

COMFORT SYSTEMS USA INC
Form 10-Q
November 07, 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 September 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

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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)

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 October 31, 2011 was 37,455,699 (excluding treasury shares of 3,667,666).

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	September 30, 2011	December 31, 2010
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 43,692	\$ 86,346
Accounts receivable, less allowance for doubtful accounts of \$4,766 and \$5,096, respectively	259,769	233,893
Other receivables	9,598	6,682
Income tax receivable	11,478	9,544
Inventories	9,742	9,365
Prepaid expenses and other	24,602	30,470
Costs and estimated earnings in excess of billings	29,121	26,648
Total current assets	388,002	402,948
PROPERTY AND EQUIPMENT, NET	40,475	43,620
GOODWILL	93,640	147,818
IDENTIFIABLE INTANGIBLE ASSETS, NET	36,099	39,616
OTHER NONCURRENT ASSETS	7,430	6,018
Total assets	\$ 565,646	\$ 640,020
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 300	\$ 300
Current maturities of notes to former owners	510	967
Accounts payable	101,421	101,134
Accrued compensation and benefits	36,805	42,577
Billings in excess of costs and estimated earnings	62,218	63,422
Accrued self-insurance expense	30,799	28,994
Other current liabilities	23,699	30,816
Total current liabilities	255,752	268,210
LONG-TERM DEBT, NET OF CURRENT MATURITIES	2,400	2,700
NOTES TO FORMER OWNERS, NET OF CURRENT MATURITIES	24,969	25,969
DEFERRED INCOME TAX LIABILITIES	11,599	18,871
OTHER LONG-TERM LIABILITIES	6,278	11,486
Total liabilities	300,998	327,236
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par, 5,000,000 shares authorized, none issued and outstanding		
Common stock, \$.01 par, 102,969,912 shares authorized, 41,123,365 and 41,123,365 shares issued, respectively	411	411
Treasury stock, at cost, 3,626,473 and 3,221,775 shares, respectively	(38,642)	(34,714)

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Additional paid-in capital	324,617	326,467
Retained earnings (deficit)	(21,738)	20,620
Total stockholders' equity	264,648	312,784
Total liabilities and stockholders' equity	\$ 565,646	\$ 640,020

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
REVENUE	\$ 328,113	\$ 307,648	\$ 922,320	\$ 793,711
COST OF SERVICES	279,005	257,339	791,493	661,929
Gross profit	49,108	50,309	130,827	131,782
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	41,493	41,885	126,043	114,905
GOODWILL IMPAIRMENT	55,134		55,134	4,446
GAIN ON SALE OF ASSETS	(58)	(29)	(162)	(502)
Operating income (loss)	(47,461)	8,453	(50,188)	12,933
OTHER INCOME (EXPENSE):				
Interest income	16	39	65	183
Interest expense	(478)	(832)	(1,431)	(1,406)
Changes in the fair value of contingent earn-out obligations	5,077	650	5,566	650
Other	(16)	19	(68)	25
Other income (expense)	4,599	(124)	4,132	(548)
INCOME (LOSS) BEFORE INCOME TAXES	(42,862)	8,329	(46,056)	12,385
INCOME TAX EXPENSE (BENEFIT)	(6,293)	2,919	(7,479)	4,164
INCOME (LOSS) FROM CONTINUING OPERATIONS	(36,569)	5,410	(38,577)	8,221
GAIN (LOSS) ON DISPOSITION OF DISCONTINUED OPERATION, NET OF INCOME TAX EXPENSE OF \$, \$195, \$ AND \$166		(39)		723
NET INCOME (LOSS)	\$ (36,569)	\$ 5,371	\$ (38,577)	\$ 8,944
INCOME (LOSS) PER SHARE:				
Basic				
Income (loss) from continuing operations	\$ (0.98)	\$ 0.14	\$ (1.03)	\$ 0.22
Gain on disposition of discontinued operation				0.02
Net income (loss)	\$ (0.98)	\$ 0.14	\$ (1.03)	\$ 0.24
Diluted				
	\$ (0.98)	\$ 0.14	\$ (1.03)	\$ 0.22

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Income (loss) from continuing operations					
Gain on disposition of discontinued operation					0.02
Net income (loss)	\$	(0.98)	\$	0.14	\$ (1.03) \$ 0.24

SHARES USED IN
COMPUTING INCOME PER
SHARE:

