share. Borrower shall, within ninety (90) days following notice of its intention to do so, prepay in full all outstanding Obligations owed to such Affected Lender (including, in any case where such prepayment occurs as the result of a demand for payment for increased costs, such Affected Lender's increased costs for which it is entitled to reimbursement under this Agreement through the date of such prepayment), and terminate such Affected Lender's obligations under the Revolving Loan Commitment.

(b) In the case of a Non-Funding Lender pursuant to Section 8.5(a), at Borrower's request, Agent or a Person acceptable to Agent shall have the right with Agent's consent and in Agent's sole discretion (but shall have no obligation) to purchase from any Non-Funding Lender, and each Non-Funding Lender agrees that it shall, at Agent's request, sell and assign to Agent or such Person, all of the Loans and Commitments of that Non-Funding Lender for an amount equal to the principal balance of all Loans held by such Non-Funding Lender and all accrued interest and Fees with respect thereto through the date of sale, such purchase and sale to be consummated pursuant to an executed Assignment Agreement.

(c) If, in connection with any proposed amendment, modification, waiver or termination pursuant to Section 9.2 (a "Proposed Change"):

(i) requiring the consent of all affected Lenders, the consent of Requisite Lenders is obtained, but the consent of other Lenders whose consent is required is not obtained (any such Lender whose consent is not obtained as described in this clause (i) and in clauses (ii), (iii) and (iv) below being referred to as a "Non-Consenting Lender"),

(ii) requiring the consent of Requisite Revolving Lenders, the consent of Revolving Lenders holding 51% or more of the aggregate Revolving Loan Commitments is obtained, but the consent of Requisite Revolving Lenders is not obtained, or

(iii) requiring the consent of Requisite Lenders, the consent of Lenders holding 51% or more of the aggregate Commitments is obtained, but the consent of Requisite Lenders is not obtained,

then, so long as Agent is not a Non-Consenting Lender, at Borrower's request Agent, or a Person reasonably acceptable to Agent, shall have the right with Agent's consent and in Agent's sole discretion (but shall have no obligation) to purchase from such Non-Consenting Lenders, and such Non-Consenting Lenders agree that they shall, upon Agent's request, sell and assign to Agent or such Person, all of the Loans and Commitments of such Non-Consenting Lenders for

an amount equal to the principal balance of all Loans held by the Non-Consenting Lenders and all accrued interest and Fees with respect thereto through the date of sale, such purchase and sale to be consummated pursuant to an executed Assignment Agreement.

9.20 Delivery of Termination Statements and Mortgage Releases. Upon payment in full in cash and performance of all of the Obligations (other than indemnification Obligations), termination of the Commitments and a release of all claims against Agent and Lenders, and so long as no suits, actions proceedings, or claims are pending or threatened against any Indemnitee asserting any damages, losses or liabilities that are indemnified liabilities hereunder, Agent shall deliver to Borrower termination statements, mortgage releases and other documents necessary or appropriate to evidence the termination of the Liens securing payment of the Obligations.

Witness the due execution hereof by the respective duly authorized officers of the undersigned as of the date first written above.

BORROWER:

COMFORT SYSTEMS USA, INC.

By: /s/ J. Gordon Beittenmiller

Name: J. Gordon Beittenmiller

Title: Executive Vice President

CREDIT PARTIES:

ACI MECHANICAL, INC.

ARC COMFORT SYSTEMS USA, INC.

ACCURATE AIR SYSTEMS, L.P., BY
ATLAS-ACCURATE HOLDINGS, L.L.C.,
AS GENERAL PARTNER

ACCU-TEMP GP, INC.

ACCU-TEMP LP, INC.

ACCU-TEMP LLC,
BY ACCU-TEMP GP, INC., AS ACTING MEMBER

AIR SOLUTIONS USA, INC.

AIR TEMP, INC.

ATLAS-ACCURATE HOLDINGS, L.L.C.,
BY CS53 ACQUISITION CORP.,
AS ACTING MEMBER

ATLAS AIR CONDITIONING
COMPANY, L.P., BY ATLAS-ACCURATE
HOLDINGS, L.L.C., AS GENERAL PARTNER

BATCHELOR'S MECHANICAL CONTRACTORS, INC.

BCM CONTROLS CORPORATION

CARSON BROTHERS, INC.

CEL, INC.

CENTRAL MECHANICAL, INC.

COMFORT SYSTEMS USA (ARKANSAS), INC.

COMFORT SYSTEMS USA (BALTIMORE), INC.

COMFORT SYSTEMS USA (BOWLING GREEN), INC.

COMFORT SYSTEMS USA (BRISTOL), INC.

COMFORT SYSTEMS USA (CLEVELAND), INC.

COMFORT SYSTEMS USA (FLORIDA), INC.

COMFORT SYSTEMS USA G.P., INC.

COMFORT SYSTEMS US (HARTFORD), INC.

COMFORT SYSTEMS USA (INTERMOUNTAIN), INC.

COMFORT SYSTEMS USA NATIONAL SERVICE ORGANIZATION, INC.

COMFORT SYSTEMS USA (OREGON), INC.

COMFORT SYSTEMS USA (SOUTH BOSTON), INC.

COMFORT SYSTEMS USA (SYRACUSE), INC.

COMFORT SYSTEMS USA (TEXAS), L.P.,
BY COMFORT SYSTEMS USA G.P., INC.,
AS GENERAL PARTNER

COMFORT SYSTEMS USA (TWIN CITIES), INC.

COMFORT SYSTEMS USA (WESTERN MICHIGAN), INC.

CS44 ACQUISITION CORP.

CS53 ACQUISITION CORP.

DESIGN MECHANICAL INCORPORATED

EASTERN HEATING & COOLING, INC.

ESS ENGINEERING, INC.

GULFSIDE MECHANICAL, INC.

H & M MECHANICAL, INC.

HELM CORPORATION

HELM CORPORATION SAN DIEGO

HESS MECHANICAL CORPORATION

INDUSTRIAL COOLING INC.

J & J MECHANICAL, INC.

JAMES AIR CONDITIONING ENTERPRISE INC.

MARTIN HEATING, INC.

MECHANICAL SERVICE GROUP, INC.

MECHANICAL TECHNICAL SERVICES, L.P., BY ATLAS-ACCURATE HOLDINGS, L.L.C., AS GENERAL PARTNER

MJ MECHANICAL SERVICES, INC.

NEEL MECHANICAL CONTRACTORS, INC.

NORTH AMERICAN MECHANICAL, INC.

OK SHEET METAL AND AIR CONDITIONING, INC.

QUALITY AIR HEATING & COOLING, INC.

S&K AIR CONDITIONING CO., INC.

S. I. GOLDMAN COMPANY, INC.

S.M. LAWRENCE COMPANY, INC.

SA ASSOCIATES, INC.

SALMON & ALDER, LLC,
BY SA ASSOCIATES, INC., AS ACTING
MEMBER

SEASONAIR, INC.

SHEREN PLUMBING & HEATING, INC.

STANDARD HEATING & AIR CONDITIONING
COMPANY

SUPERIOR MECHANICAL SYSTEMS, INC.

TARGET CONSTRUCTION, INC.

TEMP-RIGHT SERVICE, INC.

THE CAPITAL REFRIGERATION COMPANY

TRI-CITY MECHANICAL, INC.

UNITED ENVIRONMENTAL
SERVICES, L.P., BY ATLAS-ACCURATE
HOLDINGS, L.L.C., AS GENERAL PARTNER

WEATHER ENGINEERING, INC.

WESTERN BUILDING SERVICES, INC.

By: /s/ William George

Name: William George

Title: Senior Vice President

GENERAL ELECTRIC CAPITAL CORPORATION,
AS AGENT, AN L/C ISSUER AND A LENDER

By: /s/ Justin Staadecker

Its Duly Authorized Signatory

ANNEX A
TO
CREDIT AGREEMENT

DEFINITIONS

Capitalized terms used in the Loan Documents shall have (unless otherwise provided elsewhere in the Loan Documents) the following respective meanings and all references to Sections, Exhibits, Schedules or Annexes in the following definitions shall refer to Sections, Exhibits, Schedules or Annexes of or to the Agreement:

"Account Debtor" means any Person who may become obligated to any Credit Party under, with respect to, or on account of, an Account, Chattel Paper or General Intangibles (including a payment intangible).

"Accounting Changes" means: (a) changes in accounting principles required by GAAP and implemented by Borrower or any of its Subsidiaries; and (b) changes in accounting principles recommended by Borrower's certified public accountants and implemented by Borrower or any of its Subsidiaries.

"Accounts" means all "accounts," as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, including (a) all accounts receivable, other receivables, book debts and other forms of obligations (other than forms of obligations evidenced by Chattel Paper or Instruments), (including any such obligations that may be characterized as an account or contract right under the Code), (b) all of each Credit Party's rights in, to and under all purchase orders or receipts for goods or services, (c) all of each Credit Party's rights to any goods represented by any of the foregoing (including unpaid sellers' rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), (d) all rights to payment due to any Credit Party for property sold, leased, licensed, assigned or otherwise disposed of, for a policy of insurance issued or to be issued, for a secondary obligation incurred or to be incurred, for energy provided or to be provided, for the use or hire of a vessel under a charter or other contract, arising out of the use of a credit card or charge card, or for services rendered or to be rendered by such Credit Party or in connection with any other transaction (whether or not yet earned by performance on the part of such Credit Party), (e) all healthcare insurance receivables, and (f) all collateral security of any kind, now or hereafter in existence, given by any Account Debtor or other Person with respect to any of the foregoing.

"Advances" means any Revolving Credit Advance or Swing Line Advance, as the context may require.

"Affected Lender" has the meaning ascribed to it in Section 9.19(a).

"Affiliate" means, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary,

10% or more of the Stock having ordinary voting power in the election of directors of such Person, (b) each Person that controls, is controlled by or is under common control with such Person, (c) each of such Person's officers, directors, joint venturers and partners and (d) in the case of Borrower, the immediate family members, spouses and lineal descendants of individuals who are Affiliates of Borrower. For the purposes of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise; provided, however, that the term "Affiliate" shall specifically exclude Agent and each Lender.

"Agent" means GE Capital in its capacity as Agent for Lenders or its successor appointed pursuant to Section 8.2.

"Agreement" means this Credit Agreement (including all schedules, subschedules, annexes and exhibits hereto), as the same may be amended, supplemented, restated or otherwise modified from time to time.

"Applicable L/C Margin" means the per annum fee, from time to time in effect, payable with respect to outstanding Letter of Credit Obligations as determined by reference to Section 1.2(a).

"Applicable Margins" means collectively the Applicable L/C Margin, the Applicable Unused Line Fee Margin, the Applicable Revolver Index Margin, the Applicable Term Loan Index Margin, the Applicable Revolver LIBOR Margin and the Applicable Term Loan LIBOR Margin.

"Applicable Revolver Index Margin" means the per annum interest rate margin payable in addition to the Index Rate applicable to the Revolving Loan, as determined by reference to Section 1.2(a).

"Applicable Revolver LIBOR Margin" means the per annum interest rate payable in addition to the LIBOR Rate applicable to the Revolving Loan, as determined by reference to Section 1.2(a).

"Applicable Term Loan Index Margin" means the per annum interest rate payable in addition to the Index Rate applicable to the Term Loan, as determined by reference to Section 1.2(a).

"Applicable Term Loan LIBOR Margin" means the per annum interest rate payable in addition to the LIBOR Rate applicable to the Term Loan, as determined by reference to Section 1.2(a).

"Applicable Unused Line Fee Margin" means the per annum fee payable in respect of Borrower's non-use of committed funds pursuant to Section 1.3(b), which fee is determined by reference to Section 1.2 (a).

"Asset Disposition" means the disposition whether by sale, lease, transfer, loss, damage, destruction, casualty, condemnation or otherwise of any of the following: (a) any of the Stock or other equity or ownership interest of any of Borrower's Subsidiaries or (b) any or all of the assets of Borrower or any of its Subsidiaries other than sales of Inventory in the ordinary course of business.

"Assignment Agreement" has the meaning ascribed to it in Section 8.1(a).

"Bankruptcy Code" means the provisions of Title 11 of the United States Code, 11 U.S.C. Sections 101 et seq. or any other applicable bankruptcy, insolvency or similar laws.

"Borrower" has the meaning ascribed to it in the preamble to the Agreement.

"Borrower Pledge Agreement" means the Pledge Agreement of even date herewith executed by Borrower in favor of Agent, on behalf of itself and Lenders, pledging the Stock of each of its direct Subsidiaries.

"Borrowing Availability" means as of any date of determination the lesser of (i) the Maximum Amount and (ii) EBITDA Availability in each case, less the sum of (a) the Revolving Loan then outstanding (including the outstanding balance of Letter of Credit Obligations), and (b) the Swing Line Loan then outstanding.

"Business Day" means any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York or the State of Texas and in reference to LIBOR Loans shall mean any such day that is also a LIBOR Business Day.

"Capital Expenditures" has the meaning ascribed to it in Section 4.3 of Schedule 1 to Exhibit 4.6(1).

"Capital Lease" means, with respect to any Person, any lease of any property (whether real, personal or mixed) by such Person as lessee that, in accordance with GAAP, would be required to be classified and accounted for as a capital lease on a balance sheet of such Person.

"Capital Lease Obligation" means, with respect to any Capital Lease of any Person, the amount of the obligation of the lessee thereunder that, in accordance with GAAP, would appear on a balance sheet of such lessee in respect of such Capital Lease.

"Cash Equivalents" means: (i) marketable securities (A) issued or directly and unconditionally guaranteed as to interest and principal by the United States government or (B) issued by any agency of the United States government the obligations of which are backed by the full faith and credit of the United States, in each case maturing within one (1) year after acquisition thereof; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof, in each case maturing within one year after acquisition thereof and having, at the time of

acquisition, a rating of at least A-1 from S&P or at least P-1 from Moody's; (iii) commercial paper maturing no more than one year from the date of acquisition and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's; (iv) certificates of deposit or bankers' acceptances issued or accepted by any Lender or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia that is at least (A) "adequately capitalized" (as defined in the regulations of its primary Federal banking regulator) and (B) has Tier 1 capital (as defined in such regulations) of not less than $250,000,000, in each case maturing within one year after issuance or acceptance thereof; (v) shares of any money market mutual or similar funds that (A) has substantially all of its assets invested continuously in the types of investments referred to in clauses (i) through (iv) above, (B) has net assets of not less than $500,000,000 and (C) has the highest rating obtainable from either S&P or Moody's; and (vi) repurchase or reverse purchase agreements respecting obligations with a term of not more than seven days for underlying securities of the types described in clause (i) and (ii) above entered into with any bank listed in or meeting the qualifications specified in clause (iv) above.

"Certificate of Exemption" has the meaning ascribed to it in Section 1.9(c).

"Change of Control" means any of the following: (a) any person or group of persons (within the meaning of the Securities Exchange Act of 1934) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 20% or more of the issued and outstanding shares of Stock of Borrower having the right to vote for the election of directors of Borrower under ordinary circumstances; (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the board of directors of Borrower (together with any new directors whose election by the board of directors of Borrower or whose nomination for election by the Stockholders of Borrower was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office; or (c) Borrower ceases to own (directly or indirectly) and control all of the economic and voting rights associated with all of the outstanding Stock of any of its Subsidiaries other than those, if any, sold pursuant to Asset Dispositions expressly permitted under Section 3.7 of the Agreement or consented to in writing by Requisite Lenders.

"Charges" means all federal, state, county, city, municipal, local, foreign or other governmental taxes (including premiums and other amounts owed to the PBGC at the time due and payable), levies, assessments, charges, liens, claims or encumbrances upon or relating to (a) the Collateral, (b) the Obligations, (c) the employees, payroll, income or gross receipts of any Credit Party, (d) any Credit Party's ownership or use of any properties or other assets, or (e) any other aspect of any Credit Party's business.

"Chattel Paper" means any "chattel paper," as such term is defined in the Code, including electronic chattel paper, now owned or hereafter acquired by any Credit Party, wherever located.

"Closing Checklist" means the schedule, including all appendices, exhibits or schedules thereto, listing certain documents and information to be delivered in connection with the Agreement, the other Loan Documents and the transactions contemplated thereunder, substantially in the form attached hereto as Annex C.

"Closing Date" means October 11, 2002.

"Code" means the Uniform Commercial Code as the same may, from time to time, be enacted and in effect in the State of New York; provided, that to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Agent's or any Lender's Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of New York, the term "Code" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions.

"Collateral" means the property covered by the Security Agreement, the Mortgages (if any), and the other Collateral Documents and any other property, real or personal, tangible or intangible, now existing or hereafter acquired, that may at any time be or become subject to a security interest or Lien in favor of Agent, on behalf of itself and Lenders, to secure the Obligations or any portion thereof.

"Collateral Documents" means the Security Agreement, the Pledge Agreements, the Guaranties, the Mortgages (if any), the Trademark Security Agreements and all similar agreements entered into guaranteeing payment of, or granting a Lien upon property as security for payment of, the Obligations or any portion thereof.

"Commitment Termination Date" means the earliest of (a) October 11, 2005, (b) the date of termination of Lenders' obligations to make Advances and to incur Letter of Credit Obligations or permit existing Loans to remain outstanding pursuant to Section 6.3, and (c) the date of (i) indefeasible prepayment in full by Borrower of the Loans, (ii) the cancellation and return (or stand-by guarantee) of all Letters of Credit or the cash collateralization of all Letter of Credit Obligations pursuant to Section 1.5(f), and (iii) the permanent reduction of the Commitments to zero dollars ($0).

"Commitments" means (a) as to any Lender, the aggregate of such Lender's Revolving Loan Commitment and Term Loan Commitment as set forth on Annex B to the Agreement or in the most recent Assignment Agreement executed by such Lender and (b) as to all Lenders, the aggregate of all Lenders' Revolving Loan Commitments and Term Loan Commitments, which aggregate commitment shall be Fifty-Five Million Dollars ($55,000,000) on the Closing Date (comprised of aggregate Revolving Loan Commitments of $40,000,000 and

Term Loan Commitments of $15,000,000), as such Commitments may be reduced, amortized or adjusted from time to time in accordance with the Agreement.

"Compliance and Excess Cash Flow Certificate" has the meaning ascribed to it in Section 4.6.

"Consolidated Net Income" has the meaning ascribed to it in Section 4.2 of Schedule 1 to Exhibit 4.6(l).

"Contingent Obligation" means, as applied to any Person, means any direct or indirect liability of that Person: (i) with respect to Guaranteed Indebtedness and with respect to any Indebtedness, lease, dividend or other obligation of another Person if the purpose or intent of the Person incurring such liability, or the effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; (ii) with respect to any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings; (iii) under any foreign exchange contract, currency swap agreement, interest rate swap agreement (including Interest Rate Agreements) or other similar agreement or arrangement designed to alter the risks of that Person arising from fluctuations in currency values or interest rates, (iv) any agreement, contract or transaction involving commodity options or future contracts, (v) to make take-or-pay or similar payments if required regardless of nonperformance by any other party or parties to an agreement, or (vi) pursuant to any agreement to purchase, repurchase or otherwise acquire any obligation or any property constituting security therefor, to provide funds for the payment or discharge of such obligation or to maintain the solvency, financial condition or any balance sheet item or level of income of another. Notwithstanding the foregoing, the definition of Contingent Obligation shall not include the following obligation or liabilities: (i) those incurred in connection with customary retainage provisions and customary warranty provisions entered into in the ordinary course of business; (ii) those resulting from guarantees by a Credit Party of an obligation of any other Credit Party; provided that the underlying obligation is otherwise expressly permitted under the Agreement; and (iii) those resulting from guarantees by Borrower of any other Credit Party which guarantees are given in lieu of surety bonds. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported or, if not a fixed and determined amount, the maximum amount so guaranteed.

"Contractual Obligations" means, as applied to any Person, any indenture, mortgage, deed of trust, contract, undertaking, agreement or other instrument to which that Person is a party or by which it or any of its properties is bound or to which it or any of its properties is subject including the Related Transactions Documents.

"Copyright License" means any and all rights nor owned or hereafter acquired by any Credit Party under any written agreement granting any right to use any Copyright or Copyright registration.

"Copyrights" means all of the following now owned or hereafter adopted or acquired by any Credit Party: (a) all copyrights and General Intangibles of like nature (whether registered or unregistered), all registrations and recordings thereof, and all applications in connection therewith, including all registrations, recordings and applications in the United States Copyright Office or in any similar office or agency of the United States, any state or territory thereof, or any other country or any political subdivision thereof; and (b) all reissues, extensions or renewals thereof.

"Credit Parties" means Borrower, and each of its Subsidiaries and each other Person who executes this Agreement as a "Credit Party" or a Guaranty or who grants a Lien on all or part of its assets to secure all of part of the Obligations.

"Current Assets" means, with respect to any Person, all current assets of such Person as of any date of determination calculated in accordance with GAAP, but excluding cash, cash equivalents and debts due from Affiliates.

"Current Liabilities" means, with respect to any Person, all liabilities that should, in accordance with GAAP, be classified as current liabilities, and in any event shall include all Indebtedness payable on demand or within one year from any date of determination without any option on the part of the obligor to extend or renew beyond such year, all accruals for federal or other taxes based on or measured by income and payable within such year, but excluding the current portion of long-term debt required to be paid within one year and the aggregate outstanding principal balances of the Revolving Loan and the Swing Line Loan.

"Default" means any event that, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

"Default Rate" has the meaning ascribed to it in Section 1.2(d).

"Disbursement Account" has the meaning ascribed to it in Section 1.1(e).

"Disclosure Schedules" means the Schedules prepared by Borrower and denominated as Schedules 3.2 through 5.18 in the index to the Agreement.

"Documents" means any "document," as such term is defined in the Code, including electronic documents, now owned or hereafter acquired by any Credit Party, wherever located.

"Dollars" or "$" means lawful currency of the United States of America.

"EBITDA" has the meaning ascribed to it in Section 4.2 of Schedule 1 to Exhibit 4.6(l).

"EBITDA Availability" shall be determined pursuant to, and in accordance with, Exhibit 4.6(d).

"Environmental Laws" means all applicable federal, state, local and foreign laws, statutes, ordinances, codes, rules, standards and regulations, now or hereafter in effect, and any applicable judicial or administrative interpretation thereof, including any applicable judicial or administrative order, consent decree, order or judgment, imposing liability or standards of conduct for or relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation). Environmental Laws include the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. Sections 9601 et seq.) ("CERCLA"); the Hazardous Materials Transportation Authorization Act of 1994 (49 U.S.C. Sections 5101 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. Sections 136 et seq.); the Solid Waste Disposal Act (42 U.S.C. Sections 6901 et seq.); the Toxic Substance Control Act (15 U.S.C. Sections 2601 et seq.); the Clean Air Act (42 U.S.C. Sections 7401 et seq.); the Federal Water Pollution Control Act (33 U.S.C. Sections 1251 et seq.); the Occupational Safety and Health Act (29 U.S.C. Sections 651 et seq.); and the Safe Drinking Water Act (42 U.S.C. Sections 300(f) et seq.), and any and all regulations promulgated thereunder, and all analogous state, local and foreign counterparts or equivalents and any transfer of ownership notification or approval statutes.

"Environmental Liabilities" means, with respect to any Person, all liabilities, obligations, responsibilities, response, remedial and removal costs, investigation and feasibility study costs, capital costs, operation and maintenance costs, losses, damages, punitive damages, property damages, natural resource damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts and consultants), fines, penalties, sanctions and interest incurred as a result of or related to any claim, suit, action, investigation, proceeding or demand by any Person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law, including any arising under or related to any Environmental Laws, Environmental Permits, or in connection with any Release or threatened Release or presence of a Hazardous Material whether on, at, in, under, from or about or in the vicinity of any real or personal property.

"Environmental Permits" means all permits, licenses, authorizations, certificates, approvals or registrations required by any Governmental Authority under any Environmental Laws.

"Equipment" means all "equipment," as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, wherever located and, in any event, including all such Credit Party's machinery and equipment, including processing equipment, conveyors, machine tools, data processing and computer equipment, including embedded software and peripheral equipment and all engineering, processing and manufacturing equipment, office machinery, furniture, materials handling equipment, tools, attachments, accessories, automotive equipment, trailers, trucks, forklifts, molds, dies, stamps, motor vehicles, rolling stock and other equipment of every kind and nature, trade fixtures and fixtures not forming a part of real property, together with all additions and accessions thereto, replacements therefor, all parts therefor, all substitutes for any of the foregoing, fuel therefor, and all manuals, drawings,

instructions, warranties and rights with respect thereto, and all products and proceeds thereof and condemnation awards and insurance proceeds with respect thereto.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder.

"ERISA Affiliate" means, with respect to any Credit Party, any trade or business (whether or not incorporated) that, together with such Credit Party, are treated as a single employer within the meaning of Sections 414(b), (c), (m) or (o) of the IRC.

"ERISA Event" means, with respect to any Credit Party or any ERISA Affiliate, (a) any event described in Section 4043(c) of ERISA with respect to a Title IV Plan; (b) the withdrawal of any Credit Party or ERISA Affiliate from a Title IV Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (c) the complete or partial withdrawal of any Credit Party or any ERISA Affiliate from any Multiemployer Plan; (d) the filing of a notice of intent to terminate a Title IV Plan or the treatment of a plan amendment as a termination under Section 4041 of ERISA; (e) the institution of proceedings to terminate a Title IV Plan or Multiemployer Plan by the PBGC; (f) the failure by any Credit Party or ERISA Affiliate to make when due required contributions to a Multiemployer Plan or Title IV Plan unless such failure is cured within 30 days; (g) any other event or condition that might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Title IV Plan or Multiemployer Plan or for the imposition of liability under Section 4069 or 4212(c) of ERISA; (h) the termination of a Multiemployer Plan under Section 4041A of ERISA or the reorganization or insolvency of a Multiemployer Plan under Section 4241 or 4245 of ERISA; or (i) the loss of a Qualified Plan's qualification or tax exempt status; or (j) the termination of a Plan described in Section 4064 of ERISA.

"ESOP" means a Plan that is intended to satisfy the requirements of Section 4975(e)(7) of the IRC.

"Event of Default" has the meaning ascribed to it in Section 6.1.

"Excess Cash Flow" has the meaning ascribed to it in Schedule 2 to Exhibit 4.6(l).

"Fair Labor Standards Act" means the Fair Labor Standards Act, 29 U.S.C. Section 201 et seq.

"Federal Funds Rate" means, for any day, a floating rate equal to the weighted average of the rates on overnight federal funds transactions among members of the Federal Reserve System, as determined by Agent in its sole discretion, which determination shall be final, binding and conclusive (absent manifest error).

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System.

"Fees" means any and all fees payable to Agent or any Lender pursuant to the Agreement or any of the other Loan Documents.

"Financial Statements" means the consolidated and consolidating income statements, statements of cash flows and balance sheets of Borrower and its Subsidiaries delivered in accordance with Section 4.6.

"Fiscal Quarter" means any of the quarterly accounting periods of Borrower, ending on March 31, June 30, September 30, and December 31 of each year.

"Fiscal Year" means any of the annual accounting periods of Borrower ending on December 31 of each year.

"Fixed Charges" has the meaning ascribed to it in Section 4.3 of Schedule 1 to Exhibit 4.6(l).

"Fixed Charge Coverage Ratio" has the meaning ascribed to it in Section 4.3 of Schedule 1 to Exhibit 4.6(l).

"Fixtures" means all "fixtures" as such term is defined in the Code, now owned or hereafter acquired by any Credit Party.

"Foreign Lender" has the meaning ascribed to it in Section 1.9(c).

"Funded Debt" means, with respect to any Person, without duplication, all Indebtedness for borrowed money evidenced by notes, bonds, debentures, or similar evidences of Indebtedness and that by its terms matures more than one year from, or is directly or indirectly renewable or extendible at such Person's option under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of more than one year from the date of creation thereof, and specifically including Capital Lease Obligations, current maturities of long-term debt, revolving credit and short-term debt extendible beyond one year at the option of the debtor, and also including, in the case of Borrower, the average daily Revolving Loan Balance during the immediately preceding Fiscal month and all other Obligations (including Letter of Credit Obligations, but only to the extent that, at the time of measurement, such Letter of Credit Obligations exceed $10,000,000 in the aggregate and the amount of the Term Loan outstanding less cash or Cash Equivalents held by Borrower provided that such cash or Cash Equivalents are held in a bank account of Borrower that is subject to a blocked account agreement pursuant to the terms of Annex F hereof) and, without duplication, Guaranteed Indebtedness consisting of guaranties of Funded Debt of other Persons.

"Funding Date" has the meaning ascribed to it in Section 7.2.

"GAAP" means generally accepted accounting principles in the United States of America, consistently applied.

"GE Capital" has the meaning ascribed to it in the Preamble.

"GE Capital Fee Letter" has the meaning ascribed to it in Section 1.3(a).

"General Intangibles" means "general intangibles," as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, including all right, title and interest that such Credit Party may now or hereafter have in or under any Contractual Obligation, all payment intangibles, customer lists, Licenses, Copyrights, Trademarks, Patents, and all applications therefor and reissues, extensions or renewals thereof, rights in Intellectual Property, interests in partnerships, joint ventures and other business associations, licenses, permits, copyrights, trade secrets, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials and records, goodwill (including the goodwill associated with any Trademark or Trademark License), all rights and claims in or under insurance policies (including insurance for fire, damage, loss and casualty, whether covering personal property, real property, tangible rights or intangible rights, all liability, life, key man and business interruption insurance, and all unearned premiums), uncertificated securities, chooses in action, deposit, checking and other bank accounts, rights to receive tax refunds and other payments, rights to receive dividends, distributions, cash, Instruments and other property in respect of or in exchange for pledged Stock and Investment Property, rights of indemnification, all books and records, correspondence, credit files, invoices and other papers, including all tapes, cards, computer runs and other papers and documents in the possession or under the control of such Credit Party or any computer bureau or service company from time to time acting for such Credit Party.

"Goods" means any "goods," as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, wherever located, including embedded software to the extent included in "goods" as defined in the Code, manufactured homes, standing timber that is cut and removed for sale and unborn young of animals.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guaranteed Indebtedness" means, as to any Person, any obligation of such Person guaranteeing, providing comfort or otherwise supporting any Indebtedness, lease, dividend, or other obligation ("primary obligation") of any other Person (the "primary obligor") in any manner, including any obligation or arrangement of such Person to (a) purchase or repurchase any such primary obligation, (b) advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet condition of the primary obligor, (c) purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, (d) protect the beneficiary of such arrangement from loss (other than product warranties given in the ordinary course of business) or (e) indemnify the owner of such primary obligation against loss in respect thereof. The amount of any Guaranteed Indebtedness at any time shall be deemed to be an amount equal to the lesser

at such time of (x) the stated or determinable amount of the primary obligation in respect of which such Guaranteed Indebtedness is incurred and (y) the maximum amount for which such Person may be liable pursuant to the terms of the instrument embodying such Guaranteed Indebtedness, or, if not stated or determinable, the maximum reasonably anticipated liability (assuming full performance) in respect thereof.

"Guaranties" means, collectively, each Subsidiary Guaranty and any other guaranty executed by any Guarantor in favor of Agent and Lenders in respect of the Obligations.

"Guarantors" means each Subsidiary of Borrower and each other Person, if any, that executes a guaranty or other similar agreement in favor of Agent, for itself and the ratable benefit of Lenders, in connection with the transactions contemplated by the Agreement and the other Loan Documents.

"Hazardous Material" means any substance, material or waste that is regulated by, or forms the basis of liability now or hereafter under, any Environmental Laws, including any material or substance that is (a) defined as a "solid waste," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," "restricted hazardous waste," "pollutant," "contaminant," "hazardous constituent," "special waste," "toxic substance" or other similar term or phrase under any Environmental Laws, or (b) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB's), or any radioactive substance.

