

COMFORT SYSTEMS USA INC
Form 10-Q
August 02, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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

(State or other jurisdiction of
Incorporation or Organization)

76-0526487

(I.R.S. Employer
Identification No.)

**675 Bering Drive
Suite 400**

Houston, Texas 77057

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

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

The number of shares outstanding of the issuer's common stock, as of July 29, 2011 was 37,776,239 (excluding treasury shares of 3,347,126).

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FOR THE QUARTER ENDED JUNE 30, 2011**

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	June 30, 2011	December 31, 2010
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 50,101	\$ 86,346
Accounts receivable, less allowance for doubtful accounts of \$5,146 and \$5,096, respectively	255,286	233,893
Other receivables	5,534	6,682
Income tax receivable	9,995	9,544
Inventories	10,062	9,365
Prepaid expenses and other	28,499	30,470
Costs and estimated earnings in excess of billings	26,423	26,648
 Total current assets	 385,900	 402,948
PROPERTY AND EQUIPMENT, NET	41,039	43,620
GOODWILL	148,986	147,818
IDENTIFIABLE INTANGIBLE ASSETS, NET	37,388	39,616
OTHER NONCURRENT ASSETS	8,231	6,018
 Total assets	 \$ 621,544	 \$ 640,020

**LIABILITIES AND
STOCKHOLDERS'
EQUITY**

CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 300	\$ 300
Current maturities of notes to former owners	460	967
Accounts payable	98,202	101,134
Accrued compensation and benefits	35,810	42,577
Billings in excess of costs and estimated earnings	61,558	63,422
Accrued self-insurance expense	31,199	28,994
Other current liabilities	30,536	30,816
 Total current liabilities	 258,065	 268,210
LONG-TERM DEBT, NET OF CURRENT MATURITIES	2,700	2,700
NOTES TO FORMER OWNERS, NET OF CURRENT MATURITIES	24,919	25,969
	18,907	18,871

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DEFERRED INCOME TAX
LIABILITIES

OTHER LONG-TERM LIABILITIES	11,570	11,486
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Total liabilities	316,161	327,236
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COMMITMENTS AND
CONTINGENCIES

STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par,
5,000,000 shares authorized,
none issued and outstanding

Common stock, \$.01 par,
102,969,912 shares authorized,
41,123,365 and 41,123,365
shares issued, respectively

411	411
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Treasury stock, at cost,
3,347,126 and 3,221,775 shares,
respectively

(36,040)	(34,714)
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Additional paid-in capital	326,181	326,467
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Retained earnings	14,831	20,620
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Total stockholders' equity	305,383	312,784
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Total liabilities and stockholders' equity	\$ 621,544	\$ 640,020
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The accompanying notes are an integral part of these consolidated financial statements.

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUES	\$ 312,148	\$ 249,588	\$ 594,207	\$ 486,063
COST OF SERVICES	264,638	207,623	512,488	404,590
Gross profit	47,510	41,965	81,719	81,473
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	41,928	35,611	84,550	73,020
GOODWILL IMPAIRMENT		4,446		4,446
GAIN ON SALE OF ASSETS	(19)	(468)	(104)	(473)
Operating income (loss)	5,601	2,376	(2,727)	4,480
OTHER INCOME (EXPENSE):				
Interest income	23	80	49	144
Interest expense	(466)	(289)	(953)	(574)
Other	517	(6)	437	6
Other income (expense)	74	(215)	(467)	(424)
INCOME (LOSS) BEFORE INCOME TAXES	5,675	2,161	(3,194)	4,056
INCOME TAX EXPENSE (BENEFIT)	2,513	515	(1,186)	1,245
INCOME (LOSS) FROM CONTINUING OPERATIONS	3,162	1,646	(2,008)	2,811
GAIN ON DISPOSITION OF DISCONTINUED OPERATION, NET OF INCOME TAX BENEFIT OF \$, \$, \$, AND \$29				762
NET INCOME (LOSS)	\$ 3,162	\$ 1,646	\$ (2,008)	\$ 3,573
INCOME (LOSS) PER SHARE:				
Basic				
Income (loss) from continuing operations	\$ 0.08	\$ 0.04	\$ (0.05)	\$ 0.08
Gain on disposition of discontinued operation				0.02
Net income (loss)	\$ 0.08	\$ 0.04	\$ (0.05)	\$ 0.10
Diluted				
Income (loss) from continuing operations	\$ 0.08	\$ 0.04	\$ (0.05)	\$ 0.07
Gain on disposition of discontinued operation				0.02

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Net income (loss)	\$	0.08	\$	0.04	\$	(0.05)	\$	0.09
SHARES USED IN COMPUTING INCOME PER SHARE:								
Basic		37,630		37,598		37,584		37,566
Diluted		37,742		37,848		37,584		37,834
DIVIDENDS PER SHARE	\$	0.05	\$	0.05	\$	0.10	\$	0.10

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

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands, Except Share Amounts)

