

COMFORT SYSTEMS USA INC  
Form 11-K  
June 28, 2006

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 11-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the Fiscal Year Ended December 31, 2005**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-13011**

A. Full title of the Plan and address of the Plan, if different from that of the issuer named below:

**Comfort Systems USA, Inc. 401 (k) Plan  
777 Post Oak Blvd., Suite 500  
Houston, TX 77056**

B. Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office:

**Comfort Systems USA, Inc.  
777 Post Oak Blvd., Suite 500  
Houston, TX 77056**

**Comfort Systems USA, Inc. 401(k) Plan  
Financial Statements**

**December 31, 2005 and 2004**

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**Report of Independent Registered Public Accounting Firm**

To the Participants and Plan Administrator of  
Comfort Systems USA, Inc. 401(k) Plan  
Houston, Texas

We have audited the accompanying statements of net assets available for benefits of Comfort Systems USA, Inc. 401(k) Plan (the Plan ) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for benefits for the year ended December 31, 2005. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004, and the changes in its net assets available for benefits for the year ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of delinquent participant contributions for the year ended December 31, 2005, and assets (held at end of year) as of December 31, 2005, are presented for the purposes of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan s management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ UHY MANN FRANKFORT STEIN & LIPP CPAs, LLP

Houston, Texas  
June 15, 2006

**Comfort Systems USA, Inc. 401(k) Plan  
Statements of Net Assets Available for Benefits**

|                                   | <b>December 31,<br/>2005</b> | <b>2004</b>    |
|-----------------------------------|------------------------------|----------------|
| <b>Assets</b>                     |                              |                |
| Investments, at fair value        | \$ 120,036,582               | \$ 111,926,979 |
| Receivables:                      |                              |                |
| Employer contributions            | 263,045                      | 246,715        |
| Participant contributions         | 852,828                      | 817,622        |
| Total receivables                 | 1,115,873                    | 1,064,337      |
| Net assets available for benefits | \$ 121,152,455               | \$ 112,991,316 |

*See accompanying notes to the financial statements.*

**Comfort Systems USA, Inc. 401(k) Plan**  
**Statement of Changes in Net Assets Available for Benefits**

**Year Ended December 31, 2005**

|   |                |
|---|----------------|
| <b>Additions To Net Assets:</b>               |                |
| Investment Income                             |                |
| Net appreciation in fair value of investments | \$ 6,401,688   |
| Interest and dividend income                  | 1,007,279      |
| Total Investment Income                       | 7,408,967      |
| <b>Contributions</b>                          |                |
| Employer                                      | 3,044,066      |
| Participant                                   | 10,718,348     |
| Participant rollovers                         | 994,742        |
| Total Contributions                           | 14,757,156     |
| Total Additions To Net Assets                 | 22,166,123     |
| <b>Deductions From Net Assets:</b>            |                |
| Benefits paid to participants                 | 13,766,307     |
| Corrective distributions                      | 182,554        |
| Administrative expenses                       | 56,123         |
| Total Deductions From Net Assets              | 14,004,984     |
| Net Increase                                  | 8,161,139      |
| <b>Net Assets Available For Benefits:</b>     |                |
| Beginning of Year                             | 112,991,316    |
| End of Year                                   | \$ 121,152,455 |

*See accompanying notes to the financial statements.*

**Comfort Systems USA, Inc. 401(k) Plan  
Notes to Financial Statements**

**December 31, 2005 and 2004**

**1. Description of Plan**

**General**

The following description of the Comfort Systems USA, Inc. 401(k) Plan (the Plan ) is provided for general information only. Participants should refer to the *Summary Plan Description* for a more complete description of the Plan s provisions, a copy of which is available from Comfort Systems USA, Inc. (the Company ).

The Plan is a defined contribution plan, established effective October 1, 1998, as amended and restated effective January 1, 2003, and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

**Eligibility**

Employees of the Company are eligible to participate in the Plan on the first day of each quarter coincident with or following their date of hire. Effective April 1, 2006, employees of the Company will be eligible to participate in the Plan on the first day of each month coincident with or following the date of hire.