"Indebtedness" means, with respect to any Person, without duplication (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property payment for which is deferred six (6) months or more, but excluding obligations to trade creditors incurred in the ordinary course of business that are unsecured and not overdue by more than six (6) months unless being contested in good faith, (b) all reimbursement and other obligations with respect to letters of credit, bankers' acceptances and surety bonds, whether or not matured, (c) all obligations evidenced by notes, bonds, debentures or similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all Capital Lease Obligations and the present value (discounted at the Index Rate as in effect on the Closing Date) of future rental payments under all synthetic leases, (f) all obligations of such Person under commodity purchase or option agreements or other commodity price hedging arrangements, in each case whether contingent or matured, (g) all obligations of such Person under any foreign exchange contract, currency swap agreement, interest rate swap (including Interest Rate Agreements), cap or collar agreement or other similar agreement or arrangement designed to alter the risks of that Person arising from fluctuations in currency values or interest rates, in each case whether contingent or matured, (h) all Indebtedness referred to above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property or other assets (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, (i) without duplication to the extent

included above, all Subordinated Debt (regardless of when incurred); (j) "earnouts" and similar payment obligations, and (k) the Obligations.

"Indemnitees" has the meaning ascribed to it in Section 9.1.

"Index Rate" means, for any day, a floating rate equal to the higher of (i) the rate publicly quoted from time to time by The Wall Street Journal as the "base rate on corporate loans posted by at least 75% of the nation's 30 largest banks" (or, if The Wall Street Journal ceases quoting a base rate of the type described, the highest per annum rate of interest published by the Federal Reserve Board in Federal Reserve statistical release H.15 (519) entitled "Selected Interest Rates" as the Bank prime loan rate or its equivalent), and (ii) the Federal Funds Rate plus 50 basis points per annum. Each change in any interest rate provided for in the Agreement based upon the Index Rate shall take effect at the time of such change in the Index Rate.

"Index Rate Loan" means a Loan or portion thereof bearing interest by reference to the Index Rate.

"Instruments" means all "instruments," as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, wherever located, and, in any event, including all certificated securities, all certificates of deposit, and all promissory notes and other evidences of indebtedness, other than instruments that constitute, or are a part of a group of writings that constitute, Chattel Paper.

"Intellectual Property" means any and all Licenses, Patents, Copyrights, Trademarks, and the goodwill associated with such Trademarks.

"Intercompany Notes" has the meaning ascribed to it in Section 3.1.

"Interest Coverage Ratio" has the meaning ascribed to it in Section 4.4 of Schedule 1 to Exhibit 4.6(l).

"Interest Expense" has the meaning ascribed to it in Section 4.3 of Schedule 1 to Exhibit 4.6(l).

"Interest Payment Date" means (a) as to any Index Rate Loan, the first Business Day of each Fiscal Quarter to occur while such Loan is outstanding, and (b) as to any LIBOR Loan, the last day of the applicable LIBOR Period; provided, that in the case of any LIBOR Period greater than three months in duration, interest shall be payable at three month intervals and on the last day of such LIBOR Period; and provided further that, in addition to the foregoing, each of (x) the date upon which all of the Commitments have been terminated and the Loans have been paid in full and (y) the Commitment Termination Date shall be deemed to be an "Interest Payment Date" with respect to any interest that has then accrued under the Agreement.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or similar agreement or arrangement designed to

protect Borrower against fluctuations in interest rates entered into between Borrower and any Lender pursuant to Section 2.8.

"Inventory" means any "inventory," as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, wherever located, including inventory, merchandise, goods and other personal property that are held by or on behalf of any Credit Party for sale or lease or are furnished or are to be furnished under a contract of service, or that constitute raw materials, work in process, finished goods, returned goods, supplies or materials of any kind, nature or description used or consumed or to be used or consumed in such Credit Party's business or in the processing, production, packaging, promotion, delivery or shipping of the same, including all supplies and embedded software.

"Investment" means (i) any direct or indirect purchase or other acquisition by Borrower or any of its Subsidiaries of any Stock, or other ownership interest in, any other Person, and (ii) any direct or indirect loan, advance or capital contribution by Borrower or any of its Subsidiaries to any other Person, including all indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business.

"Investment Property" means all "investment property," as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, wherever located, including: (i) all securities, whether certificated or uncertificated, including stocks, bonds, interests in limited liability companies, partnership interests, treasuries, certificates of deposit, and mutual fund shares; (ii) all securities entitlements of any Credit Party, including the rights of such Credit Party to any securities account and the financial assets held by a securities intermediary in such securities account and any free credit balance or other money owing by any securities intermediary with respect to that account; (iii) all securities accounts of any Credit Party; (iv) all commodity contracts of any Credit Party; and (v) all commodity accounts held by any Credit Party.

"IRC" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

"IRS" means the Internal Revenue Service.

"L/C Issuer" means GE Capital or a Subsidiary thereof or a bank or other legally authorized Person selected by or acceptable to Agent in its sole discretion, in such Person's capacity as an issuer of Letters of Credit hereunder.

"L/C Sublimit" has the meaning ascribed to it in Section 1.1(d).

"Lenders" means GE Capital, the other Lenders named on the signature pages of the Agreement, and, if any such Lender shall decide to assign all or any portion of the Obligations, such term shall include any assignee of such Lender.

"Letters of Credit" means documentary or standby letters of credit issued for the account of Borrower by L/C Issuers, and bankers' acceptances issued by Borrower, for which Agent and Lenders have incurred Letter of Credit Obligations.

"Letter of Credit Fee" has the meaning ascribed to it in Section 1.3(d).

"Letter of Credit Obligations" means all outstanding obligations incurred by Agent and Lenders at the request of Borrower, whether direct or indirect, contingent or otherwise, due or not due, in connection with the issuance of Letters of Credit by L/C Issuers or the purchase of a participation as set forth in Section 1.1(d) with respect to any Letter of Credit. The amount of such Letter of Credit Obligations shall equal the maximum amount that may be payable by Agent and Lenders thereupon or pursuant thereto.

"Leverage Ratio" has the meaning ascribed to it in Section 4.6 of Schedule 1 to Exhibit 4.6(l).

"LIBOR Breakage Fee" means an amount equal to the amount of any actual losses, expenses, liabilities (including, without limitation, any actual loss (including interest paid) in connection with the re-employment of such funds, but specifically excluding any profit based on last opportunity cost) that any Lender may sustain as a result of (i) any default by Borrower in making any borrowing of, conversion into or continuation of any LIBOR Loan following Borrower's delivery to Agent of any LIBOR Loan request in respect thereof or (ii) any payment of a LIBOR Loan on any day that is not the last day of the LIBOR Period applicable thereto (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise). For purposes of calculating amounts payable to a Lender under Section 1.3(d), each Lender shall be deemed to have actually funded its relevant LIBOR Loan through the purchase of a deposit bearing interest at LIBOR in an amount equal to the amount of that LIBOR Loan and having a maturity and repricing characteristics comparable to the relevant LIBOR Period; provided, however, that each Lender may fund each of its LIBOR Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under Section 1.3(d).

"LIBOR Business Day" means a Business Day on which banks in the City of London are generally open for interbank or foreign exchange transactions.

"LIBOR Loans" means a Loan or any portion thereof bearing interest by reference to the LIBOR Rate.

"LIBOR Period" means, with respect to any LIBOR Loan, each period commencing on a LIBOR Business Day selected by Borrower pursuant to the Agreement and ending one, two, three or six months thereafter, as selected by Borrower's irrevocable notice to Agent as set forth in Section 1.2(e); provided, that the foregoing provision relating to LIBOR Periods is subject to the following:

(a) if any LIBOR Period would otherwise end on a day that is not a LIBOR Business Day, such LIBOR Period shall be extended to the next succeeding LIBOR

Business Day unless the result of such extension would be to carry such LIBOR Period into another calendar month in which event such LIBOR Period shall end on the immediately preceding LIBOR Business Day;

(b) any LIBOR Period that would otherwise extend beyond the date set forth in clause (a) of the definition of "Commitment Termination Date" shall end two (2) LIBOR Business Days prior to such date;

(c) any LIBOR Period that begins on the last LIBOR Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such LIBOR Period) shall end on the last LIBOR Business Day of a calendar month;

(d) Borrower shall select LIBOR Periods so as not to require a payment or prepayment of any LIBOR Loan during a LIBOR Period for such Loan;

(e) Borrower shall select LIBOR Periods so that there shall be no more than 5 separate LIBOR Loans in existence at any one time; and

(g) no LIBOR Period may be selected for any portion of the Term Loan if a Scheduled Installment for such Term Loan is payable during such LIBOR Period and the portion of such Term Loan which constitutes an Index Rate Loan does not equal or exceed the amount of such Scheduled Installment.

"LIBOR Rate" means for each LIBOR Period, a rate of interest determined by Agent equal to:

(a) the offered rate for deposits in United States Dollars for the applicable LIBOR Period that appears on Telerate Page 3750 as of 11:00 a.m. (London time), on the second full LIBOR Business Day next preceding the first day of such LIBOR Period (unless such date is not a Business Day, in which event the next succeeding Business Day will be used); divided by

(b) a number equal to 1.0 minus the aggregate (but without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on the day that is two (2) LIBOR Business Days prior to the beginning of such LIBOR Period (including basic, supplemental, marginal and emergency reserves under any regulations of the Federal Reserve Board or other Governmental Authority having jurisdiction with respect thereto, as now and from time to time in effect) for Eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Federal Reserve Board that are required to be maintained by a member bank of the Federal Reserve System.

If such interest rates shall cease to be available from Telerate News Service, the LIBOR Rate shall be determined from such financial reporting service or other information as shall be available to Agent.

"License" means any Copyright License, Patent License, Trademark License or other license of rights or interests now held or hereafter acquired by any Credit Party.

"Lien" means any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the Code or comparable law of any jurisdiction).

"Litigation" has the meaning ascribed to it in Section 4.6(i).

"Loan Account" has the meaning ascribed to it in Section 1.7.

"Loan Documents" means the Agreement, the Notes, the Collateral Documents, the GE Capital Fee Letter and all other agreements, instruments, documents and certificates identified in the Closing Checklist executed and delivered to, or in favor of, Agent or any Lenders and including all other pledges, powers of attorney, consents, assignments, contracts, notices, and all other written matter whether heretofore, now or hereafter executed by or on behalf of any Credit Party, or any employee of any Credit Party, and delivered to Agent or any Lender in connection with the Agreement or the transactions contemplated thereby. Any reference in the Agreement or any other Loan Document to a Loan Document shall include all appendices, exhibits or schedules thereto, and all amendments, restatements, supplements or other modifications thereto, and shall refer to the Agreement or such Loan Document as the same may be in effect at any and all times such reference becomes operative.

"Loans" means the Revolving Loan, the Swing Line Loan and the Term Loan(s).

"Master Documentary Agreement" means the Master Agreement for Documentary Letters of Credit dated as of the Closing Date between Borrower, as Applicant, and GE Capital, as Issuer.

"Master Standby Agreement" means the Master Agreement for Standby Letters of Credit dated as of the Closing Date between Borrower, as Applicant, and GE Capital, as Issuer.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, or financial or other condition of the Borrower or the Credit Parties and their Subsidiaries considered as a whole, (b) Borrower's ability to pay any of the Loans or any of the other Obligations in accordance with the terms of the Agreement, (c) the Collateral or Agent's Liens, on behalf of itself and Lenders, on the Collateral or the priority of such Liens, or (d) Agent's or any Lender's rights and remedies under the Agreement and the other Loan Documents.

"Maximum Amount" means, as of any date of determination, an amount equal to the Revolving Loan Commitment of all Lenders as of that date.

"Maximum Lawful Rate" has the meaning ascribed to it in Section 1.2(f).

"Moody's" means Moody's Investor's Services, Inc.

"Mortgages" means each of the mortgages, deeds of trust, leasehold mortgages, leasehold deeds of trust, collateral assignments of leases or other real estate security documents, if any, delivered by any Credit Party to Agent on behalf of itself and Lenders with respect to the Real Estate.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA, and to which any Credit Party or ERISA Affiliate is making, is obligated to make or has made or been obligated to make, contributions on behalf of participants who are or were employed by any of them.

"Net Proceeds" means cash proceeds received by Borrower or any of its Subsidiaries from any Asset Disposition (including insurance proceeds, awards of condemnation, and payments under notes or other debt securities received in connection with any Asset Disposition), net of (a) the costs of such Asset Disposition (including taxes attributable to such sale, lease or transfer) and (b) amounts applied to repayment of Indebtedness (other than the Obligations) secured by a Lien on the asset or property disposed.

"Non-Consenting Lender" has the meaning ascribed to it in Section 9.19(c).

"Non-Funding Lender" has the meaning ascribed to it in Section 8.5(a).

"Notes" means, collectively, the Revolving Notes, the Swing Line Note and the Term Notes.

"Notice of Conversion/Continuation" has the meaning ascribed to it in Section 1.2(e).

"Notice of Revolving Credit Advance" has the meaning ascribed to it in Section 1.1(b).

"Obligations" means all loans, advances, debts, liabilities and obligations, for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or such amounts are liquidated or determinable), including obligations pursuant to Interest Rate Agreements and Letter of Credit Obligations, owing by any Credit Party to Agent or any Lender under any of the Loan Documents, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, arising under the Agreement or any of the other Loan Documents. This term includes all principal, interest (including all interest that accrues after the commencement of any case or proceeding by or against any Credit Party in bankruptcy, whether or not allowed in such case or proceeding), Fees, Charges, expenses, attorneys' fees and any other sum chargeable to any Credit Party under the Agreement or any of the other Loan Documents.

"Other Lender" has the meaning ascribed to it in Section 8.5(d).

"Overadvance" has the meaning ascribed to it in Section 1.1.

"Patent License" means rights under any written agreement now owned or hereafter acquired by any Credit Party granting any right with respect to any invention on which a Patent is in existence.

"Patents" means all of the following in which any Credit Party now holds or hereafter acquires any interest: (a) all letters patent of the United States or any other country, all registrations and recordings thereof, and all applications for letters patent of the United States or of any other country, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State or any other country, and (b) all reissues, continuations, continuations-in-part or extensions thereof.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Plan" means a Plan described in Section 3(2) of ERISA.

"Permitted Encumbrances" means the following encumbrances: (a) Liens for taxes or assessments or other governmental Charges not yet due and payable; (b) pledges or deposits of money securing statutory obligations under workmen's compensation, unemployment insurance, social security or public liability laws or similar legislation (excluding Liens under ERISA); (c) pledges or deposits of money securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which any Credit Party is a party as lessee made in the ordinary course of business; (d) inchoate and unperfected workers', mechanics' or similar liens arising in the ordinary course of business; (e) carriers', warehousemen's, suppliers' or other similar possessory liens arising in the ordinary course of business and securing liabilities in an outstanding aggregate amount not in excess of $200,000 at any time; (f) deposits securing, or in lieu of, surety, appeal or customs bonds in proceedings to which any Credit Party is a party; (g) any attachment or judgment lien not constituting an Event of Default under Section 6.1; (h) zoning restrictions, easements, licenses, or other restrictions on the use of any Real Estate or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value, or marketability of such Real Estate; (i) presently existing or hereafter created Liens in favor of Agent, on behalf of Lenders; (j) Liens existing on the date hereof and renewal, and extensions thereof which Liens are set forth on Schedule 3.2; and (k) Liens securing Indebtedness permitted by Section 3.1(d) provided that the Liens attach only to the assets financed by such Indebtedness and any proceeds thereof; (l) common law security interests of a surety in the actual proceeds of a project subject to the underlying surety bond provided by such surety; and (m) inchoate Liens arising under ERISA to secure Contingent Liabilities of any Credit Party.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, other entity or government (whether federal, state, county,

city, municipal, local, foreign, or otherwise, including any instrumentality, division, agency, body or department thereof).

"Plan" means, at any time, an "employee benefit plan," as defined in Section 3(3) of ERISA, that any Credit Party or ERISA Affiliate maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any Credit Party.

"Pledge Agreement" means the Pledge Agreement of even date herewith executed by, to the extent applicable, Borrower's Subsidiaries, in favor of Agent, on behalf of itself and Lenders, pledging all Stock of their respective Subsidiaries.

"Pledge Agreements" means the Borrower Pledge Agreement, the Pledge Agreement, and any other pledge agreement entered into after the Closing Date by any Credit Party.

"Prior Lender" means the syndicate of Lenders for which Bank One, N.A. serves as agent.

"Prior Lender Obligations" means any and all obligations of the Borrower to the Prior Lender.

"Pro Forma" means the unaudited consolidated and consolidating balance sheets of Borrower and its Subsidiaries prepared in accordance with GAAP as of August 31 after giving effect to the Related Transactions. The Pro Forma is annexed hereto as Annex D.

"Pro Rata Share" means with respect to all matters relating to any Lender (a) with respect to the Revolving Loan, the percentage obtained by dividing (i) the Revolving Loan Commitment of that Lender by (ii) the aggregate Revolving Loan Commitments of all Lenders, (b) with respect to the Term Loan, the percentage obtained by dividing (i) the Term Loan Commitment of that Lender by (ii) the aggregate Term Loan Commitments of all Lenders, (c) with respect to all Loans, the percentage obtained by dividing (i) the aggregate Commitments of that Lender by (ii) the aggregate Commitments of all Lenders, and (d) with respect to all Loans on and after the Commitment Termination Date, the percentage obtained by dividing (i) the aggregate outstanding principal balance of the Loans held by that Lender, by (ii) the outstanding principal balance of the Loans held by all Lenders, as any such percentages may be adjusted by assignments pursuant to Section 8.1.

"Projections" means Borrower's forecasted consolidated: (a) balance sheets; (b) profit and loss statements; (c) cash flow statements; and (d) capitalization statements, and otherwise consistent with the historical Financial Statements of Borrower, together with appropriate supporting details and a statement of underlying assumptions.

"Proposed Change" has the meaning ascribed to it in Section 9.19(c).

"Qualified Assignee" means (a) any Lender, any Affiliate of any Lender and, with respect to any Lender that is an investment fund that invests in commercial loans, any other

investment fund that invests in commercial loans and that is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor, and (b) any commercial bank, savings and loan association or savings bank or any other entity which is an "accredited investor" (as defined in Regulation D under the Securities Act of 1933) which extends credit or buys loans as one of its businesses, including insurance companies, mutual funds, lease financing companies and commercial finance companies, in each case, which has a rating of BBB or higher from S&P and a rating of Baa2 or higher from Moody's at the date that it becomes a Lender and which, through its applicable lending office, is capable of lending to Borrower without the imposition of any withholding or similar taxes; provided that no Person determined by Agent to be acting in the capacity of a vulture fund or distressed debt purchaser shall be a Qualified Assignee and no Person or Affiliate of such Person (other than a Person that is already a Lender) holding Subordinated Debt or Stock issued by any Credit Party shall be a Qualified Assignee.

"Qualified Plan" means a Pension Plan that is intended to be tax-qualified under Section 401(a) of the IRC.

"Real Estate" has the meaning ascribed to it in Section 5.12.

"Refinancing" means the repayment in full by Borrower of the Prior Lender Obligations on the Closing Date.

"Refunded Swing Line Loan" has the meaning ascribed to it in Section 1.1(c)(iii).

"Related Transactions" means the initial borrowing under the Revolving Loan and the Term Loan on the Closing Date, the Refinancing, the payment of all Fees, costs and expenses associated with all of the foregoing and the execution and delivery of all of the Related Transactions Documents.

"Related Transactions Documents" means the Loan Documents and all other agreements or instruments executed in connection with the Related Transactions.

"Release" means any release, threatened release, spill, emission, leaking, pumping, pouring, emitting, emptying, escape, injection, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Material in the indoor or outdoor environment, including the movement of Hazardous Material through or in the air, soil, surface water, ground water or property.

"Replacement Lender" has the meaning ascribed to it in Section 9.19(a).

"Requisite Lenders" means Lenders having (a) more than 66 2/3% of the Commitments of all Lenders, or (b) if the Commitments have been terminated, more than 66 2/3% of the aggregate outstanding amount of the Loans; provided, however, that if there shall be more than one Lender, "Requisite Lenders" shall at all times require at least two (2) Lenders.

"Requisite Revolving Lenders" means Lenders having (a) more than 66 2/3% of the Revolving Loan Commitments of all Lenders, or (b) if the Revolving Loan Commitments have been terminated, more than 66 2/3% of the aggregate outstanding amount of the Revolving Loan (with the Swing Line Loan being attributed to the Lender making such Loan); provided, however, that if there shall be more than one Revolving Lender, "Requisite Revolving Lenders" shall at all times require at least two (2) Revolving Lenders.

"Restricted Payment" means, with respect to any Credit Party (a) the declaration or payment of any dividend or the incurrence of any liability to make any other payment or distribution of cash or other property or assets in respect of Stock; (b) any payment on account of the purchase, redemption, defeasance, sinking fund or other retirement of such Credit Party's Stock or any other payment or distribution made in respect thereof, either directly or indirectly; (c) any payment or prepayment of principal of, premium, if any, or interest, fees or other charges on or with respect to, and any redemption, purchase, retirement, defeasance, sinking fund or similar payment and any claim for rescission with respect to, any Subordinated Debt; (d) any payment made to redeem, purchase, repurchase or retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire Stock of such Credit Party now or hereafter outstanding; (e) any payment of a claim for the rescission of the purchase or sale of, or for material damages arising from the purchase or sale of, any shares of such Credit Party's Stock or of a claim for reimbursement, indemnification or contribution arising out of or related to any such claim for damages or rescission; (f) any payment, loan, contribution, or other transfer of funds or other property to any Stockholder of such Credit Party other than (1) payment of compensation in the ordinary course of business to Stockholders who are employees of such Credit Party and fees to Members of the Borrower's Board of Directors who are not also employees for service on the Borrower's Board of Directors and (2) payment for goods or services provided in the ordinary course of business, on an arms length basis, and, if to an Affiliate, in compliance with the provisions of Section 3.8 of the Agreement.

"Retiree Welfare Plan" means, at any time, a Welfare Plan that provides for continuing coverage or benefits for any participant or any beneficiary of a participant after such participant's termination of employment, other than continuation coverage provided pursuant to Section 4980B of the IRC and at the sole expense of the participant or the beneficiary of the participant.

"Revolving Credit Advance" has the meaning ascribed to it in Section 1.1(b).

"Revolving Lenders" means those Lenders having a Revolving Loan Commitment.

"Revolving Loan(s)" means, at any time, the sum of (i) the aggregate amount of Revolving Credit Advances outstanding to Borrower (including Swing Line Advances) plus (ii) the aggregate Letter of Credit Obligations incurred on behalf of Borrower. Unless the context otherwise requires, references to the outstanding principal balance of the Revolving Loan shall include the outstanding balance of Letter of Credit Obligations.

"Revolving Loan Commitment" means (a) as to any Lender, the commitment of such Lender to make its Pro Rata Share of Revolving Credit Advances or incur its Pro Rata Share of Letter of Credit Obligations (including, in the case of the Swing Line Lender, its commitment to make Swing Line Advances as a portion of its Revolving Loan Commitment) as set forth on Annex B or in the most recent Assignment Agreement, if any, executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make the Revolving Credit Advances (including, in the case of the Swing Line Lender, Swing Line Advances) or incur Letter of Credit Obligations, which aggregate commitment shall be Forty Million Dollars ($40,000,000) on the Closing Date, as such amount may be adjusted, if at all, from time to time in accordance with the Agreement.

"Revolving Notes" has the meaning ascribed to it in Section 1.1(b).

"S&P" means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc.

"Scheduled Installments" has the meaning ascribed to it in Section 1.1(a).

"Security Agreement" means the Security Agreement of even date herewith entered into by and among Agent, on behalf of itself and Lenders, and each Credit Party that is a signatory thereto.

"Settlement Date" has the meaning ascribed to it in Section 8.5(a)(ii).

"Software" means all "software" as such term is defined in the Code, now owned or hereafter acquired by any Credit Party, other than software embedded in any category of Goods, including all computer programs and all supporting information provided in connection with a transaction related to any program.

"Solvent" means, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including subordinated and contingent liabilities, of such Person; (b) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts and liabilities, including subordinated and contingent liabilities as they become absolute and matured; (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature; and (d) such Person is not engaged in a business or transaction, and is not about to engage in a business or transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities (such as Litigation, guaranties and pension plan liabilities) at any time shall be computed as the amount that, in light of all the facts and circumstances existing at the time, represents the amount that can be reasonably be expected to become an actual or matured liability.

"Statement" has the meaning ascribed to it in Section 4.6(b).

"Stock" means all shares, options, warrants, general or limited partnership interests, membership interests or other equivalents (regardless of how designated) of or in a corporation, partnership, limited liability company or equivalent entity whether voting or nonvoting, including common stock, preferred stock or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934).

"Stockholder" means, with respect to any Person, each holder of Stock of such Person.

"Subordinated Debt" means the unsecured, subordinated Indebtedness set forth on Schedule A (all of which subordinated Indebtedness constitutes so-called "seller paper" and shall have been incurred in connection with acquisitions completed prior to the Closing Date), and any other unsecured Indebtedness incurred as so-called "seller paper" in connection with Permitted Acquisitions consummated in compliance with Section 3.6 and subordinated to the Obligations in a manner and form satisfactory to Agent, as to the right and time of payment and as to any and all other rights and remedies thereunder.

"Subordinated Loan Documents" means any and all notes, indentures, agreements, instruments and other documents evidencing, governing or otherwise relating to any Subordinated Debt.

"Subsidiary" means, with respect to any Person, (a) any corporation of which an aggregate of more than 50% of the outstanding Stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, owned legally or beneficially by such Person or one or more Subsidiaries of such Person, or with respect to which any such Person has the right to vote or designate the vote of 50% or more of such Stock whether by proxy, agreement, operation of law or otherwise, and (b) any partnership or limited liability company in which such Person and/or one or more Subsidiaries of such Person shall have an interest (whether in the form of voting or participation in profits or capital contribution) of more than 50% or of which any such Person is a general partner or may exercise the powers of a general partner. Unless the context otherwise requires, each reference to a Subsidiary shall be a reference to a Subsidiary of the Borrower.

"Subsidiary Guaranty" means the Subsidiary Guaranty of even date herewith executed by one or more Subsidiaries of Borrower in favor of Agent, on behalf of itself and Lenders.

"Swing Line Advance" has the meaning ascribed to it in Section 1.1(c).

"Swing Line Availability" has the meaning ascribed to it in Section 1.1(c).

"Swing Line Commitment" means the commitment of the Swing Line Lender to make Swing Line Advances as set forth on Annex B to the Agreement, which commitment constitutes a subfacility of the Revolving Loan Commitment of the Swing Line Lender.

"Swing Line Lender" means GE Capital.

"Swing Line Loan" means at any time, the aggregate amount of Swing Line Advances outstanding to Borrower.

"Swing Line Note" has the meaning ascribed to it in Section 1.1(c).

"Termination Date" means the date on which (a) the Loans have been indefeasibly repaid in full, (b) all other Obligations under the Agreement and the other Loan Documents have been completely discharged, (c) all Letter of Credit Obligations have been cash collateralized in the amount set forth in Section 1.5(f), cancelled or backed by standby letters of credit acceptable to Agent and (d) Borrower shall not have any further right to borrow any monies under the Agreement.

"Term Lenders" means those Lenders having Term Loan Commitments.

"Term Loan" has the meaning ascribed to it in Section 1.1(a).

"Term Note" has the meaning ascribed to it in Section 1.1(a).

"Term Loan Commitment" means (a) as to any Lender, the commitment of such Lender to make its Pro Rata Share of the Term Loan (as set forth on Annex B) in the maximum aggregate amount set forth in Section 1.1(a) or in the most recent Assignment Agreement, if any, executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make the Term Loan, which aggregate commitment shall be Fifteen Million Dollars ($15,000,000) on the Closing Date, as such amount may be adjusted from time to time in accordance with the Agreement.

"Title IV Plan" means a Pension Plan (other than a Multiemployer Plan), that is covered by Title IV of ERISA, and that any Credit Party or ERISA Affiliate maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Trademark Security Agreements" means the Trademark Security Agreements made in favor of Agent, on behalf of itself and Lenders, by each applicable Credit Party.

"Trademark License" means rights under any written agreement now owned or hereafter acquired by any Credit Party granting any right to use any Trademark.

"Trademarks" means all of the following now owned or hereafter adopted or acquired by any Credit Party: (a) all trademarks, trade names, corporate names, business names, trade styles, service marks, logos, internet domain names, other source or business identifiers,

prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of like nature (whether registered or unregistered), all registrations and recordings thereof, and all applications in connection therewith, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state or territory thereof, or any other country or any political subdivision thereof; (b) all reissues, extensions or renewals thereof; and (c) all goodwill associated with or symbolized by any of the foregoing.

"Unfunded Pension Liability" means, at any time, the aggregate amount, if any, of the sum of (a) the amount by which the present value of all accrued benefits under each Title IV Plan exceeds the fair market value of all assets of such Title IV Plan allocable to such benefits in accordance with Title IV of ERISA, all determined as of the most recent valuation date for each such Title IV Plan using the actuarial assumptions for funding purposes in effect under such Title IV Plan, and (b) for a period of 5 years following a transaction which might reasonably be expected to be covered by Section 4069 of ERISA, the liabilities (whether or not accrued) that could be avoided by any Credit Party or any ERISA Affiliate as a result of such transaction.

"Welfare Plan" means a Plan described in Section 3(1) of ERISA.

Rules of construction with respect to accounting terms used in the Agreement or the other Loan Documents shall be as set forth or referred to in this Annex A. All other undefined terms contained in any of the Loan Documents shall, unless the context indicates otherwise, have the meanings provided for by the Code to the extent the same are used or defined therein; in the event that any term is defined differently in different Articles or Divisions of the Code, the definition contained in Article or Division 9 shall control. Unless otherwise specified, references in the Agreement or any of the Appendices to a Section, subsection or clause refer to such Section, subsection or clause as contained in the Agreement. The words "herein," "hereof" and "hereunder" and other words of similar import refer to the Agreement as a whole, including all Annexes, Exhibits and Schedules, as the same may from time to time be amended, restated, modified or supplemented, and not to any particular section, subsection or clause contained in the Agreement or any such Annex, Exhibit or Schedule.

Wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and neuter genders. The words "including", "includes" and "include" shall be deemed to be followed by the words "without limitation"; the word "or" is not exclusive; references to Persons include their respective successors and assigns (to the extent and only to the extent permitted by the Loan Documents) or, in the case of governmental Persons, Persons succeeding to the relevant functions of such Persons; and all references to statutes and related regulations shall include any amendments of the same and any successor statutes and regulations. Whenever any provision in any Loan Document refers to the knowledge (or an analogous phrase) of any Credit Party, such words are intended to signify that such Credit Party has actual knowledge or awareness of a particular material fact or circumstance or that such Credit Party, if it had exercised reasonable diligence, would have known or been aware of such material fact or circumstance.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ORIGINALLY ISSUED ON OCTOBER 11, 2002. THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER EITHER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR APPLICABLE STATE SECURITIES LAWS (THE "STATE ACTS"), AND SHALL NOT BE SOLD, PLEDGED, HYPOTHECATED, DONATED OR OTHERWISE TRANSFERRED (WHETHER OR NOT FOR CONSIDERATION) BY THE HOLDER EXCEPT BY REGISTRATION OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UPON THE ISSUANCE TO THE COMPANY OF A FAVORABLE OPINION OF COUNSEL OR OTHER EVIDENCE REASONABLY SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER SHALL NOT BE A VIOLATION OF THE 1933 ACT AND THE STATE ACTS.

COMFORT SYSTEMS USA, INC.

STOCK PURCHASE WARRANT AND REPURCHASE AGREEMENT

Date of Issuance: October 11, 2002 Certificate No. W1

FOR VALUE RECEIVED, COMFORT SYSTEMS USA, INC., a Delaware corporation (the "Company"), hereby grants to GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation (the "Purchaser"), or its permitted assigns (the holder of this Stock Purchase Warrant and Repurchase Agreement (this "Warrant") is referred to as the "Holder"), the right to purchase from the Company 409,051 shares of the Company's Warrant Stock, representing 1% of the fully diluted equity interests of the Company (excluding stock options with an exercise price equal to or greater than ten dollars ($10.00) per share) on the date of this Warrant, at a purchase price per share of $0.01 (the "Exercise Price"). Certain capitalized terms used herein are defined in Section 6 hereof and elsewhere herein. This Warrant was issued pursuant to the terms of that certain Credit Agreement, dated as of even date herewith, among the Company, the Purchaser, the other Credit Parties party thereto, and the lenders signatory thereto from time to time (as amended, restated, supplemented and modified from time to time, the "Credit Agreement"). Capitalized terms used in this Warrant but not defined herein shall have the meanings set forth in the Credit Agreement, including Annex A thereof.

The amount and kind of securities issuable pursuant to the rights granted hereunder and the purchase price for such securities are subject to adjustment pursuant to the provisions contained in this Warrant.

This Warrant is subject to the following provisions:

Section 1. Exercise of Warrant.

1A. Exercise Period. The Holder may exercise, in whole or in part, the purchase rights represented by this Warrant at any time and from time to time after the Date of

Issuance to and including the later of (i) the fifth anniversary of the Date of Issuance and (ii) 30 days after the date on which the Obligations shall have been paid in full in cash (the "Exercise Period"). The Company shall give the Holder written notice of the expiration of the Exercise Period at least 30 days but not more than 90 days prior to the end of the Exercise Period.

1B. Exercise Procedure.

(i) This Warrant shall be deemed to have been exercised when the Company has received all of the following items (the "Exercise Time"):

(a) a completed Exercise Agreement, as described in Section 1C below and in the form substantially as set forth in Exhibit I hereto, executed by the Person exercising all or part of the purchase rights represented by this Warrant;

(b) this Warrant (except in the event the Holder does not have possession due to a default by the Company of its obligations to issue a new Warrant as required under subsection 1(B)(ii) hereof);

(c) if the Holder of this Warrant is not the Purchaser, an Assignment or Assignments in the form set forth in Exhibit II hereto evidencing the assignment of this Warrant to the Holder, in which case the Holder shall have complied with the provisions set forth in Section 8 hereof; and

(d) any of the following (1) a cashier's or certified check payable to the Company in an amount equal to the product of the Exercise Price multiplied by the number of shares of Warrant Stock being purchased upon such exercise (the "Aggregate Exercise Price"), (2) the surrender to the Company of equity securities of the Company having a Market Price equal to the Aggregate Exercise Price of the Warrant Stock being purchased upon such exercise, (3) a written notice to the Company that the Holder is exercising this Warrant (or a portion thereof) by authorizing the Company to reduce the outstanding principal balance of any debt instrument of the Company held by the Holder (including, without limitation, under the Credit Agreement) by an amount equal to the Aggregate Exercise Price of the Warrant Stock being purchased upon such exercise, (4) a written notice to the Company that the Holder is exercising this Warrant (or a portion thereof) by authorizing the Company to withhold from issuance a number of shares of Warrant Stock issuable upon such exercise of this Warrant which when multiplied by the Market Price of the Warrant Stock is equal to the Aggregate Exercise Price (and such withheld shares shall no longer be issuable under this Warrant) or (5) any combination of the foregoing.

(ii) Certificates for shares of Warrant Stock purchased upon exercise of this Warrant shall be delivered by the Company to the Holder within five (5) Business Days after the date of the Exercise Time. Unless this Warrant has expired or all of the purchase rights represented hereby have been exercised, the Company shall prepare a new Warrant, substantially identical hereto, representing the rights formerly represented by this Warrant which have not expired or been exercised and shall, within such five-day period, deliver such new Warrant to the Person designated for delivery in the Exercise Agreement. In addition, the Company shall prepare and deliver a new Warrant as aforesaid in connection with the exercise by the Holder of its right to require the Company to repurchase less than the entire Warrant in accordance with Section 5 hereof.

(iii) The Warrant Stock issuable upon the exercise of this Warrant shall be deemed to have been issued to the Holder at the Exercise Time, and the Holder shall be deemed for all purposes to have become the record holder of such Warrant Stock at the Exercise Time regardless of any failure of the Company to deliver to Holder or such other Person certificates for Warrant Stock issuable upon exercise of this Warrant.

(iv) The issuance of certificates for shares of Warrant Stock upon exercise of this Warrant shall be made without charge to the Holder for any issuance tax in respect thereof or other cost incurred by the Company in connection with such exercise and the related issuance of shares of Warrant Stock. Each share of Warrant Stock issuable upon exercise of this Warrant shall, upon payment of the Exercise Price therefor, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes and Liens, other than Liens, if any, which the Holder has incurred through actions it has taken.

(v) The Company shall not close its books against the transfer of this Warrant or of any share of Underlying Warrant Stock in any manner which interferes with the timely exercise of this Warrant. The Company shall from time to time take all such action as may be necessary to assure that the par value per share of the unissued Warrant Stock issuable upon exercise of this Warrant is at all times equal to or less than the sum of the Exercise Price then in effect.

(vi) The Company shall assist and cooperate with the Holder in making any required governmental filings or obtaining any governmental approvals prior to or in connection with any exercise of this Warrant (including, without limitation, making any filings required to be made by the Company).

(vii) Notwithstanding any other provision hereof, if an exercise of any portion of this Warrant is to be made in connection with a Public Offering or a Change of Control, the exercise of all or any portion of this Warrant may, at the election of the Holder, be conditioned upon the consummation of the Public Offering or a Change of Control, in which case such exercise shall not be deemed to be effective until the consummation of such transaction.

(viii) The Company shall at all times reserve and keep available out of its authorized but unissued shares of Warrant Stock solely for the purpose of issuance upon the exercise of this Warrant, such number of shares of Warrant Stock as may from time to time be

issuable upon the exercise of the entire outstanding portion of this Warrant. The Company shall take all such actions as may be necessary to assure that all such shares of Warrant Stock may be so issued without violation of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Warrant Stock may be listed (except for official notice of issuance which shall be immediately delivered by the Company upon each such issuance). The Company shall not take any action which would cause the number of authorized but unissued shares of Warrant Stock to be less than the number of such shares required to be reserved hereunder for issuance upon exercise of this Warrant.

1C. Exercise Agreement. The Exercise Agreement shall be substantially in the form set forth in Exhibit I hereto, except that if the shares of Warrant Stock are not to be issued in the name of the Person in whose name this Warrant is registered, the Exercise Agreement shall also state the name of the Person to whom the certificates for the shares of Warrant Stock are to be issued, and if the number of shares of Warrant Stock to be issued does not include all the shares of Warrant Stock issuable hereunder, it shall also state the name of the Person to whom a new Warrant for the unexercised portion of the rights hereunder is to be delivered. Such Exercise Agreement shall be dated the actual date of execution thereof.

1D. Effect of Exercise. Upon exercise of this Warrant, the Company shall stamp "EXERCISED" on the face of this Warrant and return the original Warrant (together with a new Warrant if and as required under subsection 1(B)(ii)) to the Holder, it being understood that all of the Holder's and the Company's rights and obligations under this Warrant shall survive the exercise hereof.

Section 2. Adjustment of Number of Shares. In order to prevent dilution of the rights granted under this Warrant the number of shares of Warrant Stock issuable upon exercise of this Warrant shall be subject to adjustment from time to time as provided in this Section 2.

2A. Share Revision Price and Adjustment of Number of Shares upon Certain Issuances of Common Stock.

(i) If and whenever on or after the Date of Issuance the Company issues or sells, or in accordance with Section 2B is deemed to have issued or sold, any shares of Common Stock for a consideration per share less than the Market Price of the Common Stock determined as of the date of such issue or sale (or deemed issue or sale) (excluding shares issued in connection with Options outstanding as of the Date of Issuance), then immediately upon such issue or sale the number of shares of Warrant Stock issuable pursuant to this Warrant shall be adjusted to the number of shares determined by multiplying the Exercise Price by the number of shares of Warrant Stock issuable upon exercise of this Warrant immediately prior to such adjustment and dividing the product thereof by the Share Revision Price. For purposes hereof, the "Share Revision Price" shall be determined by multiplying the Exercise Price by a fraction, the numerator of which shall be the sum of (1) the number of shares of Common Stock Deemed Outstanding immediately prior to such issue or sale (or deemed issue or sale) multiplied by the Market Price of the Common Stock determined as of the date of such issuance or sale (or deemed issuance or sale), plus (2) the consideration, if any, received by the Company upon such issue or sale, and the denominator of which shall be the product derived by multiplying the

Market Price of the Common Stock by the number of shares of Common Stock Deemed Outstanding immediately after such issue or sale.

(ii) Notwithstanding the foregoing, there shall be no adjustment to the number of shares of Warrant Stock issuable upon exercise of this Warrant with respect to the issuance of Common Stock upon exercise of this Warrant or any other warrant issued to the Purchaser pursuant to the Credit Agreement.

(iii) In the event that, at any time while this Warrant remains outstanding, the Company shall issue or sell shares of Common Stock, Options or Convertible Securities or take any action which, pursuant to the provisions of Section 2B hereof results in the Company being deemed to have issued or sold shares of Common Stock, Options or Convertible Securities (an "Issuance"), the Company shall promptly after such Issuance, but in no event later than five (5) Business Days after the date thereof, provide written notice (a "Notice of Issuance") to the Holder. The Notice of Issuance shall set forth the terms and conditions of, or facts and circumstances surrounding, such Issuance (as applicable), including, without limitation to the extent applicable, (i) the type of security issued or sold (or deemed to have been issued or sold) by the Company in the Issuance, (ii) the action taken by the Company which resulted in the issuance or sale (or deemed issuance or sale), (iii) the price per share of Common Stock, Option or Convertible Security issued or sold (or deemed to have been issued or sold) by the Company in the Issuance, (iv) the number of shares of Common Stock, Options or Convertible Securities issued or sold (or deemed to have been issued or sold) by the Company in the Issuance, (v) the exercise, exchange or conversion price (and the form of payment thereof) of any Options or Convertible Securities so issued or sold (or deemed to have been issued or sold) by the Company in the Issuance and (vi) the form of consideration received and/or to be received by the Company in exchange for the issuance or sale (or deemed issuance or sale) of such Common Stock, Options or Convertible Securities (and in the event such consideration is other than cash, the value ascribed by the Company to such consideration) in connection with the Issuance.

During the 30 day period following receipt by the Holder of the Notice of Issuance (the "Challenge Period"), the Holder may deliver to the Company a notice (a "Challenge Notice") informing the Company that the Holder believes that (each of the following, a "Challenge") that (A) the price per share of Common Stock issued or sold (or deemed to have been issued or sold by the Company pursuant to Section 2B of this Warrant) in connection with the Issuance is less than the Market Price of the Common Stock, determined as of the date of the Issuance; and/or (B) the value that the Company ascribed to any consideration other than cash received or to be received by the Company in connection with the Issuance is less than the fair value of such consideration. If the Holder gives a timely Challenge Notice raising the Challenge contemplated by the preceding clause (A), then the Market Price of a share of Common Stock shall be determined in accordance with the definitions of "Market Price" and "Fair Market Value" set forth herein. If a timely Challenge Notice raising the Challenge contemplated by the preceding clause (B) is given, then the fair value of any such non-cash/non-securities consideration shall be determined in accordance with Section 2(B)(v) hereof.

2B. Effect on Share Revision Price of Certain Events. For purposes of

determining the Share Revision Price under Section 2A, the following shall be applicable:

(i) Issuance of Rights or Options. If the Company in any manner grants or sells any Options and the lowest price per share for which any one share of Common Stock is issuable upon the exercise of any such Option, or upon conversion or exchange of any Convertible Security issuable upon exercise of such Option, is less than the Market Price determined as of such time, then such share of Common Stock shall be deemed to have been issued and sold by the Company at such time for such price per share. For purposes of this subsection 2B(i), the "lowest price per share for which any one share of Common Stock is issuable" shall be equal to the sum of the lowest respective amounts of consideration (if any) received and receivable by the Company with respect to any one share of Common Stock upon each of (1) the granting or sale of the Option, (2) the exercise of the Option and (3) the conversion or exchange of the Convertible Security. No further adjustment of the Share Revision Price or number of shares issuable hereunder shall be made upon the actual issuance of such Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. If the Company in any manner issues or sells any Convertible Security and the lowest price per share for which any one share of Common Stock is issuable upon conversion or exchange thereof is less than the Market Price determined as of such time, then such share or shares of Common Stock shall be deemed to have been issued and sold by the Company at such time for such price per share. For the purposes of this subsection 2B(ii), the "lowest price per share for which any one share of Common Stock is issuable" shall be equal to the sum of the lowest respective amounts of consideration (if any) received and receivable by the Company with respect to any one share of Common Stock upon each of (1) the issuance of the Convertible Security and (2) the conversion or exchange of such Convertible Security. No further adjustment of the Share Revision Price shall be made upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Securities, and if any such issuance or sale of such Convertible Securities is made upon exercise of any Options for which adjustments of the Shares Revision Price or number of shares issuable hereunder had been or are to be made pursuant to other provisions of this Section 2B, no further adjustment of the Share Revision Price or number of shares issuable hereunder shall be made by reason of such issuance or sale of such Convertible Securities.

(iii) Change in Option Price or Conversion Rate. If (a) the purchase price provided for in any Options, (b) the additional consideration, if any, payable upon the issuance, conversion or exchange of any Convertible Securities, or (c) the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock change at any time, the Exercise Price in effect at the time of such change shall be adjusted immediately to the Share Revision Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold and the number of shares of Warrant Stock shall be correspondingly adjusted; provided that if such adjustment would result in a decrease in the number of shares issuable hereunder, such

adjustment shall not be effective until 15 Business Days after written notice thereof has been given by the Company to the Holder of this Warrant; and provided, further, that no such adjustment shall have the effect of decreasing the number of shares issuable hereunder to an amount less than the initial number of shares issuable hereunder as of the date hereof.

(iv) Treatment of Expired Options and Unexercised Convertible Securities. Upon the expiration of any Option or the termination of any right to convert or exchange any Convertible Securities without the exercise of such Option or right, the number of shares of Warrant Stock issuable hereunder shall be adjusted immediately to the number of shares which would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination, never been issued; provided that if such expiration or termination would result in an decrease in the number of shares issuable hereunder, such adjustment shall not be effective until 15 Business Days after written notice thereof has been given to the Holder of this Warrant; and provided, further, that no such adjustment shall have the effect of decreasing the number of shares issuable hereunder as of the date hereof.

(v) Calculation of Consideration Received. If any Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor shall be deemed to be the net amount of cash received by the Company therefor. If any Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of the consideration other than cash deemed to be received by the Company shall be the fair value of such consideration, except where such consideration consists of securities, in which case the amount of consideration deemed to be received by the Company shall be the Market Price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued to the owners of the nonsurviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor shall be deemed to be the fair value of such portion of the net assets and business of the nonsurviving entity as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. If a timely Challenge Notice is given by the Holder as contemplated by Section 2A(iv) hereof, the "fair value" of any consideration other than cash or securities shall be determined jointly by the Company and the Holder. If such parties are unable to reach agreement within a reasonable period of time, such fair value shall be determined by an Appraiser jointly selected by the Company and the Holder. The determination of such Appraiser shall be final and binding on the Company and the Holder, and the fees and expenses of the Appraiser shall be paid by the Company unless the fair value determined by the Appraiser is higher than 90% of the fair value proposed by the Company, in which case such fees and expenses shall be paid by the Holder.

(vi) Integrated Transactions. In case any Option is issued in connection with the issuance or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Options shall be deemed to have been issued for a consideration of $.01.

(vii) Treasury Shares. The number of shares of Common Stock outstanding at any given time does not include shares owned or held by or for the account of the Company or any Subsidiary, and the disposition of any shares so owned or held shall be considered an issuance or sale of Common Stock.

(viii) Record Date. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (a) to receive a dividend or other distribution payable in Common Stock, Options or in Convertible Securities or shares of common stock of another entity in connection with any spin-off or similar transaction to be consummated by the Company or (b) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issuance or sale of the shares of Common Stock deemed to have been issued or sold if and when such dividend is declared or such other distribution is made or such right of subscription or purchase is granted, as the case may be.

(ix) Fractional Shares. The Company shall not be required to issue any fractional share of Common Stock upon exercise of this Warrant. As to any fractional share which the Holder would otherwise be entitled to purchase under such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the Market Price per share of Common Stock on the date of exercise.

2C. Subdivision or Combination of Common Stock. If the Company at any time subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of shares of Warrant Stock issuable upon the exercise of this Warrant shall be proportionately increased. If the Company at any time combines (by reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of shares of Warrant Stock issuable upon exercise of this Warrant shall be proportionately decreased.

2D. Reorganization, Reclassification, Consolidation, Merger or Sale. Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets or other transaction, which in each case is effected in such a way that the holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock is referred to herein as an "Organic Change." Prior to the consummation of any Organic Change, the Company shall make appropriate provision (in form and substance satisfactory to the Holder) to insure that the Holder of this Warrant shall thereafter have the right, upon exercise of this Warrant, to acquire and receive, in lieu of or in addition to (as the case may be) the shares of Warrant Stock immediately theretofore issuable and receivable upon the exercise of this Warrant, such shares of stock, securities or assets as may be issued or payable in connection with such Organic Change with respect to or in exchange for the number of shares of Warrant Stock immediately theretofore issuable and receivable upon exercise of this Warrant had such Organic Change not taken place. In any such case, the Company shall make appropriate provision (in form and substance satisfactory to the Holder) with respect to the Holder's rights and interests

under this Warrant to insure that all of the provisions of this Warrant shall thereafter continue to be applicable to the Holder (including, without limitation, in the case of any such consolidation, merger or sale in which the successor entity or purchasing entity is other than the Company and in which the value for the Common Stock reflected by the terms of such consolidation, merger or sale is less than the Market Price of the Common Stock determined as of such date, the provisions of Section 2A providing for an immediate adjustment of the Exercise Price and a corresponding immediate adjustment in the number of shares of Warrant Stock issuable upon exercise of this Warrant). The Company shall not effect any such consolidation, merger or sale in which the successor entity or purchasing entity is an entity other than the Company, unless prior to the consummation thereof, such successor entity or purchasing entity assumes by written instrument (in form and substance satisfactory to the Holder), the obligations to deliver to the Holder of this Warrant such shares of stock, securities or assets as the Holder may be entitled to acquire in accordance with the foregoing provisions.

2E. Certain Events. If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Board of Directors of the Company shall, in a manner satisfactory to the Holder, make an appropriate adjustment in the Exercise Price and the number of shares of Warrant Stock issuable upon exercise of this Warrant so as to protect the rights of the Holder of this Warrant; provided that no such adjustment shall increase the Exercise Price or decrease the number of shares of Warrant Stock issuable as otherwise determined pursuant to this Section 2.

2F. No Avoidance. In the event the Company shall enter into any transaction for the purpose or with the intent of avoiding the provisions of this Section 2, the benefits provided by such provisions shall nevertheless apply and be preserved.

2G. Notices.

(i) Immediately upon any adjustment of the Exercise Price, the Company shall give written notice thereof to the Holder, setting forth in reasonable detail and certifying the calculation of such adjustment.

(ii) The Company shall give written notice to the Holder at least 15 Business Days prior to the date on which the Company closes its books or takes a record (a) with respect to any dividend or distribution upon the Common Stock, (b) with respect to any pro rata subscription offer to holders of Common Stock or (c) for determining rights to vote with respect to any Organic Change, dissolution or liquidation.

(iii) The Company shall also give written notice to the Holder at least 15 Business Days prior to the date on which any Change of Control, dissolution or liquidation shall take place.

Section 3. Pre-emptive Rights on New Equity Issuances.

3A. Pre-emptive Rights.

So long as the Holder holds any Underlying Warrant Stock or any Warrant Stock (or the right to purchase any such Warrant Stock), the Company shall, prior to any issuance or sale of any shares of Common Stock, any Options (excluding, however, (i) any Options issued to employees of the Company after the date hereof, net of any cancellations after the date hereof of any Options issued to employees of the Company other than cancellations of Options with an exercise price of equal to or greater than ten dollars ($10.00) per share unless such options become Common Stock Deemed Outstanding, in the ordinary course of business up to 600,000 shares in the aggregate between the Date of Issuance and the fifth anniversary thereof and (ii) any shares of Common Stock granted to employees of the Company as compensation after the date hereof in the ordinary course of business up to 400,000 shares in the aggregate between the Date of Issuance and the fifth anniversary thereof) any Convertible Securities or any shares of its other equity securities, if any, offer (the "Offer") to the Holder the right to purchase up to the Holder's proportionate share (based on the Underlying Warrant Stock held or deemed to be held by the Holder relative to the total Common Stock Deemed Outstanding), of such securities, as of the date of the Offer. The purchase price per share or other unit for such securities to be offered to the Holder (the "Offered Securities") which shall be payable by the Holder shall be equal to the price or other consideration per share or other unit for which such securities are proposed to be sold by the Company in the proposed issuance or sale. The pre-emptive rights set forth in this Section 3A shall terminate thirty (30) days (the "Refusal Period") following receipt of the Offer by the Holder.

3B. The Offer.

(i) The Offer, which shall be in writing, shall (a) describe the type and total number of the Offered Securities, (b) identify the price and payment terms therefor, and (c) provide any other material facts relating to such issuance or sale. The Holder may elect to purchase all or any portion of its proportionate share (based on the Underlying Warrant Stock held or deemed to be held by the Holder relative to the total Common Stock Deemed Outstanding) of the Offered Securities by giving written notice of the exercise of such right to the Company prior to the expiration of the Refusal Period.

(ii) If the Holder does not elect to purchase all of the Offered Securities, the Offered Securities not purchased may be sold by the Company at any time within thirty (30) days after the end of the Refusal Period. Any such sale shall be at the price and upon other terms and conditions not more favorable than those specified in the Offer. Any Offered Securities not sold within such thirty (30) day period after the end of the Refusal Period shall continue to be subject to the requirements of this Section 3.

(iii) Any sales pursuant to this Section 3 shall be made at such place as the Company and the Holder may mutually agree or, in the event that they cannot so agree, the offices of the Company and, in any event, within thirty (30) days after the expiration of the Refusal Period. Such sales shall be effected by the Company's delivery to the Holder of certificates evidencing the Offered Securities to be purchased by the Holder, against payment to the Company of the purchase price therefor.

(iv) Notwithstanding the foregoing, with respect to (i) any Options issued to employees of the Company after the date hereof, net of any cancellations after the date hereof of any Options issued to employees of the Company other than cancellations of Options with an exercise price of equal to or greater than ten dollars ($10.00) per share unless such options become Common Stock Deemed Outstanding, in the ordinary course of business, in excess of 600,000 shares in the aggregate between the Date of Issuance and the fifth anniversary thereof and (ii) any shares of Common Stock granted to employees of the Company as compensation after the date hereof in the ordinary course of business in excess of 400,000 shares in the aggregate between the Date of Issuance and the fifth anniversary thereof, the Offer to the Holder to purchase shares as provided in Section 3A above shall be made on a quarterly basis in connection with Option issuance and share grant activity, as described above, for the preceding three months. Notwithstanding the foregoing, if a Trigger Event as defined in Section 6 occurs, an Offer in connection with Option issuance and share grants, as provided by this Section, shall be made contemporaneously with the occurrence of the Trigger Event.

Section 4. Dividends. If the Company declares or pays a dividend upon the Common Stock (i) payable otherwise than in cash out of earnings or earned surplus (determined in accordance with GAAP consistently applied) except for a stock dividend payable in shares of Common Stock (a "Liquidating Dividend") or (ii) in cash out of earnings or earned surplus (determined in accordance with GAAP consistently applied), then the Company shall pay to the Holder of this Warrant at the time of payment thereof the Liquidating Dividend or other dividend which would have been paid to the Holder on the Warrant Stock had this Warrant been fully exercised immediately prior to the date on which a record is taken for such Liquidating Dividend or other dividend, or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends are to be determined.

Section 5. Registration Rights. This Warrant and each share of Warrant Stock issued upon exercise of this Warrant will be entitled to the benefits of the Registration Rights Agreement, which shall be in form and substance as set forth in Exhibit III hereto.

Section 6. Put Arrangement.

(i) At any time during the period commencing on the earliest to occur of (a) the fourth anniversary of the Date of Issuance, (b) the payment in full of the Loans, (c) so long as the Holder or one of its Affiliates is a Lender at the time, the acceleration of the Loans, (d) the consummation of a Qualifying Public Offering or (e) a Change of Control (each, a "Trigger Event") and ending on the fifth anniversary of the Date of Issuance, the Holder will have the right to cause the Company to repurchase (the "Put") all or any portion of the Holder's shares of Underlying Warrant Stock then in existence by delivering written notice (the "Put Notice") to the

Company. The date on which the Company receives a Put Notice hereinafter is referred to as a "Delivery Date."

(ii) Upon the delivery of a Put Notice, the Company and the Holder shall promptly (and in any event within 10 days after delivery of the final Election Notice) meet for the purpose of determining the Put Price, which Put Price shall be determined in accordance with the provisions of this Warrant as provided in the definition of the term "Put Price". In the event the Holder does not agree with the Company's determination of Fair Market Value, (as used for purposes of the definition of Put Price), the Holder may deliver written notice to the Company (a "Notice of Objection") challenging the Fair Market Value used by the Company in connection with determining the Put Price. If the Holder gives a timely Notice of Objection, Fair Market Value for the purposes of determining the Put Price shall be determined in the manner contemplated by the definition of Fair Market Value. Promptly upon determination of the Put Price with respect thereto and in no event less than 10 days prior to the date of any Put Closing, the Company and the Holder shall determine the time and place of the Put Closing; in the event that the Company and the Holder cannot so agree, the Holder shall determine the time and place of the Put Closing. The Holder may deliver to the Company all or any portion of this Warrant (rather than shares of Warrant Stock) held in satisfaction of the sale of the Underlying Warrant Stock, in which event the Put Price will be reduced by the Exercise Price of the Warrant or portion thereof so delivered.

(iii) At any Put Closing, the Holder shall deliver to the Company certificates representing the Put Shares or the portion of this Warrant, as applicable, and the Company shall deliver to the Holder the product of (x) the Put Price multiplied by (y) the number of Put Shares, by cashier's or certified check or wire transfer of immediately available funds payable to the Holder.

(iv) The Company shall not be required to pay cash or property to repurchase Put Shares to the extent the sole reason for not doing so is that it is prohibited from doing so under the Delaware General Corporation Law due to a lack of surplus; provided that the Company will take all reasonable steps necessary or desirable to make such payments under this Section 5, including, without limitation, reducing its capital and/or increasing its net assets (by reappraisal or otherwise).

(v) Notwithstanding the foregoing provisions of this Section 5, this subsection (v) shall apply in the event of a Change of Control. The Company shall give the Holder of Underlying Warrant Stock at least 15 Business Days prior written notice of any transaction that results in a Change of Control (a "Change of Control Transaction"). If the Holder delivers a Put Notice at least five days prior to such a Change of Control Transaction, the Put Closing shall be held on the same date as the closing of the a Change of Control Transaction. If the Change of Control Transaction involves the sale of all or substantially all of the common equity (whether accomplished by merger, consolidation, reorganization or other business combination) or assets of the Company, the Fair Market Value of the Company to be used in connection with determining the Put Price as provided in the definition of Put Price shall be the product of (A) the highest price per share paid (whether directly or indirectly by way of a purchase of assets of the Company) by an independent third party in such Change of Control Transaction, multiplied by

(B) the sum of the total number of shares of Common Stock Deemed Outstanding as of the closing of the Change of Control Transaction, plus the number of shares of Common Stock issuable upon exercise of this Warrant as of the closing of the Change of Control Transaction, and, in the case of Options and Convertible Securities, only to the extent such Options and Convertible Securities are exercisable and "in the money" as of, and after giving effect to any acceleration of vesting as a result of, the closing of the Change of Control Transaction. For purposes of this paragraph, "price per share paid" means all cash and other property, if any, payable to any holder of Common Stock or their Affiliates in connection with such transaction, and includes all amounts payable over time, all contingent payments, all fees and all other amounts. The Holder may deliver to the Company all or any portion of this Warrant (rather than shares of Warrant Stock) in satisfaction of the sale of the Holder's Underlying Warrant Stock hereunder, in which event the Put Price payable to the Holder will be reduced by the aggregate Exercise Price of the Warrant or portion thereof, as applicable, so delivered.

Section 7. Definitions. The following terms have meanings set forth below:

"Appraiser" means an investment banking or appraisal firm of nationally recognized standing.

"Book Value" shall be determined in accordance with GAAP.

"Change of Control"-as defined in the Credit Agreement.

"Change of Control Transaction" - as defined in Section 6(v) hereof.

"Common Stock" means the Company's common stock, par value $0.01 per share.

"Common Stock Deemed Outstanding" means, at any given time and from time to time, the number of shares of Common Stock actually outstanding at such time, plus the maximum number of shares of Common Stock deemed from time to time to be outstanding pursuant to Sections 2B(i) and 2B(ii) (without duplication) or issuable upon exercise, conversion or exchange of any outstanding Options or Convertible Securities, in each case regardless of whether the Options or Convertible Securities are actually exercisable at such time, but excluding any shares of Common Stock issuable upon exercise of this Warrant. "Common Stock Deemed Outstanding" shall exclude shares of Common Stock issuable upon the exercise of Options issued and outstanding on the date of this Warrant with an exercise price of greater than or equal to ten dollars ($10.00) per share; provided, however, such shares shall be included in determining "Common Stock Deemed Outstanding" at any time after the Date of Issuance that (a) the Market Price of the Common Stock exceeds the exercise price of such Options and (b) the Options to which such shares are related remain outstanding.

"Convertible Securities" mean any evidences of indebtedness, shares or other securities convertible into or exchangeable for Common Stock.

"Credit Agreement" has the meaning ascribed in the preamble hereto.

"Fair Market Value" means the fair market value of the Company's entire common equity, on a fully diluted basis, determined on a going concern basis as between a willing buyer and a willing seller and taking into account all relevant factors determinative of value without giving effect to any discount for any lack of liquidity attributable to a lack of a public market for such security, any block discount or discount attributable to the size of any Person's holdings of such security, any minority interest or any voting rights thereof or lack thereof and without giving effect to any control premium, plus (to the extent not otherwise taken into consideration in the determination of fair market value of the Company's entire common equity) the aggregate amount of cash or property payable or to be surrendered to the Company upon exercise or conversion of Options and Convertible Securities and the principal amount of any debt constituting Convertible Securities. If (i) a timely Challenge Notice with respect to any Issuance is given as contemplated by Section 2A(iv) or 2B(v) hereof or (ii) a timely Notice of Objection is given pursuant to Section 5(ii) hereof, then the Company and the Holder will use reasonable efforts to determine Fair Market Value, but if the Company and the Holder are unable to agree on Fair Market Value within 10 days after meeting (the date on which such persons so meet is referred to as the "Meeting Date") for the purpose of determining the Fair Market Value, the Company and the Holder shall, within 20 days after the Meeting Date, mutually select an Appraiser to make a determination of the Fair Market Value (who shall make such determination within 30 days after selection); provided that if such persons are unable to agree upon the selection of an Appraiser within such 20-day period, the Fair Market Value shall be determined as follows: the Company and the Holder shall, within 5 days after their failure to agree upon the selection of an Appraiser, each select their own Appraiser to determine the "Fair Market Value." Each such Appraiser shall make a determination of the "Fair Market Value" within 30 days after the date of selection. If the "Fair Market Value" as determined by one Appraiser is within 10% of the "Fair Market Value" determined by the other Appraiser, then the Fair Market Value shall be the average of the "Fair Market Values" determined by the two Appraisers. If the "Fair Market Value" determined by one Appraiser is not within 10% of the "Fair Market Value" of the other Appraiser, then such two Appraisers shall promptly select a third Appraiser, which Appraiser shall make a determination of the "Fair Market Value" as promptly as possible but, in any event, within 60 days after the Meeting Date, and the Fair Market Value shall be the median of the "Fair Market Values" determined by the three Appraisers. The determination of the Fair Market Value pursuant to the preceding sentences shall be final and binding upon the Company and the Holder. All fees and expenses of the Appraisers determining the Fair Market Value of the Company shall be borne by the Company unless the Fair Market Value as so determined is no higher than 110% of the Fair Market Value as proposed by the Company, in which event such fees and expenses shall be paid by the Holder.

"Market Price" means as to any security (other than this Warrant) the average of the closing prices of such security's sales on all domestic securities exchanges on which such security may at the time be listed or quoted, including for this purpose, The Nasdaq Stock Market, or, if there have been no sales on any such exchange on any day, the average of the highest bid and lowest asked prices on all such exchanges at the end of such day, or, if on any day such security is not so listed or quoted, the average of the highest bid and lowest asked prices on such day in the domestic over-the-counter market as reported by the National Quotation Bureau, Incorporated, or any similar successor organization, in each such case

averaged over a period of 21 days consisting of the day as of which "Market Price" is being determined and the 20 consecutive business days prior to such day; provided that if such security is listed on any domestic securities exchange, the term "business days" as used in this sentence means business days on which such exchange is open for trading. If at any time such security is not listed on any domestic securities exchange or quoted on The Nasdaq Stock Market or the domestic over-the-counter market, the "Market Price" shall be the fair value thereof (taking into account, in the case of a determination of the Market Price of shares of Common Stock, any outstanding Options and Convertible Securities) determined based on the Fair Market Value of the Company (determined in accordance with the definition of "Fair Market Value"). Any determination of Market Price of a security will be made without giving effect to any discount for any lack of liquidity attributable to a lack of a public market for such security, any block discount or discount attributable to the size of any Person's holdings of such security, any minority interest or any voting rights thereof or lack thereof and without giving effect to any control premium. The "Market Price" of all or a portion of this Warrant means the excess of (i) the Market Price of the shares of Warrant Stock issuable upon exercise thereof over (ii) the Aggregate Exercise Price of the Warrant Stock payable in connection with such exercise. For purposes of Section 1B(i)(d)(2) above, the "Market Price" of any debt security or any preferred stock of the Company or any of its wholly-owned Subsidiaries shall be deemed to be equal to the aggregate outstanding principal amount or liquidation value thereof (as applicable) plus all accrued and unpaid interest or dividends thereon (as applicable) plus all premium and other amounts owing with respect thereto.

"Obligations" - as defined in the Credit Agreement.

"Options" mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

"Public Offering" means the consummation of an underwritten public offering pursuant to an effective registration statement filed by the Company (or any successor entity to the Company) with the Securities and Exchange Commission under the Securities Act with respect to common equity of the Company (or any successor entity to the Company).

"Put Price" shall equal, with respect to each share of Underlying Warrant Stock, the higher of (x) the quotient obtained by dividing (i) the higher of (a) the Fair Market Value of the Company as of the Delivery Date and (b) the Book Value of the Company as of the Delivery Date by (ii) the sum of the total number of shares of Common Stock outstanding as of the Delivery Date plus the number of shares of Common Stock issuable upon exercise or conversion of any Options or Convertible Securities as of the Delivery Date (including the Warrant), in each case only to the extent such Options and Convertible Securities are exercisable and "in-the-money" on the Delivery Date and in each case calculated as of the Delivery Date and (y) the Market Price of a share of Common Stock, calculated as of the Delivery Date. The expenses of determining the Put Price shall be borne by the Company.

"Qualifying Public Offering" means the consummation of a Public Offering with gross proceeds to the Company (or any successor entity to the Company) of at least $10,000,000.

"Underlying Warrant Stock" means (i) the Common Stock issued or issuable upon exercise of this Warrant and (ii) any Common Stock issued or issuable with respect to the securities referred to in clause (i) above by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization. For purposes hereof, any Person who holds all or a portion of this Warrant shall be deemed to be the holder of the Underlying Warrant Stock obtainable upon exercise of this Warrant in connection with the transfer thereof or otherwise regardless of any restriction or limitation on the exercise of this Warrant, such Underlying Warrant Stock shall be deemed to be in existence, and such Person shall be entitled to exercise the rights of a holder of Underlying Warrant Stock hereunder. As to any particular shares of Underlying Warrant Stock, such shares shall cease to be Underlying Warrant Stock when they have been (a) effectively registered under the Securities Act and disposed of in accordance with the registration statement covering them, (b) distributed to the public through a broker, dealer or market maker pursuant to Rule 144 under the Securities Act (or any similar provision then in force) or (c) repurchased by the Company or any of its Subsidiaries.

"Warrant Stock" means the Common Stock, provided that if there is a change such that the securities issuable upon exercise of this Warrant are issued by an entity other than the Company or there is a change in the type or class of securities so issuable, then the term "Warrant Stock" shall mean one share of the security issuable upon exercise of this Warrant if such security is issuable in shares, or shall mean the smallest unit in which such security is issuable if such security is not issuable in shares.

Section 7. No Voting Rights; Limitations of Liability. This Warrant shall not entitle the Holder to any voting rights as a stockholder of the Company. No provision hereof, in the absence of affirmative action by the Holder to purchase Warrant Stock, and no enumeration herein of the rights or privileges of the Holder shall give rise to any liability of the Holder for the Exercise Price of Warrant Stock issuable by exercise hereof or as a stockholder of the Company.

Section 8. Warrant Transferable. Subject to the transfer conditions referred to in the legend endorsed hereon, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the Holder, upon surrender of this Warrant with a properly executed Assignment (in the form of Exhibit II hereto) at the principal office of the Company.

Section 9. Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for new warrants of like tenor representing in the aggregate the purchase rights hereunder, and each of such new warrants shall represent such portion of such rights as is designated by the Holder at the time of such surrender. The date the Company initially issues this Warrant shall be deemed to be the "Date of Issuance" hereof regardless of the number of times new certificates representing the unexpired and unexercised rights formerly represented by this Warrant shall be issued.

Section 11. Replacement. Upon receipt of evidence reasonably satisfactory to the Company (an affidavit of the Holder shall be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing this Warrant, and in the case of any such

loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Company (provided that if the Holder is a financial institution, mezzanine fund or other institutional investor its own agreement shall be satisfactory), or, in the case of any such mutilation upon surrender of such certificate, the Company shall (at its expense) execute and deliver, in lieu thereof, a new certificate of like kind representing the same rights represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate.

Section 12. Notices. Except as otherwise expressly provided herein, any notice or other communication required shall be in writing addressed (i) to the Company, at its principal executive offices and (ii) to the Holder of this Warrant, at the Holder's address as it appears in the records of the Company (unless otherwise indicated by the Holder), may be personally served, telecopied, sent by overnight courier service or U.S. mail and shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 3:00 p.m. New York time; (c) if delivered by overnight courier, one (1) Business Day after delivery to the courier properly addressed; or (d) if delivered by U.S. mail, four (4) Business Days after deposit with postage prepaid and properly addressed.

Section 13. Amendment and Waiver. Except as otherwise provided herein, no amendment, modification, termination or waiver of any provision of this Warrant, or consent to any departure by any party therefrom, shall in any event be effective unless the same shall be in writing and signed by the Holder and the Company. Each amendment, modification, termination or waiver shall be effective only in the specific instance and for the specific purpose for which it was given. No notice to or demand on the Company or the Holder of this Warrant in any case shall entitle the Company or the Holder to any other or further notice or demand in similar or other circumstances. Any amendment, modification, termination, waiver or consent effected in accordance with this Section 13 shall be binding upon the Holder of this Warrant and the Company.

Section 14. Applicable Law. THIS AGREEMENT SHALL BE GOVERNED BY AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.

Section 15. Headings. Section and subsection headings are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purposes or be given substantive effect.

Section 16. Severability. The invalidity, illegality, or unenforceability in any jurisdiction of any provision under this Warrant shall not affect or impair the remaining provisions in this Warrant.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK;
SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed and attested by its duly authorized officers and to be dated the Date of Issuance hereof.

COMFORT SYSTEMS USA, INC.

By /s/ J. Gordon Beittenmiller

Name J. Gordon Beittenmiller

Title Executive Vice President

EXHIBIT I

EXERCISE AGREEMENT

To: Dated:

The undersigned, pursuant to the provisions set forth in the attached Warrant (Certificate No. W____), hereby agrees to subscribe for the purchase of _____ shares of the Warrant Stock covered by such Warrant and makes payment herewith in full therefor in accordance with the terms of such Warrant at the price per share provided by such Warrant.

Signature

Address

EXHIBIT II

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers all of the rights of the undersigned under the attached Warrant (Certificate No. W_____) with respect to the number of shares of the Warrant Stock covered thereby set forth below, unto:

Name of Assignee	Address	No. of Shares

Dated:

Signature

Witness

EXHIBIT III

REGISTRATION RIGHTS AGREEMENT

EXHIBIT 10.3

COMFORT SYSTEMS USA, INC.

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement is dated as of October 11, 2002, by and among Comfort Systems USA, Inc., a Delaware corporation ("Company") and General Electric Capital Corporation (the "Purchaser").

WHEREAS, Company and Purchaser have entered into that certain Stock Purchase Warrant and Repurchase Agreement, dated as of even date herewith (the "Warrant Agreement"); and

WHEREAS, in order to induce Purchaser to enter into the Warrant Agreement and as provided in Section 4 of the Warrant Agreement, Company has agreed to provide registration rights with respect thereto.

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained, it is agreed as follows:

1. Definitions. Unless otherwise defined herein, terms defined in the Warrant Agreement are used herein as therein defined, and the following shall have (unless otherwise expressly provided elsewhere in this Registration Rights Agreement) the following respective meanings (such meanings being equally applicable to both the singular and plural form of the terms defined):

"Agreement" shall mean this Registration Rights Agreement, including all amendments, modifications and supplements and any exhibits or schedules to any of the foregoing, and shall refer to the Agreement as the same may be in effect at the time such reference becomes operative.

"Business Day" shall mean any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

"Commission" shall mean the Securities and Exchange Commission or any other federal agency then administering the Securities Act and other federal securities laws.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

"Holder" shall mean a record holder of Warrant Stock or Registrable Securities.

"NASD" shall mean the National Association of Securities Dealers, Inc., or any successor corporation thereto.

"Registrable Securities" shall mean the shares of Warrant Stock from time to time issued pursuant to the Warrant Agreement or the shares of Warrant Stock from time to time issuable upon exercise of the Warrant Agreement or the shares of Warrant Stock otherwise acquired or held by Purchaser.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

2. Required Registration. After receipt of a written request from a Holder or Holders of at least 51% of the Registrable Securities requesting that Company effect a registration under the Securities Act of at least 51% of the Registrable Securities, and specifying the intended method or methods of disposition thereof, Company shall promptly within 10 days of receipt of such request notify all Holders in writing of the receipt of such request and each such Holder, in lieu of exercising its rights under Section 3, may elect (by written notice sent to Company within 10 Business Days from the date of such Holder's receipt of the aforementioned Company's notice) to have Registrable Securities included in such registration thereof pursuant to this Section 2. Thereupon, Company shall, as expeditiously as is possible, use all reasonable best efforts to effect the registration under the Securities Act of all shares of Registrable Securities which Company has been so requested to register by such Holders for sale, all to the extent required to permit the disposition (in accordance with the intended method or methods thereof, as aforesaid) of the Registrable Securities so registered; provided, however, that if the managing underwriter of a proposed public offering in connection with any registration requested pursuant to this Section 2 shall advise Company in writing that, in its opinion, a limitation should be imposed on the number of securities to be included in such offering, then, first, the number of any securities (other than Registrable Securities) requested to be included in such offering shall be decreased on a pro rata basis, and, second, after all securities other than Registrable Securities have been excluded from such offering, the number of Registrable Securities shall be decreased on a pro rata basis; provided, further, however, that Company shall not be required to effect more than two (2) registrations of any Registrable Securities pursuant to this Section 2.

3. Piggyback Registration.

(a) If Company at any time proposes to file on its behalf and/or on behalf of any of its security holders (the "demanding security holders") a Registration Statement under the Securities Act on any form (other than a Registration Statement on Form S-4 or S-8 or any successor form for securities to be offered in a transaction of the type referred to in Rule 145 under the Securities Act or to employees of Company pursuant to any employee benefit plan, respectively) for the registration of securities, it will give written notice to all Holders at least 45 days before the initial filing with the Commission of such Registration Statement, which notice shall set forth the intended method of disposition of the securities proposed to be registered by Company. The notice shall offer to include in such filing the entire aggregate number of shares of Registrable Securities as such Holders may request.

(b) Each Holder desiring to have Registrable Securities registered under this Section 3 shall advise the Company in writing within 15 Business Days after the date of receipt of such offer from Company, setting forth the amount of Registrable Securities for which registration is requested. Company shall thereupon include in such filing the number of shares of Registrable Securities for which registration is so requested, subject to the next sentence, and shall use all reasonable best efforts to effect registration under the Securities Act of all such shares. If the managing underwriter of a proposed public offering shall advise Company in writing that, in its opinion, the distribution of the Registrable Securities requested to be included in the registration concurrently with the securities being registered by Company or such demanding security holders would materially and adversely affect the distribution of such securities by Company or such demanding security holders, then first, all selling security holders (other than the Company and the Holder) shall reduce the amount of securities each intended to distribute through such offering on a pro rata basis based on the respective amounts of securities held by such holders at the time of filing the registration statement; and second, after all securities other than securities to be sold by the Company and Registrable Securities held by the Holders have been excluded from such offering, the Holders shall reduce the amount of securities each intended to distribute through such offering on a pro rata basis based on the respective amounts of Registrable Securities held by such Holders at the time of filing the registration statement.

4. Registration Procedures.

(a) If Company is required by the provisions of Section 2 or 3 to use its best efforts to effect the registration of any of its securities under the Securities Act, Company will, as expeditiously as possible:

(i) prepare and file with the Commission a Registration Statement with respect to such securities and use its best efforts to cause such Registration Statement to become and remain effective for a period of time required for the disposition of such securities by the holders thereof, but not to exceed three months or, in the case of a "shelf" registration statement on Form S-3, nine months;

(ii) prepare and file with the Commission such amendments and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective and to comply with the provisions of the Securities Act with respect to the sale or other disposition of all securities covered by such Registration Statement until the earlier of (A) such time as all of such securities have been disposed of in a public offering or (B) the expiration of three months or, in the case of a "shelf" registration statement on Form S-3, nine months;

(iii) furnish to such selling security holders such number of copies of a summary prospectus or other prospectus, including a preliminary

prospectus, in conformity with the requirements of the Securities Act, and such other documents, as such selling security holders may reasonably request;

(iv) use its best efforts to register or qualify the securities covered by such Registration Statement under such other securities or blue sky laws of such jurisdictions within the United States and Puerto Rico as each holder of such securities shall request (provided, however, that Company shall not be obligated to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it is not then qualified or to file any general consent to service or process), and do such other reasonable acts and things as may be required of it to enable such holder to consummate the disposition in such jurisdiction of the securities covered by such Registration Statement;

(v) furnish at the request of any Holder requesting registration of Registrable Securities, on the date that such shares of Registrable Securities are delivered to the underwriters for sale pursuant to such registration or, if such Registrable Securities are not being sold through underwriters, on the date that the Registration Statement with respect to such shares of Registrable Securities becomes effective, (i) an opinion, dated such date, of the independent counsel representing Company for the purposes of such registration, addressed to the underwriters, if any, and to the Holders making such request, in customary form and covering matters of the type customarily covered in such legal opinions; and (ii) a comfort letter dated such date, from the independent certified public accountants of Company, addressed to the underwriters, if any, and to the Holders making such request and, if such accountants refuse to deliver such letter to such Holders, then to Company (with a copy thereof being provided to Holders by the Company), in a customary form and covering matters of the type customarily covered by such comfort letters and as the underwriters or such Holders shall reasonably request. Such opinion of counsel shall additionally cover such other legal matters with respect to the registration in respect of which such opinion is being given as such Holders may reasonably request. Such letter from the independent certified public accountants shall additionally cover such other financial matters (including information as to the period ending not more than five Business Days prior to the date of such letter) with respect to the registration in respect of which such letter is being given as the Holders of the Registrable Securities being so registered may reasonably request;

(vi) enter into customary agreements (including an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities; and

(vii) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, but not later than 18 months after the

effective date of the Registration Statement, an earnings statement covering the period of at least 12 months beginning with the first full month after the effective date of such Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act.