	STOCKHOLDERS' EQUITY								
	Comprehensive Income (Loss)	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2009		41,123,365	\$ 411	(3,129,460)	\$(33,810)	\$ 326,103	\$ (181)	\$ 13,461	\$ 305,984
Comprehensive Income:									
Net income	\$ 14,740							14,740	14,740
Realized gain on marketable securities reclassified into earnings, net of tax	181						181		181
Comprehensive Income	\$ 14,921								
Issuance of Stock:									
Issuance of shares for options exercised including tax benefit				183,686	1,982	(875)			1,107
Issuance of restricted stock				235,122	2,864	(2,614)			250
Shares received in lieu of tax withholding payment on vested restricted stock				(50,575)	(616)				(616)
Tax benefit from vesting of restricted stock						106			106
Forfeiture of unvested restricted stock				(5,610)	(60)	60			
Stock-based compensation expense						3,687			3,687
Dividends								(7,581)	(7,581)
Share repurchase				(454,938)	(5,074)				(5,074)
BALANCE AT DECEMBER 31, 2010		41,123,365	411	(3,221,775)	(34,714)	326,467		20,620	312,784
Comprehensive Income (Loss):									
Net loss (unaudited)	\$ (2,008)							(2,008)	(2,008)
Issuance of Stock:									
Issuance of shares for options exercised including tax benefit (unaudited)				51,250	552	(184)			368
Issuance of restricted stock (unaudited)				230,702	2,488	(2,488)			
Shares received in lieu of tax withholding payment on vested restricted stock (unaudited)				(49,811)	(654)				(654)
Tax benefit from vesting of restricted stock (unaudited)						54			54
Stock-based compensation expense (unaudited)						2,332			2,332
Dividends (unaudited)								(3,781)	(3,781)
Share repurchase (unaudited)				(357,492)	(3,712)				(3,712)
BALANCE AT JUNE 30, 2011 (unaudited)		41,123,365	\$ 411	(3,347,126)	\$(36,040)	\$ 326,181		\$ 14,831	\$ 305,383

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

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COMFORT SYSTEMS USA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	\$ 3,162	\$ 1,646	\$ (2,008)	\$ 3,573
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Gain on disposition of discontinued operation				(762)
Amortization of identifiable intangible assets	1,700	983	3,358	2,146
Depreciation expense	3,013	2,461	6,174	4,934
Goodwill impairment		4,446		4,446
Bad debt expense	(128)	180	711	123
Deferred tax expense (benefit)	794	(1,825)	(1,316)	(3,266)
Amortization of debt financing costs	56	27	112	54
Gain on sale of assets	(19)	(468)	(104)	(473)
Changes in the fair value of contingent earn-out obligation	(584)		(489)	
Stock-based compensation expense	1,094	923	2,332	2,074
Changes in operating assets and liabilities, net of effects of acquisitions				
(Increase) decrease in				
Receivables, net	(20,835)	(1,940)	(22,555)	(1,669)
Inventories	(322)	(31)	(519)	532
Prepaid expenses and other current assets	972	1,475	2,203	2,329
Costs and estimated earnings in excess of billings	(724)	(2,508)	225	(1,621)
Other noncurrent assets	(1,533)	(598)	(2,323)	(332)
Increase (decrease) in				
Accounts payable and accrued liabilities	9,546	(67)	(7,846)	(16,290)
Billings in excess of costs and estimated earnings	(908)	(3,904)	(1,864)	(6,373)
Other long-term liabilities	339	(38)	466	(124)
Net cash provided by (used in) operating activities	(4,377)	762	(23,443)	(10,699)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(1,544)	(860)	(3,904)	(2,082)
Proceeds from sales of property and equipment	134	1,115	381	1,218
Proceeds from businesses sold	39	47	78	1,264
Sale of marketable securities		1,000	2,000	1,925
Cash paid for acquisitions, earnouts and intangible assets, net of cash acquired	(521)		(2,321)	(3,577)
Net cash provided by (used in) investing activities	(1,892)	1,302	(3,766)	(1,252)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings on revolving line of credit				
Payments on other long-term debt	(1,289)	(667)	(1,289)	(917)
Payments of dividends to shareholders	(1,923)	(1,889)	(3,803)	(3,771)
Share repurchase program	(3,712)	(1,437)	(3,712)	(3,653)
Shares received in lieu of tax withholding	(654)	(609)	(654)	(609)
Excess tax benefit of stock-based compensation	217	279	204	432
Proceeds from exercise of options	95	91	218	221
Net cash used in financing activities	(7,266)	(4,232)	(9,036)	(8,297)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,535)	(2,168)	(36,245)	(20,248)

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CASH AND CASH EQUIVALENTS, beginning of period continuing and discontinued operations	63,636	109,770	86,346	127,850
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CASH AND CASH EQUIVALENTS, end of period continuing and discontinued operations	\$ 50,101	\$ 107,602	\$ 50,101	\$ 107,602
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The accompanying notes are an integral part of these consolidated financial statements.

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COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(Unaudited)

1. Business and Organization

Comfort Systems USA, Inc., a Delaware corporation, provides comprehensive heating, ventilation and air conditioning ("HVAC") installation, maintenance, repair and replacement services within the mechanical services industry. We operate primarily in the commercial, industrial and institutional HVAC markets and perform most of our services within office buildings, retail centers, apartment complexes, manufacturing plants and healthcare, education and government facilities. In addition to standard HVAC services, we provide specialized applications such as building automation control systems, fire protection, process cooling, electronic monitoring and process piping. Certain locations also perform related activities such as electrical service and plumbing. Approximately 44% of our consolidated 2011 revenues are attributable to installation of systems in newly constructed facilities, with the remaining 56% attributable to maintenance, repair and replacement services. The following service activities account for our consolidated 2011 revenues: HVAC 74%, plumbing 16%, building automation control systems 4% and other 6%. These service activities are within the mechanical services industry which is the single industry segment we serve.

2. Summary of Significant Accounting Policies

Basis of Presentation

These interim statements should be read in conjunction with the historical Consolidated Financial Statements and related notes of Comfort Systems included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2010 (the "Form 10-K").

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

Use of Estimates

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

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COMFORT SYSTEMS USA, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2011

(Unaudited)

2. Summary of Significant Accounting Policies (Continued)

Cash Flow Information

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

Cash paid (in thousands) for:

Three Months Ended June 30, 2011	Six Months Ended June 30,
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