Participants become eligible to receive the Company s discretionary matching contribution after the completion of one year of service, as defined by the Plan.

**Contributions**

Participants may elect to defer a percentage of their compensation during the plan year which is defined in the Plan and subject to the limits imposed by the Internal Revenue Code (the IRC ). Participants may also contribute amounts representing rollover distributions from other qualified plans.

The Company may make a discretionary matching contribution to the Plan in an amount equal to a percentage determined by the Company. Effective May 1, 2003, the Company temporarily suspended the Company match for all highly compensated employees, as defined by the Internal Revenue Service ( IRS ), until January 1, 2004 when these contributions were reinstated. Additional discretionary contributions may be made at the option of the Company. No additional discretionary contributions were made for the years ended December 31, 2005 and 2004. Certain participants whose services are covered by the federal, state, or municipal prevailing wage law or the Davis Bacon Act, as amended, receive Company prevailing wage law profit-sharing contributions.

Participants direct the investment allocation of all contributions.

**Participant Accounts**

Each participant's account is credited with the participant's contribution, the Company discretionary matching contribution, if any, and allocations of (a) the Company's additional discretionary contribution and (b) Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on the participant earnings or account balances, as defined by the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**Vesting**

Participants are immediately vested in their contributions and the prevailing wage law profit-sharing contributions made on behalf of eligible participants plus actual earnings thereon. Participants are 100% vested in Company discretionary contributions plus earnings upon attainment of age 59½, death, or disability. Participants whose service terminates prior to age 59½ for reasons other than retirement, death, or disability are eligible to receive vested Company discretionary contributions, if any, and interest thereon based on years of continuous service. A participant is 20% vested in Company discretionary contributions after one year and an additional 20% for each year thereafter.

**Participant Loans**

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance, less the participant's highest outstanding loan balance during the preceding 12 months. The loans are secured by the balance in the participant's account. The loan term may not exceed five years, except for loans used for the purchase of a principal residence, which may be repaid in up to ten years. The interest rate is fixed at the time of borrowing and shall be a reasonable rate of interest as determined by the plan administrator. Principal and interest are paid ratably through payroll deductions. Participant loans were \$3,543,140 and \$3,172,960 at December 31, 2005 and 2004, respectively.

**Payment of Benefits**

On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten-year period. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

**Forfeitures**

Forfeitures occur when a participant terminates employment before becoming 100% vested with respect to their Company discretionary contributions. Forfeitures shall be

used to reduce future Company discretionary contributions or to pay administrative expenses of the Plan. At December 31, 2005 and 2004, forfeited nonvested accounts totaled \$69,826 and \$161,868, respectively. During 2005 and 2004, Company discretionary contributions were reduced by \$257,313 and \$1,495 from forfeited nonvested accounts, respectively. During 2005 and 2004, administrative expenses of \$22,676 and \$101,078 were paid from forfeited nonvested accounts, respectively.

During January 2005, the Company funded approximately \$209,000 of the employer contribution receivable at December 31, 2004 from forfeited nonvested accounts.

#### **Administrative Expenses**

Certain administrative expenses of the Plan are paid by the Company.

#### **Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to terminate the Plan subject to the provisions of ERISA. Upon plan termination, participants would become 100% vested in their account balances.

## **2. Summary of Accounting Policies**

#### **Basis of Accounting**

The accompanying financial statements of the Plan are prepared on an accrual method of accounting in accordance with U.S. generally accepted accounting principles.

#### **Benefits**

Benefit payments to participants are recorded upon distribution.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

#### **Investment Valuation and Income Recognition**

Effective October 1, 1998, the Plan entered into a group annuity contract with Connecticut General Life Insurance Company ( CGLIC ), a CIGNA Corporation company ( CIGNA ). Effective April 1, 2004, Prudential Retirement Insurance and Annuity Company ( PRIAC ), a company of Prudential Financial Inc. ( Prudential ),



assumed all obligations and liabilities under the CGLIC group annuity contract. This assumption is the result of Prudential's acquisition of CIGNA's retirement operations. The contract includes the Prudential (formerly CIGNA) Guaranteed Income Fund, which is invested in Prudential's general portfolio and is recorded at contract value, which approximates fair value. The Guaranteed Income Fund does not have a maturity date or penalties for early withdrawals. Participant-directed transfers among investment options and distributions will normally be made immediately; however, Prudential may exercise its contractual right to defer a transfer or distribution from the Guaranteed Income Fund.