Basic		37,325		37,560		37,496		37,564
Diluted		37,325		37,794		37,496		37,821
DIVIDENDS PER SHARE	\$	0.050	\$	0.050	\$	0.150	\$	0.150

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 (Deficit)	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)	\$ (38,577)							(38,577)	(38,577)
Issuance of Stock:									
Issuance of shares for options exercised including tax benefit (unaudited)				51,950	559	(188)			371
Issuance of restricted stock (unaudited)				230,702	2,488	(2,488)			
Shares received in lieu of tax withholding payment on vested restricted stock (unaudited)				(49,911)	(654)				(654)
Tax benefit from vesting of restricted stock (unaudited)						54			54
Stock-based compensation expense (unaudited)						2,672			2,672
Dividends (unaudited)						(1,900)		(3,781)	(5,681)
Share repurchase (unaudited)				(637,439)	(6,321)				(6,321)
BALANCE AT SEPTEMBER 30, 2011 (unaudited)		41,123,365	\$ 411	(3,626,473)	\$ (38,642)	\$ 324,617		\$ (21,738)	\$ 264,648

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	\$ (36,569)	\$ 5,371	\$ (38,577)	\$ 8,944
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Loss (gain) on disposition of discontinued operation		39		(723)
Write-off of debt financing costs		181		181
Amortization of identifiable intangible assets	1,722	1,877	5,080	4,023
Depreciation expense	2,974	2,925	9,148	7,859
Goodwill impairment	55,134		55,134	4,446
Bad debt expense	(202)	578	509	701
Deferred tax benefit	(4,939)	(1,484)	(6,255)	(4,750)
Amortization of debt financing costs	56	48	168	102
Gain on sale of assets	(58)	(29)	(162)	(502)
Changes in the fair value of contingent earn-out obligations	(5,077)	(650)	(5,566)	(650)
Stock-based compensation expense	340	517	2,672	2,591
Changes in operating assets and liabilities, net of effects of acquisitions				
(Increase) decrease in				
Receivables, net	(3,226)	(19,814)	(25,781)	(21,483)
Inventories	320	230	(199)	762
Prepaid expenses and other current assets	(4,172)	(6,777)	(1,969)	(4,448)
Costs and estimated earnings in excess of billings	(2,698)	5,875	(2,473)	4,254
Other noncurrent assets	3,049	(747)	726	(1,079)
Increase (decrease) in				
Accounts payable and accrued liabilities	(5,622)	11,656	(13,468)	(4,634)
Billings in excess of costs and estimated earnings	660	3,385	(1,204)	(2,988)
Taxes paid related to pre-acquisition equity transactions of an acquired company		(7,056)		(7,056)
Other long-term liabilities	(214)	103	252	(21)
Net cash provided by (used in) operating activities	1,478	(3,772)	(21,965)	(14,471)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(2,548)	(2,021)	(6,452)	(4,103)
Proceeds from sales of property and equipment	230	11	611	1,229
Proceeds from businesses sold	39	203	117	1,467
Sale of marketable securities		1,000	2,000	2,925
Cash paid for acquisitions, earn-outs and intangible assets, net of cash acquired	(288)	(38,358)	(2,609)	(41,935)
Net cash used in investing activities	(2,567)	(39,165)	(6,333)	(40,417)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings on revolving line of credit				
Payments on other long-term debt	(300)	(16,382)	(1,589)	(17,299)
Debt financing costs	(550)	(911)	(550)	(911)
Payments of dividends to shareholders	(1,864)	(1,881)	(5,667)	(5,652)
Share repurchase program	(2,609)	(851)	(6,321)	(4,504)
Shares received in lieu of tax withholding		(10)	(654)	(619)
Excess tax benefit of stock-based compensation	2	15	206	447
Proceeds from exercise of options	1	16	219	237

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Net cash used in financing activities	(5,320)	(20,004)	(14,356)	(28,301)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,409)	(62,941)	(42,654)	(83,189)
CASH AND CASH EQUIVALENTS, beginning of period continuing and discontinued operations	50,101	107,602	86,346	127,850
CASH AND CASH EQUIVALENTS, end of period continuing and discontinued operations	\$ 43,692	\$ 44,661	\$ 43,692	\$ 44,661

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

September 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 42% of our consolidated 2011 revenue is attributable to installation of systems in newly constructed facilities, with the remaining 58% attributable to maintenance, repair and replacement services. The following service activities account for our consolidated 2011 revenue: 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, revenue 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)

September 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: