

COMFORT SYSTEMS USA INC
Form 10-Q
October 26, 2017
Table of Contents

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, 2017

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 (I.R.S. Employer
Incorporation or Organization) 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

Edgar Filing: COMFORT SYSTEMS USA INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
-------------------------	-------------------	--	------------------------------	----------------------------

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 19, 2017 was 37,134,226 (excluding treasury shares of 3,989,139).

Table of Contents

COMFORT SYSTEMS USA, INC.

INDEX TO FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2017

	Page
Part I—Financial Information	
Item 1—Financial Statements	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Operations</u>	2
<u>Consolidated Statements of Stockholders' Equity</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Condensed Notes to Consolidated Financial Statements</u>	5
<u>Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3—Quantitative and Qualitative Disclosures about Market Risk</u>	23
<u>Item 4—Controls and Procedures</u>	23
Part II—Other Information	24
<u>Item 1—Legal Proceedings</u>	24
<u>Item 1A—Risk Factors</u>	24
<u>Item 2—Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 6—Exhibits</u>	26
<u>Signatures</u>	27

Table of Contents

COMFORT SYSTEMS USA, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 29,496	\$ 32,074
Accounts receivable, less allowance for doubtful accounts of \$4,328 and \$4,288, respectively	390,497	318,837
Other receivables	13,651	20,363
Inventories	10,778	9,208
Prepaid expenses and other	11,622	6,106
Costs and estimated earnings in excess of billings	39,333	29,369
Total current assets	495,377	415,957
PROPERTY AND EQUIPMENT, NET	74,883	68,195
GOODWILL	203,771	149,208
IDENTIFIABLE INTANGIBLE ASSETS, NET	78,527	42,435
DEFERRED INCOME TAX ASSETS	27,282	27,170
OTHER NONCURRENT ASSETS	4,747	5,938
Total assets	\$ 884,587	\$ 708,903
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 618	\$ 600
Current maturities of long-term capital lease obligations	90	163
Accounts payable	122,203	103,440
Accrued compensation and benefits	68,294	61,712
Billings in excess of costs and estimated earnings	103,049	83,985
Accrued self-insurance	32,774	33,520
Other current liabilities	46,774	34,261
Total current liabilities	373,802	317,681
LONG-TERM DEBT	80,951	1,955
LONG-TERM CAPITAL LEASE OBLIGATIONS	33	93
DEFERRED INCOME TAX LIABILITIES	2,289	2,289
OTHER LONG-TERM LIABILITIES	15,583	10,252
Total liabilities	472,658	332,270
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, 3,989,139 and 3,914,251 shares, respectively	(64,312)	(57,387)
Additional paid-in capital	312,312	309,625

Edgar Filing: COMFORT SYSTEMS USA INC - Form 10-Q

Retained earnings	163,518	123,984
Total stockholders' equity	411,929	376,633
Total liabilities and stockholders' equity	\$ 884,587	\$ 708,903

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

1

Table of Contents

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,	
	2017	2016	2017	2016
REVENUE	\$ 480,851	\$ 428,760	\$ 1,326,850	\$ 1,242,240
COST OF SERVICES	379,993	335,944	1,054,300	986,496
Gross profit	100,858	92,816	272,550	255,744
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	66,707	61,032	196,553	180,245
GOODWILL IMPAIRMENT	—	—	1,105	—
GAIN ON SALE OF ASSETS	(184)	(166)	(464)	(523)
Operating income	34,335	31,950	75,356	76,022
OTHER INCOME (EXPENSE):				
Interest income	16	3	55	6
Interest expense	(961)	(563)	(2,392)	(1,870)
Changes in the fair value of contingent earn-out obligations	2,469	804	1,845	468
Other	10	80	57	455
Other income (expense)	1,534	324	(435)	(941)
INCOME BEFORE INCOME TAXES	35,869	32,274	74,921	75,081
INCOME TAX EXPENSE	13,585	11,803	27,188	27,052
NET INCOME	\$ 22,284	\$ 20,471	\$ 47,733	\$ 48,029
INCOME PER SHARE:				
Basic	\$ 0.60	\$ 0.55	\$ 1.28	\$ 1.28
Diluted	\$ 0.59	\$ 0.54	\$ 1.27	\$ 1.27
SHARES USED IN COMPUTING INCOME PER SHARE:				
Basic	37,232	37,360	37,259	37,380
Diluted	37,626	37,821	37,684	37,854
DIVIDENDS PER SHARE	\$ 0.075	\$ 0.070	\$ 0.220	\$ 0.205

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

Table of Contents

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	Retained Earnings	Non- Controlling Interests	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2015	41,123,365	\$ 411	(3,696,781)	\$ (46,845)	\$ 323,765	\$ 69,390	\$ 18,284	\$ 365,005
Cumulative effect of change in accounting principle	—	—	—	—	—	(38)	—	(38)
Net income	—	—	—	—	—	64,896	—	64,896
Issuance of Stock:								
Issuance of shares for options exercised	—	—	111,761	1,568	10	—	—	1,578
Issuance of restricted stock & performance stock Shares received in lieu of tax withholding payment on vested restricted stock	—	—	172,727	2,282	(306)	—	—	1,976
Stock-based compensation	—	—	—	—	3,502	—	—	3,502
Dividends	—	—	—	—	—	(10,264)	—	(10,264)
Acquisition of noncontrolling interest	—	—	—	—	(17,346)	—	(18,284)	(35,630)
Share repurchase	—	—	(460,170)	(13,088)	—	—	—	(13,088)
BALANCE AT DECEMBER 31, 2016	41,123,365	411	(3,914,251)	(57,387)	309,625	123,984	—	376,633

Edgar Filing: COMFORT SYSTEMS USA INC - Form 10-Q

Net income (unaudited)	—	—	—	—	—	47,733	—	47,733
Issuance of Stock:								
Issuance of shares for options exercised (unaudited)	—	—	90,498	1,366	(70)	—	—	1,296
Issuance of restricted stock & performance stock (unaudited)	—	—	134,646	2,037	(421)	—	—	1,616
Shares received in lieu of tax withholding payment on vested restricted stock (unaudited)	—	—	(39,335)	(1,419)	—	—	—	(1,419)
Stock-based compensation (unaudited)	—	—	—	—	3,178	—	—	3,178
Dividends (unaudited)	—	—	—	—	—	(8,199)	—	(8,199)
Share repurchase (unaudited)	—	—	(260,697)	(8,909)	—	—	—	(8,909)
BALANCE AT SEPTEMBER 30, 2017 (unaudited)	41,123,365							