It has seldom been necessary for Prudential to invoke this deferral provision. The rate of credited interest for any period of time will be determined by PRIAC and is guaranteed for six-month periods (January 1 through June 30 and July 1 through December 31). The average yield for PRIAC was approximately 3.03% and 2.93% for the years ended December 31, 2005 and 2004, respectively. The crediting interest rate (i.e., the rate at which interest was accrued to the contract balance) for PRIAC was 3.1% as of December 31, 2005 and 2004.

The contract also includes investments in pooled separate accounts, which were stated at fair value as determined by PRIAC at December 31, 2005 and 2004, based on the quoted market values of the underlying assets in the separate accounts. Common stock is stated at fair value based on quotations obtained from national securities exchanges. Participant loans are stated at cost, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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**3. Investments**

As of December 31, 2005 and 2004, the Plan's trustee was Prudential Bank & Trust, FSB. Individual investments that represent 5% or more of the Plan's net assets are as follows:

|   | <b>December 31,<br/>2005</b> | <b>2004</b>           |
|---|------------------------------|-----------------------|
| Prudential Guaranteed Income Fund       | \$ 27,802,626                | \$ 27,306,483         |
| PRIAC pooled separate accounts:         |                              |                       |
| Balanced I/Wellington Management Fund   | 6,577,318                    | 6,745,153             |
| Dryden S&P 500 Index Fund               | 6,557,842                    | 6,472,204             |
| Large Cap Value/LSV Asset Mgmt          | 7,045,106                    |                       |
| Large Cap Growth/Goldman Sachs          | 16,520,215                   | 12,814,509            |
| Small Cap Growth/Times Square Fund      | 6,235,148                    | 5,967,313             |
| Oppenheimer Global Fund (Class A)       | 9,672,623                    | 7,646,988             |
| Large Cap Value/John A. Levin & Co Fund |                              | 5,931,996             |
| Total investments exceeding 5%          | 80,410,878                   | 72,884,646            |
| Other                                   | 39,625,704                   | 39,042,333            |
| <b>TOTAL INVESTMENTS</b>                | <b>\$ 120,036,582</b>        | <b>\$ 111,926,979</b> |

During 2005, the Plan's investments (including investments bought, sold, and held during the plan year) appreciated as follows:

|                          | <b>Year Ended<br/>2005</b> |
|--------------------------|----------------------------|
| Common Stock             | \$ 743,905                 |
| Pooled separate accounts | 5,657,783                  |
|                          | 6,401,688                  |

**Comfort Systems USA, Inc. 401(k) Plan  
Notes to Financial Statements**

**4. Income Tax Status**

The Plan obtained its determination letter on April 1, 2005, in which the Internal Revenue Service stated that the Plan, as designed, is qualified under Section 401(a) of the IRC. The plan administrator believes that the Plan is currently designed and operating in compliance with the requirements of the IRC.

**5. Risks and Uncertainties**

The Plan provides for various investments in common stock, pooled separate accounts, and a group annuity contract. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits and participant account balances.

**6. Party-in-Interest Transactions**

The Plan invests in various PRIAC pooled separate accounts, a company of Prudential. These investments are considered party-in-interest transactions because Prudential Bank & Trust, FSB, a company of Prudential, serves as trustee of the Plan. The Plan management has approved these investment options.

The Plan also invests in the Company's common stock. Transactions in Company stock are considered party-in-interest transactions because the Company is the Plan sponsor.

**Comfort Systems USA, Inc. 401(k) Plan  
Schedule H, Line 4(a) Schedule of Delinquent Participant  
Contributions**

EIN: 76-0526487 PN: 001  
Year ended December 31, 2005

| Total that constitutes nonexempt prohibited transactions |                             |                                      |  | Total fully corrected under VFCP and PTE 2002-51 |
|--|-----------------------------|--------------------------------------|--|--|
| Participant contributions transferred late to plan       | Contributions not corrected | Contributions corrected outside VFCP | Contributions pending correction in VFCP |  |
| \$ 1,794   | \$                          | \$ 1,794                             | \$                                       | \$ 1,794   |

See accompanying Report of Independent Registered Public Accounting Firm.