(b) It shall be a condition precedent to the obligation of Company to take any action pursuant to this Agreement in respect of the securities which are to be registered at the request of any Holder that such Holder shall furnish to Company such information regarding the securities held by such Holder and the intended method of disposition thereof as Company shall reasonably request and as shall be required in connection with the action taken by Company.

5. Expenses. All reasonable expenses incurred in complying with this Agreement, including, without limitation, all registration and filing fees (including all expenses incident to filing with the NASD), printing expenses, fees and disbursements of counsel for Company, the fees and expenses of one counsel for the Holders of Warrant Shares being registered (selected by those Holders holding a majority of the Warrant Shares being registered), expenses of any special audits incident to or required by any such registration and expenses of complying with the securities or blue sky laws of any jurisdiction pursuant to Section 4, shall be paid by Company, except that Company shall not be liable for any fees, discounts or commissions to any underwriter in respect of the securities sold by such Holder which fees, discounts and commissions shall be paid by the Holders, pro rata, on the basis of the number of shares so registered.

6. Indemnification and Contribution.

(a) In the event of any registration of any Registrable Securities under the Securities Act pursuant to this Agreement, Company shall indemnify and hold harmless each Holder of such Registrable Securities, such Holder's directors and officers, and each other person (including each underwriter) who participated in the offering of such Registrable Securities and each other person, if any, who controls such Holder or such participating person within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such Holder or any such director or officer or participating person or controlling person may become subject under the Securities Act or any other statute or at common law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue or alleged untrue statement of any material fact contained, on the effective date thereof, in any Registration Statement under which such securities were registered under the Securities Act or in any filing with any state securities commission, any preliminary prospectus or final prospectus contained therein or any amendment or supplement thereto or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse such Holder or such director, officer or participating person or controlling person for any legal or any other expenses incurred by such Holder or such director, officer or participating person or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any actual or alleged

untrue statement or actual or alleged omission made in such Registration Statement, filing, preliminary prospectus, prospectus or amendment or supplement in reliance upon and in conformity with written information furnished to Company by such Holder specifically for use therein. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Holder or such director, officer or participating person or controlling person, and shall survive the transfer of such securities by such Holder.

(b) Each Holder, by acceptance hereof, agrees to indemnify and hold harmless Company, its directors and officers and each other person, if any, who controls Company within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several, to which Company or any such director or officer or any such person may become subject under the Securities Act or any other statute or at common law, insofar and only insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon information in writing provided to Company by such Holder specifically for use in the following documents and contained, on the effective date thereof, in any Registration Statement under which securities were registered under the Securities Act at the request of such Holder, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto. Notwithstanding the provisions of this paragraph (b) or paragraph (c) below, no Holder shall be required to indemnify any person pursuant to this Section 6 or to contribute pursuant to paragraph (c) below in an amount in excess of the amount of the aggregate net proceeds received by such Holder in connection with such registration under the Securities Act.

(c) If any claim, action, suit or proceeding (a "Proceeding") shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party promptly shall notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party. An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the

defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on all claims that are the subject matter of such Proceeding. All fees and expenses of the Indemnified Party (including fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent herewith) shall be paid to the Indemnified Party, as incurred, within ten (10) Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined by a court of competent jurisdiction that such Indemnified Party is not entitled to indemnification hereunder).

(d) If the indemnification provided for in this Section 6 from the Indemnifying Party is unavailable to an Indemnified Party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to herein. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. Notwithstanding anything to the contrary contained herein, a Holder shall be liable or required to contribute under this Section 6(d) for only that amount as does not exceed the net proceeds to such Holder as a result of the sale of Registrable Securities pursuant to such Registration Statement.

7. Selection of Managing Underwriters. The managing underwriter or underwriters for any offering of Registrable Securities to be registered pursuant to Section 2 shall be selected by the holders of a majority of the Registrable Securities being so registered.

8. Rule 144. As long as any Holder owns shares of Warrant Stock or Registrable Securities, Company, at all times while it shall be reporting under the Exchange Act, covenants and agrees to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by Company pursuant to Section 13(a) or 15(d) of the Exchange Act and to promptly furnish the Holders with true and complete copies of all such filings upon written request. Company further covenants that it will take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Warrant Stock or any other shares of Common Stock held by such Holder without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 promulgated under the Securities Act, including providing any legal opinions. Upon the request of any Holder, Company shall deliver to such Holder a written certification of a duly authorized officer as to whether it has complied with such requirements.

9. Miscellaneous.

(a) No Inconsistent Agreements. Company will not hereafter enter into any agreement with respect to its securities which is inconsistent with the rights granted to the Holders in this Agreement. Company has not previously entered into any agreement that is still outstanding with respect to any of its securities granting any registration rights to any person.

(b) Remedies. Each Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate. In any action or proceeding brought to enforce any provision of this Agreement or where any provision hereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' fees in addition to any other available remedy.

(c) Amendments and Waivers. Except as otherwise provided herein, the provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departure from the provisions hereof may not be given unless approved by the written agreement of the Company and the Holders of a majority of the Warrant Stock and Registrable Securities.

(d) Notices. Any notice, demand, request, consent, approval, declaration, delivery or other communication hereunder to be made pursuant to the provisions of this Agreement shall be sufficiently given or made if in writing and either delivered in person with receipt acknowledged or sent by registered or certified mail, return receipt requested, postage prepaid, or by telecopy and confirmed by telecopy answerback, and addressed to the address or

addresses set forth in Section 12 of the Warrant Agreement or at such other address as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration, delivery or other communication hereunder shall be deemed to have been duly given or served on the date on which personally delivered, with receipt acknowledged, telecopied and confirmed by telecopy answerback or four (4) Business Days after the same shall have been deposited in the United States mail.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, including any person to whom the Warrant Agreement, Warrant Stock or Registrable Securities are transferred.

(f) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(g) GOVERNING LAW; JURISDICTION; WAIVER OF JURY TRIAL. THIS AGREEMENT SHALL BE GOVERNED BY, CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PROVISIONS THEREOF. EACH OF THE PARTIES HEREBY SUBMITS TO PERSONAL JURISDICTION AND WAIVES ANY OBJECTION AS TO VENUE IN THE COUNTY OF NEW YORK, STATE OF NEW YORK. SERVICE OF PROCESS ON THE PARTIES IN ANY ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE EFFECTIVE IF MAILED TO THE PARTIES IN ACCORDANCE WITH SECTION 9(D) HEREOF. THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS HEREUNDER.

(h) Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

(i) Entire Agreement. This Agreement, together with the Warrant Agreement, represents the complete agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. This Agreement supersedes all prior agreements and understandings between the parties with respect to the subject matter hereof.

(j) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Delivery of an executed counterpart signature page to this Agreement by telecopier shall be as effective as delivery of a manually executed counterpart signature page.

(k) Termination. This Agreement shall automatically terminate on the sale of all Registrable Securities by the Holders thereof.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement as of the date first above written.

COMFORT SYSTEMS USA, INC.

By: /s/ J. Gordon Beittenmiller

Name: J. Gordon Beittenmiller

Title: Executive Vice President

GENERAL ELECTRIC CAPITAL CORPORATION

By: /s/ Justin Staadecker

Name: Justin Staadecker

Title: Its Duly Authorized Signatory

EXHIBIT 10.4

EMPLOYMENT AGREEMENT

This Employment Agreement (this "AGREEMENT") by and among COMFORT SYSTEMS USA (TEXAS), L.P., a Texas limited partnership (the "COMPANY"), and NORMAN C. CHAMBERS ("EMPLOYEE") is hereby entered into and effective as of the 4th day of November, 2002.

RECITALS

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

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

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

AGREEMENTS

1. EMPLOYMENT AND DUTIES.

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

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

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

(a) BASE SALARY. Effective as of the Effective Date, the base salary payable to Employee shall be $300,000 per year, payable on a regular basis in accordance with Company's standard payroll procedures but not less frequently than monthly. On at least an annual basis, Company will review Employee's performance and

may, in its sole discretion, (i) make increases to such base salary; (ii) pay a performance bonus; or (iii) recommend Employee for the grant of Company stock options.

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

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

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

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

3. NONCOMPETITION AGREEMENT.

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

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant or advisor, or as a sales representative, in any business in direct competition with Company or any of its subsidiaries and affiliates within 100 miles of where the Company or any of its subsidiaries and affiliates conduct

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

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

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

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

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

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

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

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

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

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

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

4. PLACE OF PERFORMANCE; RELOCATION RIGHTS.

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

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

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

5. TERM; TERMINATION; RIGHTS ON TERMINATION.

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

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

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

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

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

(iv) TERMINATION WITHOUT CAUSE. At any time after the commencement of employment, either Employee or Company may, voluntarily or without cause, respectively, terminate this Agreement and Employee's employment, effective thirty (30) days after written notice is provided to the other. Should Employee be terminated by Company without Cause Employee shall receive from Company, in a lump-sum payment due on the effective date of termination, the base salary at the rate then in effect for one (1) year. Further, any termination without Cause by Company shall operate to shorten the period set forth in paragraph 3(a) and during which the terms of paragraph 3 apply to one (1) year from the date of termination of employment. Except as provided in paragraph 12 below, if Employee resigns or otherwise terminates this Agreement, the provisions of paragraph 3 hereof shall apply, except that Employee shall receive no severance compensation. If Employee is terminated by the Company without Cause, or if the Employee terminates his employment for Good Reason pursuant to paragraph 12(c) below, then the Company shall make the insurance premium payments

contemplated by COBRA for a period of twelve (12) months immediately following such termination.

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

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

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

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

7. INVENTIONS. Employee shall disclose promptly to the Company any and all significant conceptions and ideas for inventions, improvements and valuable discoveries, whether patentable or not, which are conceived or made by Employee, solely or jointly with another, during the period of employment or within one (1) year thereafter, and which are directly related to the business or activities of the Company and which

Employee conceives as a result of his employment hereunder. Employee hereby assigns and agrees to assign all his interests therein to the Company or its nominee. Whenever requested to do so by the Company, Employee shall execute any and all applications, assignments or other instruments that the Company shall deem necessary to apply for and obtain Letters Patent of the United States or any foreign country or to otherwise protect the Company's interest therein.

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

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

10. NO PRIOR AGREEMENTS. Employee hereby represents and warrants to Company and the Company that the execution of this Agreement by Employee and his employment by Company and the performance of his duties hereunder will not violate or be a breach of any agreement with a former Company, client or any other person or entity. Further, Employee agrees to indemnify Company and the Company for any claim, including, but not limited to, attorneys' fees and expenses of investigation, by any such third party that such third party may now have or may hereafter come to have against Company or any of its subsidiaries or affiliates based upon or arising out of any noncompetition agreement, invention or secrecy agreement between Employee and such third party which was in existence as of the date of this Agreement.

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

12 CHANGE IN CONTROL.

(a) Upon notice by Employee at any time during the 90 days following a Change in Control, the Employee may elect to terminate his employment and shall be entitled to receive in a lump-sum payment due upon the date of such termination the amount equal to two (2) times his annual base salary then in effect, and the noncompetition provisions of paragraph 3 shall apply for a period of one (1) year immediately following the effective date of termination.

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

(c) In any Change in Control situation, if Employee is terminated by Company without Cause at any time during the twelve (12) months immediately following the closing of the transaction giving rise to the Change in Control, or Employee terminates this Agreement for Good Reason (as defined below) at any time during the twelve (12) months immediately following the closing of the transaction giving rise to the Change in Control, Employee shall be entitled to receive in a lump-sum payment, due on the effective date of termination, the amount equal to two (2) times the greater of (i) his annual base salary then in effect or (ii) his annual base salary in effect immediately prior to the closing of the transaction giving rise to the Change in Control, and the noncompetition provisions of paragraph 3 shall apply for a period of one (1) year immediately following the effective date of termination. For purposes of this Agreement, Employee shall have "GOOD REASON" to terminate this Agreement and his employment hereunder if, without Employee's consent, (x) Employee is demoted by means of a reduction in authority, responsibilities, duties or title to a position of materially less stature or importance within the Company than as described in paragraph 1 hereof or (y) the Company breaches this Agreement in any material respect and fails to cure such breach within ten (10) days after Employee delivers written notice and a written description of such breach to the Company, which notice shall specifically refer to this section of this Agreement.

(d) For purposes of applying paragraph 5 under the circumstances described in (b) above, the effective date of termination will be the closing date of the transaction giving rise to the Change in Control and all compensation, reimbursements and lump-sum payments due Employee must be paid in full

by Company at or prior to such closing. Further, Company shall ensure that Employee will be given sufficient time and opportunity to elect whether to exercise all or any of his vested options to purchase the Company's Common Stock, including any options with accelerated vesting under the provisions of the Company's Long-Term Incentive Plans (or other applicable plan then in effect), such that he may convert the options to shares of the Company's Common Stock at or prior to the closing of the transaction giving rise to the Change in Control, if he so desires.

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

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

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

(iii) the stockholders of CSUSA shall approve a merger, consolidation, recapitalization, or reorganization of CSUSA, a reverse stock split of outstanding voting securities, or consummation of any such transaction if stockholder approval is not obtained, other than any such transaction which would result in at least seventy-five percent (75%) of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction being Beneficially Owned by at least seventy-five percent (75%) of the holders of outstanding voting securities of CSUSA immediately prior to the transaction, with the voting power of each

such continuing holder relative to other such continuing holders not substantially altered in the transaction; or

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

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

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

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

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

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

To Employee: Norman C. Chambers
6 Maple Loft Place
The Woodlands, TX 77381

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

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

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

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

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

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

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

COMFORT SYSTEMS USA (TEXAS), L.P.

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

By: /s/ William F. Murdy

William F. Murdy
Chief Executive Officer

COMFORT SYSTEMS USA, INC.

By: /s/ William F. Murdy

William F Murdy
Chief Executive Officer

EMPLOYEE:

/s/ Norman C. Chambers

Norman C. Chambers

EXHIBIT 10.5

Norman Chambers

COMFORT SYSTEMS USA, INC.
2000 EQUITY INCENTIVE PLAN

Restricted Stock Award Agreement

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

Ladies and Gentlemen:

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

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

2. Shares Subject to Award. The Award consists of 75,000 shares (the "Shares") of common stock of the Company ("Stock"). The undersigned's rights to the Shares are subject to the restrictions described in this Agreement and the Plan (which is incorporated herein by reference with the same effect as if set forth herein in full) in addition to such other restrictions, if any, as may be imposed by law.

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

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

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

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

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

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

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

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

18,750 Shares on February 28, 2004;

an additional 18,750 Shares on November 1, 2004;

an additional 18,750 Shares on November 1, 2005; and

an additional 18,750 Shares on November 1, 2006.

provided, however, that, not withstanding (a) or (b) above, any unvested Shares that have not earlier been forfeited shall vest immediately in the event of (i) a "Change in Control" as defined in the Employment Agreement dated November 4, 2002 between the undersigned and the Company (the "Employment Agreement") or (ii) the termination by the Company of executive without cause as defined in the Employment Agreement.

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

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

AGREEMENT ARE ON FILE IN THE OFFICES OF COMFORT SYSTEMS USA, INC.

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

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

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

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

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

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

any payment hereunder) all taxes required to be withheld in connection with such award, vesting or payment.

Very truly yours,

/s/ Norman Chambers

Norman Chambers

The foregoing Restricted Stock Award Agreement is hereby accepted:

COMFORT SYSTEMS USA, INC.

By /s/ William F. Murdy

William F. Murdy
Chief Executive Officer

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief executive officer of Comfort Systems USA, Inc. (the "Company"), does hereby certify that:

1) the Company's Quarterly Report pursuant to Section 13 or 15 (D) of the Securities Exchange Act Of 1934 (Form 10-Q) for the quarter ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ William F. Murdy

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

Dated: November 4, 2002

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief financial officer of Comfort Systems USA, Inc. (the "Company"), does hereby certify that:

1) the Company's Quarterly Report pursuant to Section 13 or 15 (D) of the Securities Exchange Act Of 1934 (Form 10-Q) for the quarter ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ J. Gordon Beittenmiller

J. Gordon Beittenmiller
Executive Vice President and
Chief Financial Officer

Dated: November 4, 2002