**Comfort Systems USA, Inc. 401(k) Plan**  
**Schedule H, Line 4(i) Schedule of Assets (Held At End of Year)**

EIN: 76-0526487 PN: 001  
December 31, 2005

| (a)<br>Party in Interest | (b)<br>Identity of issue, borrower, lessor, or similar party | (c)<br>Description of Investment including maturity date, rate of interest, collateral, par or maturity value | (d)<br>Cost | (e)<br>Current Value |
|--------------------------|--|---|-------------|----------------------|
| *                        | Prudential Retirement Ins                                    | Guaranteed Income   | N/A         | \$ 27,802,626        |
| *                        | Prudential Retirement Ins                                    | Lifetime20 Fund   | N/A         | 2,106,401            |
| *                        | Prudential Retirement Ins                                    | Lifetime30 Fund   | N/A         | 4,001,434            |
| *                        | Prudential Retirement Ins                                    | Lifetime40 Fund   | N/A         | 3,846,725            |
| *                        | Prudential Retirement Ins                                    | Lifetime50 Fund   | N/A         | 1,527,549            |
| *                        | Prudential Retirement Ins                                    | Lifetime60 Fund   | N/A         | 447,903              |
| *                        | Prudential Retirement Ins                                    | Dryden S&P 500 Index Fund   | N/A         | 6,557,842            |
| *                        | Prudential Retirement Ins                                    | Large Cap Growth/Goldman Sachs  | N/A         | 16,520,215           |
| *                        | Prudential Retirement Ins                                    | Small Cap Growth/Times Square Fund  | N/A         | 6,235,148            |
| *                        | Prudential Ret. Brokerage Svcs                               | Comfort Systems USA Stock 447,931 shares  | N/A         | 4,120,963            |
| *                        | Prudential Retirement Ins                                    | Large Cap Value/LSV Asset Mgmt  | N/A         | 7,045,106            |
| *                        | Prudential Retirement Ins                                    | Mid Cap Value/Wellington Mgmt   | N/A         | 4,130,265            |
| *                        | Prudential Retirement Ins                                    | International Blend/The Boston Co   | N/A         | 1,428,364            |
| *                        | Prudential Retirement Ins                                    | Balanced I/Wellington Management Fund   | N/A         | 6,577,318            |
| *                        | Prudential Retirement Ins                                    | Waddell & Reed Accum-CL A SH  | N/A         | 4,020,481            |
| *                        | Prudential Retirement Ins                                    | Oppenheimer Global Fund (Class A)   | N/A         | 9,672,623            |
| *                        | Prudential Retirement Ins                                    | Mid Cap Growth/Goldman Sachs Fund   | N/A         | 5,598,089            |
| *                        | Prudential Retirement Ins                                    | St St Global Adv RUS 3000 INDX  | N/A         | 388,994              |
| *                        | Prudential Retirement Ins                                    | Wells Fargo Adv Small Cap Z   | N/A         | 4,465,396            |
|                          | Outstanding Participant Loans                                | 4.75% - 11.50%, various maturity dates  | N/A         | 3,543,140            |
|                          |  |   |             | \$ 120,036,582       |

N/A - Not applicable as permitted by Department of Labor for participant-directed individual account plans.

See accompanying Report of Independent Registered Public Accounting Firm.

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the 401(k) Investment Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunder duly authorized.

COMFORT SYSTEMS USA, INC. 401(k) PLAN

By:

/s/WILLIAM GEORGE  
William George  
Executive Vice President and  
Chief Financial Officer of  
Comfort Systems USA, Inc.  
401(k) Investment Committee Member

Date: June 28, 2006

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**INDEX TO EXHIBITS**

**The following is included as an exhibit to the report:**

| NUMBER | DESCRIPTION  |
|--------|--|
| 23.1   | Consent of UHY Mann Frankfort Stein & Lipp CPAs, LLP |

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